

STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

Report No. 2022-093
January 2022

**FLORIDA AGRICULTURAL AND
MECHANICAL UNIVERSITY**



Sherrill F. Norman, CPA
Auditor General

Board of Trustees and President

During the period January through December 2020, Dr. Larry Robinson served as President of the Florida Agricultural and Mechanical University and the following individuals served as Members of the Board of Trustees:

| | |
|---|---|
| Kelvin L. Lawson, Chair | Dominique Xavier McClinton from 5-1-20 ^c |
| Kimberly Ann Moore, Vice Chair | Rochard Moricette through 4-30-20 ^c |
| Ann Marie Cavazos ^a | Belvin Perry Jr. |
| Otis Cliatt II from 12-11-20 | Craig Reed |
| Thomas W. Dortch Jr. | Kenward Stone from 10-27-20 ^d |
| Michael Dubose from 12-11-20 ^b | Nicole Washington |
| Kristin Harper | Robert L. Woody through 12-10-20 |
| David Lawrence Jr. | |

^a Faculty Senate Chair.

^b Trustee position vacant 1-1-20, through 12-10-20.

^c Student Body President.

^d Trustee position vacant 1-1-20, through 10-26-20.

The team leader was Craig J. Pohlmann, CPA, and the audit was supervised by Maria G. Loar, CPA.

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

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FLORIDA AGRICULTURAL AND MECHANICAL UNIVERSITY

SUMMARY

This operational audit of the 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. 2019-063. Our operational audit disclosed the following:

Finding 1: For the 2019-20 fiscal year, the University could not demonstrate the basis for recording Special Investments with State Treasury Account (SPIA) balances totaling \$48.5 million among only 9 of the University's 30 funds and all SPIA income totaling \$1.3 million in only 1 unrestricted fund.

BACKGROUND

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.

FINDING AND RECOMMENDATION

Finding 1: Investments

State law¹ requires each university to establish and maintain internal controls designed to, among other things, detect fraud, ensure reliability of financial records and reports, and safeguard assets. To assist universities' design of these controls, the *Interinstitutional Committee on Finance and Accounting Financial Statement Guide for Fiscal Year 2021 (ICOFA Financial Statement Guide)* established standard general ledger accounts and funds to provide for the generation of required financial statements.

The accounts and funds established by the *ICOFA Financial Statement Guide* include asset accounts such as Cash in Bank and Special Investments with State Treasury Account (SPIA), revenue accounts such as Investment Income, and funds such as the Current Fund - Unrestricted and Current Fund - Restricted. Transactions promptly and accurately recorded by account and fund promote government transparency and help demonstrate consistency with the *ICOFA Financial Statement Guide*,

¹ Section 1010.01(5), Florida Statutes.

the reliability of University financial records and reports, and that SPIA income is accumulated and used in accordance with applicable funding restrictions. In addition, effective internal controls require reconciliations of SPIA account balances to general ledger control accounts by fund be performed on a timely, routine basis (at least monthly) with reconciling items promptly identified, thoroughly investigated, adequately documented, and resolved.

As part of our audit, and as shown in Table 1, we summarized transactions from the State Treasury SPIA records for the 2019-20 fiscal year. While the University only had 28 transactions (i.e., 12 purchases, 4 sales, and 12 monthly interest income earnings, net of administrative fees) during the fiscal year, the University did not promptly record SPIA transactions to the SPIA general ledger accounts by respective fund but recorded those transactions in the Cash in Bank accounts.

Table 1
SPIA Account Transactions
2019-20 Fiscal Year (in millions)

| | Transaction Totals | Balance |
|--|-----------------------|---------------|
| July 1, 2019, Beginning Balance | | \$43.7 |
| 12 SPIA Purchase Transactions | \$ 15.7 | |
| 4 SPIA Sale Transactions | (12.2) | |
| 12 Monthly Interest Income Transactions | 1.3 | |
| June 30, 2020, Ending Balance | | \$48.5 |
| Excluding the fair market value (FMV) adjustment of \$1.4 million | | |

Source: State Treasury SPIA records.

As of June 30, 2020, the University maintained 30 funds (including 17 restricted and 13 unrestricted funds) with total combined Cash in Bank and SPIA balances of \$83.4 million. For financial statement reporting purposes, the University reclassified the \$48.5 million from the Cash in Bank accounts to SPIA accounts in 9 funds (\$45.8 million in 7 unrestricted funds and \$2.7 million in 2 restricted funds) and also proportionately allocated the \$1.4 million FMV adjustment to the 9 funds. However, the reclassifications and FMV adjustment occurred without documented consideration of the actual amount of SPIA investments in the 9 funds or in the other 21 funds, which had Cash in Bank account balances totaling \$14.6 million at June 30, 2020,² and represented 18 percent of the total Cash in Bank account balances on that date. In addition, throughout the year, the University earned SPIA income totaling \$1.3 million but only recorded that income in the Auxiliary Trust Fund, an unrestricted fund, without recording income in any of the other 17 restricted or 12 unrestricted funds. Moreover, although the SPIA account balances were reconciled to general ledger control accounts at fiscal year end, the SPIA account balances were not periodically reconciled to general ledger control accounts by respective fund because the general ledger did not identify the SPIA balances by fund but commingled them in the Cash in Bank balances.

² The 21 funds included 15 restricted funds with Cash in Bank account positive balances totaling \$15 million and 6 unrestricted funds with credit balances totaling \$0.4 million.

In response to our inquiry, University personnel indicated that they account for the monthly transactions and monitor the monthly investment account activities in a single-designated agency fund and distribute the investment balance to nine funds at fiscal year-end for financial statement presentation based on historical SPIA balances maintained and monitored by the Controller's Office.

Our examination disclosed that, at June 30, 2020, the University's financial statement combined total Cash in Bank and SPIA balances agreed with the University's general ledger combined total Cash in Bank and SPIA balances. Notwithstanding, without adherence to the *ICOFA Financial Statement Guide* to promptly record transactions, including SPIA income, by account and fund in the general ledger, there is an increased risk that the separate asset balances may not be appropriately recorded in the general ledger and reported on the financial statements and SPIA income may not be accumulated and used in accordance with applicable funding restrictions.

In addition, absent effective procedures for the timely preparation of SPIA account reconciliations by fund, and prompt resolution of any noted differences, there is an increased risk that any SPIA transaction errors or fraud that may occur will not be timely detected. Moreover, without such procedures, the reliability and transparency of the general ledger financial information throughout the year and the Board's ability to effectively monitor the University's financial position is diminished.

Recommendation: The University should establish procedures to ensure that Cash in Bank, SPIA, and SPIA income are promptly and accurately recorded by fund consistent with the *ICOFA Financial Statement Guide*. In addition, the University should enhance procedures to ensure that reconciliations of SPIA account balances by fund to the general ledger account balances are performed at least monthly, with reconciling items promptly identified, thoroughly investigated, adequately documented, and resolved.

PRIOR AUDIT FOLLOW-UP

The University had taken corrective actions for findings included in our report No. 2019-063.

OBJECTIVES, SCOPE, AND METHODOLOGY

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

We conducted this operational audit from March 2021 through October 2021 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.

This operational audit focused on information technology resources and related controls; student fees; compensation, construction, other expenses; and other processes and administrative activities.

For those areas, our audit objectives 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. 2019-063.
- 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 areas included within the scope of the audit, weaknesses in management's internal controls significant to our audit objectives; 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; identifying and evaluating internal controls significant to our audit objectives; 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 2020 through December 2020 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 applicable laws, rules, University policies and procedures, and other guidelines, and interviewed University personnel to obtain an understanding of applicable processes and administrative activities.
- Reviewed University information technology (IT) policies and procedures to determine whether the policies and procedures addressed certain important IT control functions, such as security access, systems development and maintenance, user authentication, and disaster recovery.
- Evaluated University procedures for maintaining and reviewing employee access to IT data and resources. We examined access privileges for the 52 employees with access to selected 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 prohibiting employees from soliciting or accepting gifts in connection with any decision, approval, disapproval, or recommendation affecting University purchasing or contracting decisions.
- From the population of 52,454 student receivables totaling \$13.2 million and recorded as of May 2021, examined documentation relating to 40 selected student receivables totaling \$153,040 to determine whether 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.
- From the population of 704 uncollectable accounts totaling \$2.2 million written off during the audit period, examined University records to determine whether 30 selected uncollectable accounts totaling \$121,562 written off during the audit period were properly approved.
- Examined University student fee schedules to determine whether the University had the authority for assessing such fees, the University separately accounted for the fees, and the fees did not exceed the limits established in Section 1009.24, Florida Statutes, and Board of Governors (BOG) Regulations 7.001 and 7.003.
- 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 \$6.8 million of student financial aid, activity and service, health, and athletic fees expended during the audit period, examined documentation supporting selected expenses totaling \$5 million to determine whether the University properly expended the collected fees as required by Section 1009.24, Florida Statutes.
- Examined University records to evaluate the financial condition of the intercollegiate athletic programs and to determine whether the intercollegiate athletic programs were self-supporting in accordance with BOG Regulation 9.013.
- Examined University records and performed analytical procedures to determine whether University auxiliary services, including food, housing, and parking services, were self-supporting on a collective basis.
- From the population of compensation payments totaling \$132.5 million made to 4,053 employees during the audit period, selected payments totaling \$58,193 made to 30 employees and examined the related payroll and personnel records to determine the accuracy of the rate of pay and the validity of employment contracts.

- Examined University records to determine whether selected expenses were reasonable; correctly recorded; adequately documented; for a valid University purpose; properly authorized and approved; in compliance with applicable laws, rules, contract terms, and University policies; and whether applicable vendors were properly selected. Specifically, from the population of contracted service expenses totaling \$41.9 million for the audit period, we examined University records supporting 30 selected payments for contracted services totaling \$4.7 million.
- From the population of 3,914 purchasing card (P-card) transactions totaling \$1.2 million during the audit period, examined University records supporting 30 selected P-card transactions totaling \$145,636 to determine whether the P-card program was administered in accordance with University policies and procedures and transactions were not of a personal nature.
- Examined P-card records for the 3 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 13 major construction projects with expenses totaling \$56.8 million and in progress during the audit period, selected 9 expenses totaling \$10.9 million related to 2 major construction projects with expenses totaling \$43.6 million and examined University records to determine whether the expenses 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 2 major construction projects with total construction costs of \$43.6 million during the audit period to determine whether the University's process for selecting design professionals and construction managers was in accordance with State law; the selection process of subcontractors was adequately monitored; the Trustees had adopted a policy establishing minimum insurance coverage requirements for design professionals; design professionals provided evidence of required insurance; and construction funding sources were appropriate.
- Examined University records supporting unspent Public Education Capital Outlay appropriations totaling \$26,482 to determine whether the funds were expended or under the terms of a binding contract by February 1 of the third fiscal year of the appropriation in accordance with Section 216.301(2)(a), Florida Statutes.
- Evaluated University investment policies and procedures during the audit period to determine whether the policies and procedures complied with Section 218.415, Florida Statutes, and adhered to good business practices.
- Determined whether the University maintained a minimum carryforward balance of at least 7 percent of its state operating budget and prepared a spending plan for balances in excess of the 7 percent minimum balance as required by Section 1011.45, Florida Statutes.
- Determined whether education and general carryforward funds were budgeted and used in accordance with BOG Regulation 9.007. Additionally, we determined whether any investment income was properly allocated to the education and general current year and carryforward funds that generated the investment income.
- Examined University records related to Medical Marijuana Education and Research Initiative to determine whether expenses totaling \$2 million during the audit period from that program were made in accordance with Section 381.986(7)(d), Florida Statutes.
- Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.

- Prepared and submitted for management response the findings and recommendations that are included in this report and which describe the matters requiring corrective actions. Management's response is included in this report under the heading **MANAGEMENT'S RESPONSE**.

AUTHORITY

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

A handwritten signature in blue ink that reads "Sherrill F. Norman". The signature is fluid and cursive, with the first name being the most prominent.

Sherrill F. Norman, CPA
Auditor General

MANAGEMENT'S RESPONSE



Excellence with Caring

Florida Agricultural and Mechanical University
Tallahassee, Florida 32307-3100

OFFICE OF THE PRESIDENT

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January 11, 2022

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

Dear Ms. Norman:

Enclosed is our response to the preliminary and tentative finding of the Operational Audit of the Florida Agricultural and Mechanical University (FAMU), for the period January 1, 2020 through December 31, 2020. 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,

Larry Robinson

LR:dmb

Enclosures

Cc: W. Rebecca Brown, Interim VP, Finance & Administration/CFO
Joseph K. Maleszewski, VP for Audit

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Florida Agricultural and Mechanical University
Response to Preliminary and Tentative Operational Audit Finding
For the Period January 1, 2020 through December 31, 2020

Finding 1: Investments

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Recommendation: The University should establish procedures to ensure that Cash in Bank, SPIA, and SPIA income are promptly and accurately recorded by fund consistent with the ICOFA Financial Statement Guide. In addition, the University should enhance procedures to ensure that reconciliations of SPIA account balances by fund to the general ledger account balances are performed at least monthly, with reconciling items promptly identified, thoroughly investigated, adequately documented, and resolved.

University Response:

To address the issue the University will re-align its internal procedures to be more consistent with the ICOFA Financial Statement Guide to ensure the investment interest income earned from the Special Investments with the State Treasury Account (SPIA) be recorded in the University's general ledger system by individual account and fund as opposed to being recorded in one designated fund and allocated by ending cash balances at end of the fiscal year.

Corrective Actions:

The University will first verify and record the beginning cash balances of the Unrestricted and Restricted accounts and funds with verified cash balances held in the State's Division of Treasury Special Investment Account (SPIA) as of July 1, 2021. Each month, the investment interest earned from SPIA will be allocated based on the prior month-end account and fund balances and the respective investment earnings will be posted as income to those funds and reconciled monthly back to the ending balance from the SPIA statement. The monthly entries and reconciliation will be reviewed by the Associate Controller for accuracy and identify any differences to ensure prompt resolution to correct any errors or misstatements.

Responsible Persons:

W. Rebecca Brown, Interim VP for Finance & Administration/CFO
Tonya C. Jackson, Assistant VP & University Controller

Target Date: June 30, 2022