

STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

Report No. 2025-109
February 2025

FLORIDA ATLANTIC UNIVERSITY



Sherrill F. Norman, CPA
Auditor General

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Dr. Kimberly Dunn ^b	

^a Student Body President.

^b Faculty Senate President.

The team leader was Tracey Walker-White, and the audit was supervised by Yvonne McNaughton, 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 ATLANTIC UNIVERSITY

SUMMARY

This operational audit of Florida Atlantic University (University) focused on selected University processes and administrative activities and included a follow-up on findings noted in our report No. 2022-089. Our operational audit disclosed the following:

Finding 1: Contrary to State law, the University distance learning course fee revenue for the 2021-22 and 2022-23 fiscal years exceeded the additional costs of developing and delivering the courses by a total of \$2.8 million.

Finding 2: The report submitted to the Board of Governors underreported the Education and General Carryforward funds by \$76.8 million or 64 percent.

Finding 3: University controls over credit cards could be improved.

BACKGROUND

The Florida Atlantic University (University) is part of the State university system of public universities, which is under the general direction and control of the Florida Board of Governors (BOG). The University is directly governed by a Board of Trustees (Trustees) consisting of 13 members. The Governor appoints 6 citizen members and the BOG appoints 5 citizen members. These members are confirmed by the Florida Senate and serve staggered 5-year terms. The Faculty Senate President and Student Body President also are members.

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

FINDINGS AND RECOMMENDATIONS

Finding 1: Distance Learning Course Fees

State law¹ allows universities to assess a student who enrolls in a course listed in the distance learning catalog a per-credit-hour distance learning course fee. The amount of the distance learning course fee may not exceed the additional costs of the services provided which are attributable to the development and delivery of the distance learning course. Additionally, the Board of Governors² authorized universities to assess an average distance learning fee which may not exceed \$30 per credit hour and the University assessed a \$30 per-credit-hour distance learning user fee for the 2021-22 and 2022-23 fiscal years.

¹ Section 1009.24(17), Florida Statutes.

² Board of Governors Regulation 7.003(20)(f).

Table 1 summarizes from University records for the 2022-23 fiscal year the distance learning course per-credit-hour user fee, total revenue, and additional costs.

Table 1
Distance Learning Course User Fee
Revenue and Expense Analysis
2022-23 Fiscal Year

User Fee	Amount
Fee Revenue:	
Per-Credit-Hour	\$30
Student Distance Learning Credit-Hours	336,469
Revenue	\$10,094,070
Total Fee Revenue	<u>\$10,094,070</u>
Additional Costs:^a	
Salaries	\$6,085,165
Services	1,247,556
Other Costs	232,411
Total Additional Costs	<u>\$7,565,132</u>
Total Fee Revenue in Excess of Additional Costs	<u>\$2,528,938</u>

^a Amounts in the additional costs category included, for example, University Center for Online and Continuing Education employee compensation and benefits, software and software subscriptions, online test proctoring, and related expenses.

Source: University records.

As illustrated in Table 2, our examination of University records for the 2021-22 and 2022-23 fiscal years disclosed that distance learning course fee revenue exceeded the additional costs of developing and delivering the courses by \$2,783,078.

Table 2
Distance Learning Courses Fee Revenue and Additional Costs
For the 2021-22, and 2022-23 Fiscal Years

Fiscal Year	Fee Revenue	Additional Costs	Total Excess Fee Revenue Over Additional Costs
2021-22	\$ 8,973,899	\$8,719,759	\$ 254,140
2022-23	10,094,070	7,565,132	\$2,528,938
			<u>\$2,783,078</u>

Source: University records.

Although the additional costs attributable to the development and delivery of distance learning courses may vary by course, Table 3 shows the cost per student credit hour for the total additional costs attributable to the development and delivery of University distance learning courses for the 2021-22 and 2022-23 fiscal years.

Table 3
Distance Learning Course Additional Cost Per Credit Hour
For the 2021-22, and 2022-23 Fiscal Years

	2021-22	2022-23
Additional Costs	\$8,719,759	\$7,565,132
Total Student Credit Hours	363,108	336,469
Cost per Student Credit Hour	\$24	\$22

Accordingly, University records did not demonstrate that the University complied with State law by limiting the amount of the distance learning course fees to the additional costs of the services attributable to the development and delivery of the distance learning courses. In response to our inquiry, University personnel indicated that the excess revenue over additional costs incurred by the distance learning courses was due to significantly higher than expected student enrollment and the excess was being reserved to fund a future distance learning facilities renovation project. Notwithstanding, although we requested, University records were not provided to explain how distance learning fee assessments for funding a future distance learning facilities renovation project related to the costs of developing and delivering each distance learning course for the 2021-22 and 2022-23 fiscal years or complied with State law.

Absent effective procedures to demonstrate compliance with State law for determining and documenting the additional costs attributable to the development and delivery of each distance learning course, and for establishing and assessing appropriate distance learning course fees, students may be overcharged for these courses.

Recommendation: The University should establish effective procedures to demonstrate that the distance learning course fees assessed to and collected from students are limited, as required by State law, to the additional costs of the services attributable to the development and delivery of each course. Such procedures should include the maintenance of records to justify the fee assessed for each distance learning course.

Finding 2: Education and General Carryforward Spending Plan

State law³ and Board of Governors (BOG) regulations⁴ require each university president to prepare an operating budget, including an Education and General (E&G) Carryforward Spending Plan, for approval by the university trustees and the BOG. Universities that accumulate an ending carryforward balance in excess of 7 percent of its State operating budget must submit a spending plan to the BOG for its excess carryforward balance. The E&G Carryforward Spending Plan must include the estimated cost per planned expenditures, such as completion of construction projects, operating expenditures that support the University’s mission, and any purpose specified by the University board of trustees, and a timeline for completion of the expenditures. The Glossary of Budget and Finance Terms on the State University System of Florida Web site defines E&G carryforward as “The accumulated ending E&G fund balance.”

³ Sections 1011.45, Florida Statutes.

⁴ BOG Regulation 9.007(1), State University Operating Budgets.

The University E&G carryforward balance of \$120.3 million in its E&G Carryforward Spending Plan for the 2023-24 fiscal year was understated by \$76.8 million or 64 percent. The understatement occurred because the University personnel at the time incorrectly derived the balance from accumulated E&G Fund unused budgetary expense amounts instead of the E&G Fund accumulated ending fund balance. According to University personnel, because the University had significant changes in personnel and records were not maintained to demonstrate how the carryforward amount was calculated, the prior carryforward calculation methodology used was questionable.

In the summer of 2023, the University began questioning the calculation methodology, contacted BOG for guidance, and contracted with a CPA firm to help determine the accuracy of the calculation. In the spring of 2024, University personnel concluded that the methodology used to calculate the June 30, 2023, carryforward balance was incorrect and contacted the BOG to discuss the understatement. University personnel indicated that the BOG advised the University not to revise the E&G carryforward balance in the E&G Carryforward Spending Plan for the 2023-24 fiscal year.

Understating E&G carryforward balance reported amounts may limit the University's ability to effectively plan and use carryforward funds and the ability of the BOG and other concerned stakeholders to effectively monitor University carryforward funds. As part of our audit, we examined the University E&G Carryforward Spending Plan submitted to the BOG for the 2024-25 fiscal year and determined that the July 1, 2024, E&G carryforward amount included in the plan was materially correct using the correct methodology.

Recommendation: The University should continue efforts to ensure effective procedures are employed for calculating and reporting the E&G carryforward balances in the E&G Carryforward Spending Plan. Such procedures should include the maintenance of records supporting the calculation of the carryforward balances and appropriate training for those who prepare the E&G Carryforward Spending Plan.

Finding 3: Credit Cards

The University administers a credit card program which provides credit cards to authorized employees to procure certain goods and services. University procedures⁵ require cardholders to attend certification training, sign a cardholder agreement acknowledging their responsibility for the credit card and certifying completion of credit card training, and record their charges in the credit card system within 30 calendar days from the date of purchases.

During the 2023 calendar year, the University had 1,032 credit cards and credit card expenses totaled \$13.1 million. As part of our audit, we requested for examination cardholder agreements for 40 selected cardholders and University records supporting 30 selected credit card expenses totaling \$182,758. However, the agreements to acknowledge responsibility for the credit cards and completion of the training were not provided for 4 cardholders. In addition, we noted that 6 expenses totaling \$52,087 for lodging and transportation relating to athletic events, office supplies, and other University purchases were recorded in the credit card system 7 to 41 days after the required 30-day time frame.

⁵ Florida Atlantic University Credit Card User Guidelines and Manual.

In response to our inquiry, University management indicated that the 4 cardholder agreements could not be located due to personnel changes but provided other records confirming that the 4 cardholders attended credit card training before receiving the credit cards. University personnel also indicated that the 6 expenses were not timely recorded because of delays in processing invoices and error corrections. In addition, for the 2024 calendar year, the University began subjecting cardholders who did not record charges within University-established time frames to additional training, reduced credit limits, or credit card revocation. While we determined that the selected University credit card expenses represented appropriate University purchases, absent effective controls over credit cards, there is an increased risk for credit card misuse and for fraud or errors to occur without timely detection.

Recommendation: The University should enhance procedures to ensure that University records demonstrate cardholder agreements are executed after completion of credit card training and prior to credit card issuance. In addition, the University should continue efforts to ensure that cardholders timely record credit card expenses pursuant to University procedures.

PRIOR AUDIT FOLLOW-UP

The University had taken corrective actions for findings included in our report No. 2022-089.

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 2024 through August 2024 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.

This operational audit focused on selected University 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. 2022-089.
- 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 the selection and examination of transactions and records, as well as events and conditions, occurring during the audit period of January 2023 through December 2023 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 and the related requirements.
- 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 to selected critical functions within finance and human resources applications during the audit period for 26 of the 560 applicable employees to determine the appropriateness and necessity of the access privileges based on the employees' job duties and user account functions and whether the access prevented the performance of incompatible duties.
- Evaluated University procedures for protecting the sensitive personal information of students, such as social security numbers. From the population of 56 employees who had access privileges to the sensitive personal information of students during the audit period, we examined University

records supporting the access privileges granted to 21 selected employees to evaluate the appropriateness of and necessity for the access privileges based on the employees' assigned job responsibilities.

- Determined whether a comprehensive IT risk assessment had been established for the audit period to document the University risk management and assessment processes and security controls intended to protect the confidentiality, integrity, and availability of data and IT resources.
- Examined University records to determine whether the University had developed an anti-fraud policy and procedures for the audit period to provide guidance to employees for communicating known or suspected fraud to appropriate individuals. Also, we examined University records to determine whether the University had implemented appropriate and sufficient procedures to comply with its anti-fraud policy.
- Reviewed the University's Capital Improvement Plan submitted to the BOG and used for the legislative budget request to determine whether the Plan was completed in accordance with BOG instructions.
- Examined University records to determine whether student fees totaling \$108.8 million during the audit period were properly authorized, accurately calculated, and correctly recorded in accordance with University policies and Board of Governors regulations.
- From the population of 2,640 distance learning courses with fee revenue totaling \$9.3 million during the audit period, reviewed distance learning fees to determine whether fees were assessed, collected, and separately accounted for in accordance with Section 1009.24(17), Florida Statutes.
- From the population of compensation payments totaling \$373.8 million made to 10,738 University employees during the audit period, selected payments totaling \$51,512 made to 30 employees and examined the related payroll and personnel records to determine the accuracy of the rate of pay, the validity of employment contracts, whether performance evaluations were completed, and the accuracy of leave records.
- Examined University records supporting bonus payments totaling \$7.4 million made to 3,088 University employees during the audit period and selected payments totaling \$579,715 made to 46 employees to determine whether the University complied with Section 1012.978, Florida Statutes, and BOG Regulation 9.015.
- Evaluated University policies and procedures for obtaining personnel background screenings to determine compliance with Section 1012.915, Florida Statutes.
- 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 expenses totaling \$246.7 million for the audit period, we examined University records supporting 30 selected payments for general expenses totaling \$525,723.
- Examined University credit card records to determine whether the University's list of active cards agreed with the list from the credit card service provider.
- From the population of 43,086 credit card transactions totaling \$13.1 million during the audit period, examined University records supporting 30 selected credit card transactions totaling \$182,758 to determine whether the credit card program was administered in accordance with University policies and procedures and transactions were not of a personal nature.
- From the population of 1,032 credit cards active during the audit period, examined records for 40 cardholders to determine if the employee had accepted the card and conditions for its use, and if there was a signed agreement on file.

- Examined University records to determine whether credit card expenses were only for allowable University purposes, lost or stolen cards were appropriately accounted for, and periodic evaluations of card usage and spending limits were performed to determine whether University controls over credit card use were designed properly and operating effectively.
- Examined University records for 23 of the 70 cardholders who separated from University employment during the audit period to determine whether their University credit cards were promptly canceled.
- Reviewed University policies and procedures related to identifying potential conflicts of interest. We also reviewed Department of State, Division of Corporations, records; statements of financial interest; and University records for 27 selected University Board members and management staff to identify any potential relationships that represented a conflict of interest with vendors used by the University.
- From the population of seven major construction projects with expenses totaling \$8 million and in progress during the audit period, selected 20 expenses totaling \$3.5 million related to two major construction projects and examined University records to determine whether the expenses complied with contract terms and conditions, University policies and procedures, and provisions of applicable State laws and State Board of Education rules.
- Examined University records for two major construction projects with total construction costs of \$7.2 million during the audit period to determine whether the University's process for selecting design professionals and construction managers was in accordance with Section 287.055, Florida Statutes; 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.
- From the population of Public Education Capital Outlay (PECO) expenses totaling \$18.1 million and Educational & General (E&G) carryforward expenses totaling \$15 million during the audit period, examined University records supporting 15 selected PECO expenses totaling \$509,750 and 15 selected E&G expenses totaling \$40,616 to determine whether the expenses complied with the restrictions imposed on the use of these resources. Also, we determined whether E&G Carryforward expenses were budgeted and used in accordance with Board of Governors Regulation 9.007.
- From the population of Deferred Building Maintenance Program and other restricted capital outlay expenses totaling \$160,657 during the audit period, examined University records to determine whether use of the funds was consistent with restrictions imposed on the resources, such as the restrictions in Chapter 2022-156, Laws of Florida, General Appropriation Act, Section 197.
- For the population of expenses totaling \$94 million paid from student activity and service, athletic, health, and student financial aid fees, examined University records to evaluate compliance with Section 1009.24, Florida Statutes.
- Examined University records for the acquisition or construction of capital facilities to determine whether the University or direct-support organization complied with University debt management policies, and the BOG debt management guidelines.
- Reviewed University records to verify that amounts reported to the Florida Department of Education (FDOE) as expended or encumbered in the audit period for various PECO allocations agreed with University accounting records and that the President certified that use of the PECO Funds complied with applicable laws.
- Evaluated University policies and procedures to determine whether the University has appropriate controls in place to ensure vendor information changes are appropriate, reviewed, and verified.

- 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.
- Examined University records supporting payments totaling \$257,708, including the contracts, purchase orders, and invoices, for debris removal and repair services during the 2023 calendar year provided under the authority granted by a declared state of emergency.
- 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



Vice President and Chief Financial Officer

Jayson Iroff

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MANAGEMENT'S RESPONSE

February 6, 2025

Sherrill F. Norman, CPA
Auditor General
State of Florida
Claude Denson Pepper Building G74
111 West Madison Street
Tallahassee, FL 32399-1450

Dear Ms. Norman,

Enclosed is Florida Atlantic University's response to the preliminary and tentative findings and recommendations for the Operational Audit of Florida Atlantic University for the calendar year ended December 31, 2023. As indicated in our response, the University has implemented all recommendations identified in the report.

If you have any questions or need additional information, please do not hesitate to contact me at 561-297-3134 or jiroff@fau.edu.

Sincerely,

Jayson Iroff

Jayson Iroff
Vice President of Financial Affairs and Chief Financial Officer
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Cc: Stacy Volnick, Ph.D., President
Piero Bussani, Chair, FAU Board of Trustees

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Finding 1: Distance Learning Course Fees

Recommendation: The University should establish effective procedures to demonstrate that the distance learning course fees assessed to and collected from students are limited, as required by State law, to the additional costs of the services attributable to the development and delivery of each course. Such procedures should include the maintenance of records to justify the fee assessed for each distance learning course.

Managements Response:

The University has enhanced distance learning course fee monitoring procedures to better reflect the maintenance of records that justify the fees assessed based on the additional costs of services to develop and deliver distance learning courses.

Finding 2: Education and General Carryforward Spending Plan

Recommendation: The University should continue efforts to ensure effective procedures are employed for calculating and reporting the E&G carryforward balances in the E&G Carryforward Spending Plan. Such procedures should include the maintenance of records supporting the calculation of the carryforward balances and appropriate training for those who prepare the E&G Carryforward Spending Plan.

Managements Response:

As noted in the finding, the University in the summer of 2023, proactively reported concerns to our Board of Trustees and the Board of Governors regarding the methodology that had been historically utilized to report carryforward balances. Following guidance provided by Board of Governor staff and a CPA firm that we engaged to assist us with the matter, the University conducted a thorough review, and then revised and deployed operational procedures to report carryforward balances consistent with the guidance received. These new procedures include all the recommended elements described in the Auditor General's report and were operationalized before the University's FY 2024-25 carryforward plan report submission. In addition, prior to submitting its carryforward plan for FY 2024-25 the University met with Board of Governors staff to review the carryforward balance calculation contained within the 2024-25 report to ensure that it was being reported correctly.

Finding 3: Credit Cards

Recommendation: The University should enhance procedures to ensure that University records demonstrate cardholder agreements are executed after completion of credit card training and prior to credit card issuance. In addition, the University should continue efforts to ensure that cardholders timely record credit card expenses pursuant to University procedures.

Managements Response:

In the Spring of 2024, operational procedures were updated to address the practice recommendations noted in the audit report. In addition, at that time, the University updated its staff training to reflect these changes.