

**STATE OF FLORIDA AUDITOR GENERAL**

Operational Audit

Report No. 2019-063  
December 2018

**FLORIDA AGRICULTURAL AND  
MECHANICAL UNIVERSITY**



Sherrill F. Norman, CPA  
Auditor General

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<sup>a</sup> Student Body President.

<sup>b</sup> Faculty Senate Chair.

<sup>c</sup> Member resigned 8-1-17, and the trustee position was vacant through 12-31-17.

The team leader was Shirley Dong, CPA, and the audit was supervised by Edward A. Waller, CPA.

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# **FLORIDA AGRICULTURAL AND MECHANICAL UNIVERSITY**

## **SUMMARY**

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This operational audit of Florida Agricultural and Mechanical University (University) focused on selected University processes and administrative activities and included a follow-up on findings noted in our report No. 2017-197. Our operational audit disclosed the following:

**Finding 1:** The University's intercollegiate athletic programs experienced cash deficits for the 2016-17 fiscal year. A similar finding was noted in our report No. 2017-197.

**Finding 2:** University controls over negotiating and monitoring construction management entity general conditions costs continue to need improvement.

**Finding 3:** The University procured services for heating, ventilation, and air conditioning; furnishings; flooring; and roofing from four respective vendors for a University renovation and refurnishing project with payments totaling \$583,224, without following Board of Governors and University competitive solicitation requirements and did not document the basis and authority for exempting the procurements from these requirements.

**Finding 4:** The University did not, prior to processing payroll payments, require or ensure that the Human Resource Department received time reports or other records evidencing documented supervisory approval of exempt employee time worked. A similar finding was noted in our report No. 2017-197.

**Finding 5:** Controls over the University Purchasing Card Program continue to need improvement.

## **BACKGROUND**

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The Florida Agricultural and Mechanical 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 5-year terms. The Faculty Senate Chair 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 policies prescribed by the Trustees for the University.

## FINDINGS AND RECOMMENDATIONS

### Finding 1: Intercollegiate Athletic Programs – Deficit Cash Balances

Auxiliary enterprises are operated by the University or contracted to vendors to provide goods and services to faculty, staff, students, and others. State law<sup>1</sup> provides that auxiliary enterprises include various activities such as housing, bookstores, student health services, and intercollegiate athletics programs. Board of Governors (BOG) regulations<sup>2</sup> provide that each university may determine whether its auxiliary services will be self-supporting on an individual or collective basis, except for intercollegiate athletics, which must be self-supporting.

The University elected to account for its intercollegiate athletic programs in a separate auxiliary enterprise fund. Our examination of University records supporting the financial results of University auxiliary enterprises for the past 10 fiscal years disclosed that the intercollegiate athletic programs did not produce sufficient cash resources to be self-supporting. Specifically, for each of the past 10 fiscal years, the intercollegiate athletic programs auxiliary enterprise fund had a deficit cash balance and, for the past 2 fiscal years, the intercollegiate athletic programs owed amounts to other auxiliary enterprises. Table 1 shows the significant deficit cash balances and amounts owed to other auxiliary enterprises reported for the fiscal years ended June 30, 2008, through June 30, 2017, for the intercollegiate athletic programs.

**Table 1**  
**Intercollegiate Athletic Programs**  
**Auxiliary Enterprise Fund**

Fiscal Year Ended June 30	Deficit Cash Balances	Amount Owed to Other Auxiliary Enterprises
2008	\$(3,971,621)	\$ -
2009	(4,180,183)	-
2010	(5,169,605)	-
2011	(5,975,874)	-
2012	(7,014,034)	-
2013	(7,017,525)	-
2014	(7,624,061)	-
2015	(7,678,203)	-
2016	(1,000,000)	(7,765,713)
2017	(1,004,683)	(7,559,779)

Source: University Records

While the deficit cash balances do not represent University bank account cash deficits, the balances required the use of cash resources from other auxiliary enterprises to finance expenses of intercollegiate

<sup>1</sup> Section 1011.47(1), Florida Statutes.

<sup>2</sup> BOG Regulation 9.013, *Auxiliary Operations*.

athletic programs. In addition, although the total amount owed to other auxiliary enterprises by the intercollegiate athletic programs decreased from \$7,765,713 to \$7,559,779 as a result of a repayment in the amount of \$205,934 made during the 2016-17 fiscal year, the intercollegiate athletic programs did not produce sufficient cash resources to be self-supporting and required the use of cash resources from other sources to finance the expenses of intercollegiate athletic programs. Also, for the 2016-17 fiscal year, the University transferred concession fund revenue of \$188,763 to the intercollegiate athletic programs auxiliary enterprise fund. According to the University's accounting practice, concession fund revenue comes from vending machine contract commissions. However, since intercollegiate athletic programs are required to be self-supporting the use of concession fund revenues, essentially generated from a specific category of auxiliary enterprise operations, to finance intercollegiate athletic programs was not allowed. Without the \$188,763 transfer from the concession fund, the intercollegiate athletic programs auxiliary fund would have reported a cash deficit of \$1,193,446 at June 30, 2017, and without the transfer of concession fund revenue and the loans from other auxiliary enterprises, the intercollegiate athletic programs auxiliary enterprise fund would have reported a cash deficit of \$8,753,225.

During September 2016, the Trustees approved a repayment plan which was presented to the BOG as an update to the University's 2013 Intercollegiate Athletics Cash Deficit Corrective Action Plan. The repayment plan proposed repayments over a 12-year term to other auxiliary enterprises to which the intercollegiate athletic programs owed amounts. The repayment plan was subsequently revised to reflect the total amount owed by the intercollegiate athletic programs to other auxiliary enterprises at June 30, 2016. In accordance with the repayment plan, \$3,441,272 of the planned repayments totaling \$7,765,713 would be made using support from one of the University's direct-support organizations as allowed by the State law<sup>3</sup> and BOG regulations<sup>4</sup> and, for the first 3 periods beginning with the 2016-17 fiscal year, none of the planned repayment amounts were required from the intercollegiate athletic programs. The repayment plan was followed for the 2016-17 fiscal year, and the planned repayment in the amount of \$205,934 was made by one of the University direct-support organizations.

In response to our inquiry, University personnel indicated that the concession funds are considered part of auxiliary operations and, while BOG regulations<sup>5</sup> provide that athletics must be self-sustaining, the regulations did not prohibit the use of non-athletic auxiliary funds to support athletics. In addition, University personnel:

- Referenced an Attorney General Opinion<sup>6</sup> that indicated the concession funds can be used for purposes not specifically authorized by law and mentioned that University use of concession funds for athletics was not contrary to BOG regulations.
- Indicated that there is no express provision in State law or BOG regulations that prohibits non-athletic auxiliary funds from being used for athletics.
- Concluded, because of the Attorney General Opinion, State law, and BOG regulations, that the University was authorized to allocate concession funds revenues to support athletic scholarships.

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<sup>3</sup> Section 1004.28(1)(a)2, Florida Statutes.

<sup>4</sup> BOG Regulation 9.011(1), *University Direct Support Organizations and Health Services Support Organizations*.

<sup>5</sup> BOG Regulation 9.013, *Auxiliary Operations*.

<sup>6</sup> Attorney General Opinion 072-193.

Notwithstanding University personnel's response, the referenced Attorney General Opinion predates the BOG and related BOG regulations and the University's approach relies on the other auxiliary operations to fund athletic program aspirations. This approach is inconsistent with the BOG regulations<sup>7</sup> that "these activities [auxiliary services] shall support the educational endeavor of the institution and enhance its functioning; therefore, they shall not detract or distract from this basic endeavor in any way, financially or otherwise."

Consequently, the use of concession funds or other auxiliary funds revenues to subsidize the intercollegiate athletic programs does not appear to comply with BOG regulations. In addition, the continued use of the cash resources of other auxiliary enterprises by the intercollegiate athletic programs increases the risk that the other auxiliary enterprise operations may be at risk of not having resources to meet their needs as separate auxiliary enterprises. Further, should the other auxiliary enterprises lack funding to continue providing additional financial resources to the intercollegiate athletic programs, other University resources may be required to finance the University's intercollegiate athletic programs, which could reduce available funding for educational services provided by the University. Similar findings were noted in our report Nos. 2017-197 and 2014-108.

**Recommendation:** The Trustees should continue to monitor the financial condition of the intercollegiate athletic programs and the status of the 12-year repayment plan and take appropriate actions to ensure that intercollegiate athletic programs are self-supporting pursuant to BOG regulations.

## Finding 2: General Conditions Costs

Pursuant to State law,<sup>8</sup> the University may contract with a construction management entity (CME) for the construction or renovation of facilities. The University may require a CME to offer a guaranteed maximum price (GMP), which allows for the difference between the actual cost of the project and the GMP amount, or net cost savings, to be returned to the University. GMP contracts typically include provisions for general conditions costs that are not directly associated with a particular activity and may include costs relating to labor supervision, temporary offices and utilities, travel expenses, clean-up, permits, and testing.

Established policies and procedures that provide appropriate guidance for effectively negotiating, monitoring, and documenting the reasonableness of general conditions costs are essential to ensure that potential cost savings are realized under GMP contracts. For contracts that include general conditions costs, appropriate policies and procedures include, for example:

- Comparing proposed general conditions costs to those of similar projects, including similar projects at other universities.
- Contracting with a consulting firm to help negotiate with the CME to determine a reasonable contract amount for general conditions costs.

<sup>7</sup> BOG Regulation 9.013, Auxiliary Operations.

<sup>8</sup> Section 1013.45(1)(c), Florida Statutes.

- Verifying that the general conditions costs are supported by detailed documentation, such as CME payroll records and CME-paid invoices, and confirming that the costs comply with the CME GMP contract.

The Board approved a construction contract in March 2017 with a CME for the Center for the Access and Student Success Building (CASS) Project. The CASS Project GMP contract totaled \$3.6 million, including general conditions costs of \$863,888. The general conditions costs included \$479,810 for non-personnel costs for temporary office space, furniture, utilities, and other related costs and \$384,078 for direct salary and indirect labor burden of the CME project management and supervision personnel.

As part of our audit, we requested University records to evaluate whether the CASS Project general conditions costs (both non-personnel and personnel costs) were effectively negotiated and monitored. To demonstrate University efforts to effectively negotiate general conditions non-personnel contract costs, University personnel provided a documented evaluation by a consulting company of these costs in the draft GMP contract, the consulting company recommendations, and University revisions to the GMP contract for general conditions non-personnel costs based on the recommendations. However, although we requested, University records were not provided to demonstrate the reasonableness of the general conditions personnel costs included in the contract.

To establish the basis for monitoring general conditions costs, the CASS Project GMP contract required reimbursements for non-personnel costs to be based on CME-paid vendor invoices and personnel costs be based on the actual monthly salary rate for each person charging time to the project and the actual CME employee benefits and taxes paid. We found that University records included vendor invoices of the CME purchases to support University general conditions cost reimbursements and CME personnel time sheets to demonstrate University monitoring of CME work efforts. However, although we requested, the University did not provide records such as CME payroll records evidencing CME personnel actual salary rates, benefits, and taxes.

In response to our inquiry, University personnel explained that general conditions personnel costs were billed as a percent complete each month and the rates were based on an average anticipated cost to the CME to supply qualified individuals to fill the positions for the project. Notwithstanding this explanation, the University did not comply with the GMP contract requirement to reimburse the CME for the general conditions personnel costs based on the actual monthly salary rates including employee benefits and taxes.

Without a documented analysis to evaluate the reasonableness and propriety of general conditions personnel costs included in GMP contracts, along with sufficiently detailed documentation supporting CME pay requests for personnel cost reimbursements, the University cannot demonstrate that all costs in GMP contracts are reasonable, appropriate, and will result in the maximum cost savings for the University. In addition, absent University procedures to verify and ensure that CME general conditions personnel cost reimbursements are based on documentation supporting actual costs, there is an increased risk that the University may overpay for these costs. A similar finding was noted in our report No. 2017-197.

**Recommendation:** The University should continue efforts to demonstrate that, as part of the GMP contract approval process, an analysis of the reasonableness and propriety of GMP general conditions personnel costs is performed and used to negotiate the total amount of general conditions costs. We also recommend that University establish procedures to require receipt and evaluation of sufficiently detailed documentation supporting CME pay requests for general conditions personnel costs to ensure that only actual costs are reimbursed to the CME in accordance with the GMP contract.

### Finding 3: Competitive Selection

BOG regulations<sup>9</sup> require each university board of trustees to establish a competitive solicitation threshold not greater than \$75,000 for the purchase of commodities or contractual services. Pursuant to University regulations,<sup>10</sup> unless otherwise authorized, all purchases with value which exceed \$75,000 shall be awarded pursuant to a competitive solicitation. In addition, University regulations provide that when the President or Vice President for Fiscal Affairs certifies in writing that a condition exists that threatens the health, welfare, or safety of person(s) or animal(s) or the preservation or protection of property, the continuance of a vital University function, or when the delay incident to such procurement may be detrimental to the interest of the University, the University will proceed with an emergency purchase without a competitive solicitation, provided that such emergency procurement is made with such competition as is practical under the circumstances.

The certification must be received by the Purchasing Department within 30 days of the declaration of the emergency and the requesting department must attach to the requisition a complete justification for handling the purchase on an emergency basis, which shall be verified by the Director of Procurement Services. A written statement certifying the conditions and circumstances must be signed by the President or Vice President under oath and must be included in the official contract file maintained by the Purchasing Department.

Our examination of University records disclosed the University contracted with 23 vendors to renovate and refurbish a student dormitory and payments to these vendors totaled \$941,127. We found that the University procured services for heating, ventilation, and air conditioning; furnishings; flooring; and roofing from four vendors with payments totaling \$205,380, \$132,907, \$130,160, and \$114,777, respectively, absent a competitive solicitation.

In response to our inquiries, University personnel indicated that, due to the unexpected influx of freshmen, the University Housing Department was given a short time frame to complete the renovation and refurbishing of the dorm building in preparation of the arrival of the freshmen. University personnel also indicated that the Director of Procurement Services approved the purchase orders without competitive solicitation and authorized purchases on an emergency basis. Notwithstanding this response, although we requested, University records were not provided to evidence written certification of the emergency condition by the President or Vice President for Fiscal Affairs or Director of Procurement Services' verification of the justification for handling the purchases on an emergency basis.

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<sup>9</sup> BOG Regulation 18.001, *Procurement Regulation*.

<sup>10</sup> University Regulation 6.005, *Purchase of Commodities and Contractual Services*.

Without use of the required competitive solicitation or documentation to support an appropriate exemption from competitive solicitation, there is an increased risk that the University may not obtain goods and services at the best price consistent with acceptable quality.

**Recommendation:** **The University should ensure applicable services are procured using competitive solicitation or document in University records the basis and authority for exempting the procurement from the competitive solicitation requirements prescribed by BOG and University regulations.**

#### **Finding 4: Payroll Processing – Time Records**

Effective internal controls require that time records document the time worked and leave used by employees and also require supervisory approval of such time to ensure that compensation payments are appropriate and leave balances are accurate. The University pays exempt (i.e., Administrative and Professional, Faculty, and Graduate Assistant) employees on a payroll-by-exception basis whereby employees are paid a fixed authorized amount for each payroll cycle unless the amount is altered. A payroll-by-exception methodology assumes, absent any payroll actions to the contrary, that an employee worked or used available accumulated leave for the required number of hours in the pay period. According to University Trustees policies,<sup>11</sup> departments are required to maintain adequate internal controls for processing their respective payrolls and to maintain adequate backup documentation to support time worked, as well as employee absences due to vacation, sick, administrative, or other leave.

During the 2017 calendar year, the University recorded salary costs totaling \$91 million for 1,704 exempt employees. According to University personnel, supervisory personnel at each department or cost center are required to review, approve, and maintain time reports evidencing exempt employee work efforts. To determine whether such documentation was maintained, we requested for examination University records supporting the time worked for 33 exempt employees (1 employee from 33 different departments).

In response to our request, University personnel provided supervisory-approved time reports for 18 of the 33 exempt employees; however, the reports provided for 11 other employees did not document supervisory review and approval. Additionally, time reports or other records documenting employee time worked were not provided for 4 employees. By June 2018 and subsequent to our inquiry, supervisory personnel signed the time reports for 10 of the 11 employees with time reports to evidence review and approval, which was 90 to 363 days, or an average of 168 days, after the payroll was processed. Although we requested, supervisor-signed time reports evidencing supervisory approval for the remaining 5 employees were not provided. University personnel indicated that the employee time reports were not required to be submitted to the Office of Human Resources (HR) and it was each department's responsibility to ensure the employee time reports were properly certified and maintained.

Without HR receipt of time reports documenting supervisory approval of exempt employee time worked before processing exempt employee payroll payments, there is an increased risk that these employees may be incorrectly compensated and their leave balances may not be accurate. The lack of such documentation also provides limited assurance that employee services are provided consistent with the

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<sup>11</sup> Trustees Policy 2005-19, *University Payroll*.

Trustees' expectations and that University records are sufficiently detailed in the event of a salary or leave dispute. A similar finding was noted in our report No. 2017-197.

**Recommendation:** **The University should ensure that, prior to processing payroll payments, HR receives time reports or other records evidencing documented supervisory approval of exempt employee time worked.**

#### Finding 5: 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. P-cards are designed to provide a cost effective, convenient, and decentralized method for individuals to make certain purchases on behalf of the University.

University-established P-card procedures and Trustees policies<sup>12</sup> provide guidance to University personnel regarding the appropriate use of P-cards and the penalties for misuse. The University developed a P-card Manual that establishes responsibilities of the Purchasing Department P-card Program Administrator (PCA), program area supervisors, department reconcilers/approvers,<sup>13</sup> Controller's Office personnel, and cardholders for the issuance, use, and cancellation of P-cards. The P-card Manual requires, for example:

- Cardholders to submit receipts and other documentation supporting P-card purchases to approvers no later than 7 business days after the expense date.
- Supervisory personnel to monitor cardholder activity for appropriateness and take any necessary disciplinary action for P-card misuse.
- A P-card canceled for any reason (e.g., cardholder separation from University employment or transfer to another position at the University) be destroyed by cutting it down the magnetic strip and immediately forwarded with written notification to the PCA. The PCA is responsible for notifying the financial institution administering the P-card program of the P-card cancellation.

During the 2017 calendar year, the University issued P-cards to 133 employees and incurred P-card expenses totaling approximately \$2.8 million. To determine the propriety of the P-card expenses, we examined University records supporting 30 selected P-card expenses totaling \$184,671 from 22 cardholder accounts and P-card cancellations for 17 cardholders who separated from University employment. Our procedures disclosed that:

- For 18 P-card expenses totaling \$100,095 from 13 cardholder accounts, University personnel did not timely submit required receipts and other documentation to department reconcilers/approvers for supervisory review and approval. The expenses, ranging from \$100 to \$20,000, included, for example, charges for lodging, bus rental, catering, and repairs and were submitted 4 to 99 days, or an average of 27 days, late. In addition, for 5 other expenses, ranging from \$2,400 to \$30,004 and totaling \$67,050 from 4 cardholder accounts, University records did not evidence when documentation was submitted to department reconcilers/approvers. These expenses included, for example, charges for lodging, bus rental, and catering.

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<sup>12</sup> Trustees Policy 2006-04, *Purchasing Cards*.

<sup>13</sup> Department reconcilers/approvers are responsible for reconciling P-card charges to appropriate support such as receipts and other records and for approving the P-card charges for payment.

In response to our inquiries, University personnel indicated that cardholder departments did not always ensure the required receipts and other documentation were timely submitted or document when the documentation was submitted to the department reconcilers/approvers.

- The P-cards for 10 cardholders who separated from University employment were not canceled until 32 to 242 days, or an average of 81 days, after the employment separation dates. In response to our inquiries, University personnel indicated that cardholder departments did not always timely notify the PCA when cardholders separated from University employment. While our examination of University records did not disclose any P-card charges unrelated to University purposes for these individuals subsequent to their employment separation dates, our procedures cannot substitute for management's responsibility to promptly cancel P-cards.

The lack of timely submittal of receipts and other P-card purchase documentation for appropriate review and approval increases the risk that unauthorized purchases may not be timely detected. Additionally, untimely cancellation of P-cards increases the risk that a P-card could be misused by former employees or others and may limit the University's ability to satisfactorily resolve disputed charges. A similar finding was noted in our report No. 2017-197.

**Recommendation:** The University should enhance P-card procedures to ensure that:

- Receipts and other documentation supporting P-card purchases are timely submitted for supervisory review and approval to substantiate the purchases.
- P-cards are promptly canceled upon a cardholder's separation from University employment.

## **PRIOR AUDIT FOLLOW-UP**

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The University had taken corrective actions for findings included in our report No. 2017-197, except as shown in Table 2.

**Table 2**  
**Findings Also Noted in Previous Audit Reports**

Finding	Operational Audit Report No. 2017-197, Finding	Operational Audit Report No. 2014-108, Finding
1	1	1
2	4	Not Applicable
4	5	Not Applicable
5	6	Not Applicable

## **OBJECTIVES, SCOPE, AND METHODOLOGY**

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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 February 2018 through August 2018 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. 2017-197.
- 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 transactions, as well as events and conditions, occurring during the audit period of January 2017 through December 2017 and selected University actions taken prior and subsequent thereto. 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 University information technology (IT) policies and procedures to determine whether the policies and procedures addressed certain important IT control functions, such as security, systems development and maintenance, and disaster recovery.
- Evaluated University procedures for maintaining and reviewing employee access to IT data and resources. Specifically, we examined access privileges for the 59 employees who were granted access to the critical functions within the finance and human resources applications to determine the appropriateness and necessity of the access based on the employees' job duties and user account functions and the adequacy with regard to preventing the performance of incompatible duties.
- Evaluated University procedures for protecting student social security numbers (SSNs). For the 97 employees who had access to student SSNs as of June 2018, we examined University records supporting the access privileges granted to these employees to determine the appropriateness and necessity of the access privileges based on the employees' assigned job responsibilities.
- Evaluated University security policies and procedures effective during the audit period governing the classification, management, and protection of sensitive and confidential information.
- Evaluated the appropriateness of the University comprehensive IT disaster recovery plan effective during the audit period and determined whether it had been recently tested.
- Reviewed operating system, database, network, and application security settings to determine whether authentication controls were configured and enforced in accordance with IT best practices.
- Determined whether a comprehensive IT security awareness and training program was in place for the audit period.
- Examined Board of Trustees (Trustees) and committee meeting minutes to determine whether the Trustees' approval was obtained for the University policies and procedures in effect during the audit period and for evidence of compliance with Sunshine Law requirements (i.e., proper notice of meetings, meetings readily accessible to the public, and properly maintained meeting minutes).
- Examined University records for the audit period to determine whether the University informed students and employees at orientation 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.
- Reviewed the internal audit function to determine whether the University followed professional requirements and provided for peer review of reports issued. For internal audits, we determined whether risk assessments were performed and approved by the Trustees, audit reports were properly completed and submitted to the Trustees, and allegations were documented and evaluated for further necessary action.
- From the population of payments totaling \$36,893 and transfers totaling \$188,763, made during the audit period, from the University to its direct-support organizations (DSOs), examined University records supporting the payments and transfers to determine whether the transactions were as described in by Section 1004.28(1)(a)2. and (2), Florida Statutes.
- Examined University records to determine whether the Trustees had prescribed by rule, pursuant to Section 1004.28(2)(b), Florida Statutes, the conditions with which the DSOs must comply in order to use University property, facilities, and personal services and whether the Trustees documented consideration and approval of anticipated property, facilities, and personal services provided to the DSOs and the related costs.

- Examined University records to determine whether the University's intercollegiate athletic programs, reported as an auxiliary enterprise, maintained sufficient cash balances to be self-supporting in accordance with Board of Governors Regulations.
- From the population of 10,056 student accounts receivable totaling \$17,360,002 and recorded as of March 2018, we examined documentation relating to 30 selected student accounts receivable totaling \$83,743 to determine whether the student receivables were properly authorized, adequately documented and properly recorded; to evaluate the adequacy of the University collection efforts; and to determine whether restrictions on student records and holds on transcripts and diplomas were appropriate and enforced for students with delinquent accounts in accordance with Trustees regulations established pursuant to Section 1010.03(4), Florida Statutes.
- Examined University records to determine whether uncollectible accounts totaling \$15,103,168 written off during the audit period were properly approved.
- Analyzed payments from tuition differential fees collected during the audit period to determine whether the University assessed and used tuition differential fees in compliance with Section 1009.24(16)(a), Florida Statutes.
- From the population of 20,094 students enrolled as Florida residents during the Spring 2017, Summer 2017, and Fall 2017 Semesters, examined University records for 30 selected students and their related fees totaling \$66,366 to determine whether the University documented Florida residency and correctly assessed tuition in compliance with Sections 1009.21 and 1009.24, Florida Statutes.
- Examined University records for distance learning courses to determine whether distance learning fees were assessed, collected, and separately accounted for in accordance with Section 1009.24(17), Florida Statutes.
- From the population of 30 decentralized locations with collections totaling \$31,010,439, selected 2 locations with collections totaling \$8,727,042 during the 2016-17 fiscal year and examined University records supporting collections totaling \$265,498 to determine the effectiveness of University collection procedures.
- Examined University records supporting the 5 commission-based contracts for auxiliary operations, which generated revenue totaling \$13,256,961 for the audit period, to determine whether the University properly monitored compliance with the contract terms for fees, insurance, and other provisions. Also, we performed analytical procedures to determine whether the non-commission based auxiliary services were self-supporting.
- For the 2,848 course sections offered during the Spring 2018 Semester, examined University records supporting textbook adoptions to determine whether the University textbook affordability procedures complied with Section 1004.085, Florida Statutes.
- From the population of compensation payments totaling \$119,938,239 made to 4,126 employees during the audit period, selected payments totaling \$59,142 made to 30 employees and examined University records to determine the accuracy of the rate of pay, the validity of employment contracts, whether performance evaluations were completed, the accuracy of leave records, and whether supervisory personnel reviewed and approved employee reports of time worked. Also, we evaluated the effectiveness of University controls to monitor leave used and time worked for exempt employees.
- Evaluated Trustees policies and University 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 University policies. Specifically, from the population of 210 employees who separated from University employment during the audit period and were paid \$1,466,849 for terminal leave, we selected 27 employees with terminal payments totaling

\$628,109 and examined the supporting records to determine compliance with Section 110.122, Florida Statutes, and Trustees Policy 2005-23.

- Examined University records for 7 selected employees (including the President) who received compensation totaling \$1,922,625 during the 2016-17 fiscal year, to determine whether the amounts paid did not exceed the limits established in Sections 1012.975(3) and 1012.976(2), Florida Statutes.
- Evaluated Trustees policies and University procedures to ensure health and life insurance was provided only to eligible employees and dependents and that such insurance was timely canceled upon separation from University employment. Also, we determined whether the University had procedures for reconciling health insurance costs to employee and Trustees-approved contributions.
- Examined University records to determine whether selected expenses were reasonable, correctly recorded, adequately documented, for a valid University purpose, properly authorized and approved, and in compliance with applicable laws, rules, contract terms, and Trustees policies. Specifically, from the population of expenses totaling \$256,835,352 for the audit period, we examined University records supporting:
  - 30 selected payments for general expenses totaling \$3,953,900.
  - 30 selected payments for contractual services totaling \$3,274,700.
- From the population of vendors that were paid in excess of the competitive solicitation threshold, examined University records relating to 23 vendors to determine whether the vendors were properly selected.
- From the population of 9,088 purchasing card (P-card) transactions totaling \$2,774,134 during the audit period, examined University records supporting 30 selected P-card transactions totaling \$184,671 related to 22 cardholders and 86 selected P-card transactions totaling \$35,824 related to the President, Trustees, and executive employees to determine whether the P-card program was administered in accordance with Trustees policies and University procedures and transactions were not of a personal nature.
- Examined P-card records for the 17 cardholders who separated from University employment during the audit period to determine whether the University timely canceled the cardholders' P-cards.
- From the population of President, Executive, and Trustees travel expenses totaling \$54,756 during the audit period, examined 30 selected travel reimbursements totaling \$20,306 to determine whether the travel expenses were reasonable, adequately supported, for valid University purposes, and limited to amounts allowed by Section 112.061, Florida Statutes.
- From the population of 125 payments totaling \$32,054 during the audit period to employees for other than travel and compensation, examined 5 selected payments totaling \$11,674 to determine whether such payments were reasonable, adequately supported, for valid University purposes, and whether such payments were related to employees doing business with the University, contrary to Section 112.313(3), Florida Statutes.
- From the population of 21 construction projects with contracts totaling \$12,620,542 and in progress during the audit period, selected 7 payments totaling \$1,331,580 and related to both a major construction project and a minor renovation project with project payments totaling \$2,748,327 during the period January 2017 through June 2018 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 one major construction project and one minor renovation project to determine whether the University process for selecting design professionals and

construction managers was in accordance with State law and adequately monitored the selection process of subcontractors, the Trustees had adopted a policy establishing minimum insurance coverage requirements for design professionals, and design professionals provided evidence of required insurance.

- 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

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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.

A handwritten signature in blue ink that reads "Sherrill F. Norman". The signature is fluid and cursive, with "Sherrill" on the first line and "F. Norman" on the second line.

Sherrill F. Norman, CPA  
Auditor General

## **MANAGEMENT'S RESPONSE**

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**Florida Agricultural and Mechanical University**

TALLAHASSEE, FLORIDA 32307-3100

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OFFICE OF THE PRESIDENT

November 30, 2018

**Ms. Sherrill F. Norman, CPA  
Auditor General  
111 West Madison Street  
Tallahassee, Florida 32399-1450**

Dear Ms. Norman:

Enclosed are the responses to the preliminary and tentative findings on the Operational Audit of the Florida Agricultural and Mechanical University (FAMU), for the period from January 1, 2017 through December 31, 2017. The responses reflect the actual and proposed corrective actions, as well as the estimated completion dates.

We appreciate the work of your staff assigned to the audits of our campus. If there are any questions, please contact me at (850) 599-3225.

Sincerely,

A handwritten signature in black ink, appearing to read "Larry Robinson". Below the signature, the name "Larry Robinson" is printed in a smaller, sans-serif font.

LR:REG:dmr

Enclosures

**Copy to:** Dr. Wanda Ford, Vice President, Finance and Administration  
Dr. Maurice Edington, Provost and Vice President, Academic Affairs  
Richard Givens, Vice President, Division of Audit and Compliance  
John Eason, Director, Athletics

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**Finding 1: Intercollegiate Athletic Programs Deficit Cash Balances**

Recommendation: The Trustees should continue to monitor the financial condition of the intercollegiate athletic programs and the status of the 12-year repayment plan and take appropriate actions to ensure that intercollegiate athletic programs are self-supporting pursuant to BOG regulations.

**University Response:**

To address the issue of making the athletic department self-sustaining, the University has developed an on-going Athletic Department Budget Deficit Plan to taking the following steps:

- Since detailed records were not maintained of which auxiliary fund paid for athletic departmental expenses, a reasonable estimate of the amount paid from each auxiliary fund was calculated for the years 2008-15.
- Recorded a related payable from athletics to the identified funds (adjustments initiated as appropriate).
- Established a repayment plan with initial payment beginning in fiscal year 2016-2017 for a term extending 12 years with 0% interest.
- Repayment is shared by the Athletic Department and the University's Foundation. Other DSOs may contribute toward the repayment in the future.

**Correction actions/prevention plan includes:**

1. Implement 3-year budget and cash balance review process to include:
  - a. Year 1- monthly reviews internally with BOG representative/BOT chair/President/CFO/AD/Chair of Athletics Committee.
  - b. Year 2- monthly reviews with budget office and CFO and quarterly reviews with President/CFO/AD/Chair of Athletics Committee.
  - c. Year 3- monthly reviews with budget office and CFO and quarterly reviews with President/CFO/AD/Board Chair.
2. Require CFO and President's approval of auxiliary transfers to athletics to ensure only allowed sources are used.
3. Restrict release of approved annual Athletics budget until adequate revenues are realized.
4. Monthly reconciliation of P-card purchases, open purchase orders, and vendor invoices.
5. Reduce team travel expenses.
6. Implement aggressive fundraising campaign from Athletics and DSO groups.
7. Request Board of Governors to conduct a study of SUS institutions on use of auxiliary funds and other funds to support Athletics.
8. Track expenses for DSO's in separate auxiliary fund based on established budgets.
9. Reduced the number of Athletic personnel with P-cards
10. Hired a Budget Manager to work in collaboration with the University Budget Officer to provide oversight of the athletic budget.
11. Transferred management of the Athletic Ticket Box Office to the University Controller.
12. Hired a Deputy Athletic Director to assist with business operations.

The finding also indicates that use of concession funds relies on other auxiliary operations to fund athletic program aspirations and is inconsistent with the BOG regulations. However, the University maintains that that concession funds were used to defray the cost of scholarships and not for the general operating expenses of the athletic auxiliary. We believe such use for scholarships supports the educational endeavor of the University and does not

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detract or distract from this mission. Accordingly, in our opinion, such use is consistent with the intent of the BOG Regulations as the scholarships were for student-athletes.

**Responsible Person(s):** John Eason, Director, Athletics

**Target Date:** Procedures were implemented during FY 17-18.

**Finding 2: General Condition Costs**

Recommendation: The University should continue efforts to demonstrate that, as part of the GMP contract approval process, an analysis of the reasonableness and propriety of GMP general conditions personnel costs is performed and used to negotiate the total amount of general conditions costs. We also recommend that University establish procedures to require receipt and evaluation of sufficiently detailed documentation supporting CME pay requests for general conditions personnel costs to ensure that only actual costs are reimbursed to the CME in accordance with the GMP contract.

**University Response:**

The University Facilities, Planning, and Construction department exercised due diligence in their determination of the reasonableness of general conditions personnel costs, which informed their negotiation position regarding these costs during the contract approval process. Personnel demonstrated the aforementioned diligence by:

- Utilizing a project manager with more than 22 years of experience and insight in construction management to negotiate general conditions costs;
- Soliciting feedback from the Board of Governors as well as an external architect who reviewed the GMP to determine the reasonableness of the contractor's proposed costs, including personnel rates;
- Actively engaging in negotiations with the contractor to adjust costs;
- Obtaining itemized personnel payroll costs prior to the start of the project;
- Comparing personnel salary with previous projects with related scope.

Based on the procedures, it was determined that the personnel costs were reasonable. The University concurs that the itemized personnel costs obtained from the contractor were not verified by also obtaining a payroll register from the CM. The University will continue its efforts to demonstrate an analysis of reasonableness regarding costs through appropriate documentation and due diligence. The University will review and amend procedures to include the verification of costs at the beginning of each process.

To verify that the cm IS reimbursed for only actual costs, the University has contracted with an external auditing firm to provide various services including but not limited to:

- Provide overall verification of costs;
- Obtaining and reviewing contract documents between the Construction Manager (CM) and OCPS;
- Financially-related items to be reviewed include provisions related to job cost, fee arrangements, bonds, labor, materials and insurance;
- Review costing of project change orders for conformity to contract documents; noting markup, labor burden and bond adjustments, certify any indirect costs agree with contract documents, review construction management fees and general conditions for conformity to contract documents;
- Review construction management fees and general conditions for conformity to contract documents;
- Review and test general conditions labor for accuracy of base salary, labor burden and personnel appropriateness to the project;
- Review cost assessment, re-calculate the Guaranteed Maximum Price (GMP) and actual costs of construction using the CM records.

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The audit shall be completed no later than 90 after receipt of certificate of occupancy at the school location. By performing the audit at completion of the contract, construction costs will be determined and the University and CM will settle any over or under amount paid to the CM. Accordingly, the University will have reimbursed the CM for actual costs pursuant to terms of the contract. The University will also review and amend the current contract language to ensure clarity regarding the method of reimbursement, whether actual costs or a percentage of the completed project.

**Responsible Person(s):** Wanda Ford, Vice President, Finance and Administration

**Target Date:** Procedures were implemented during FY 17-18.

**Finding 3: Competitive Solicitation**

Recommendation: The University should ensure applicable services are procured using competitive solicitation or document in University records the basis and authority for exempting the procurement from the competitive solicitation requirements prescribed by BOG and University regulations.

**University Response:**

The University will change its policy and Construction Manual to provide for authorization of emergencies by the VP of Finance and Administration. The Office of Procurement Services (OPS) will make every effort to ensure appropriate authorization is received and maintained. Additionally, OPS has added signature approval to the Emergency Certification Form to include the signature of the VP of Finance and Administration or the President as approval and certification of said emergencies.

**Responsible Person(s):** Archie Bouie, Associate Vice President, Finance and Administration  
Mattie Hood, Director, eProcurement Services

**Target Date:** February 2019

**Finding 4: Payroll Processing – Time Records**

Recommendation: The University should ensure that, prior to processing payroll payments, HR receives time reports or other records evidencing documented supervisory approval of exempt employee time worked.

**University Response:**

As noted, the University's procedure requires each department to review the cost center report for payroll accuracy. Signature of the approver certifies payment to the employee and that the employee worked the time for which being paid. We do not believe requiring the reports be submitted to HR prior to processing payroll is an efficient, cost beneficial procedure. The University will enhance its procedures to provide periodic testing of the certifications to verify that the required certifications are being done. If the certifications are not being timely completed, appropriate disciplinary action will be taken.

**Responsible Person(s):** Joyce Ingram, Associate Vice President & Chief Human Resource Officer

**Target Date:** December 2018

**Finding 5: Purchasing Cards**

Recommendation: The University should enhance P-card procedures to ensure that:

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- Receipts and other documentation supporting P-card purchases are timely submitted for supervisory review and approval to substantiate the purchases;
- P-cards are promptly canceled upon a cardholder's separation from University employment.

**University Response:**

The Office of Procurement Services (OPS) will provide monthly training for P-Card holders and reconcilers to make them aware of the importance of reconciling their purchasing cards. Additionally, OPS will work closely with the Office of Human Resources to ensure timely and sufficient notification is provided when an employee separates from the University. This information will be used to terminate the P-cards in a timely manner.

**Responsible Person(s):** Archie Bouie, Associate Vice President, Finance and Administration  
Mattie Hood, Director, eProcurement Services

**Target Date:** December 2018 with training to begin in February 2019