FIU | FLORIDA INTERNATIONAL UNIVERSITY

Office of Internal Audit

Audit of College of Business Expenditures

Report No. 13/14-11

February 3, 2014

FLORIDA INTERNATIONAL UNIVERSITY

OFFICE OF INTERNAL AUDIT

Date: February 3, 2014

To: David Klock, Dean of the College of Business

From: Allen Vann, Audit Director

Subject: **Audit of College of Business Expenditures, Report No. 13/14-11**

Based on your request, we have completed an audit of the College. The primary objective of our audit was to determine whether established financial controls and procedures are adequate and effective; being adhered to; and in accordance with the University policies and procedures, applicable laws, rules and regulations. During fiscal year 2013, the College expended approximately $58.8 million.

While the College's controls and procedures relating to expenditures were adequately defined, there were areas where internal controls need strengthening, particularly in the areas of: extra compensation, program related expenditures, credit card controls, travel authorization and expenses, and asset management. The audit resulted in eleven recommendations which management agreed to implement. Management's responses to each of our recommendations are included after each set of recommendations in the report.

We would like to take this opportunity to express our appreciation for the cooperation and courtesies extended to us during this audit.

Attachment

C: Sukrit Agrawal, Chair, BOT Finance and Audit Committee and Committee Members
Mark B. Rosenberg, University President
Douglas Wartzok, Provost and Executive Vice President
Kenneth A. Jessell, Chief Financial Officer and Senior Vice President
Javier I. Marques, Chief of Staff, Office of the President
Jose Aldrich, Vice Dean of Administration, College of Business

TABLE OF CONTENTS

INTRODUCTION

In October 2012 of the last fiscal year there was a planned leadership transition at the College of Business (College or COB). The incoming Dean requested an audit of the College's finances. Based on our workload at the time, we added this audit to our current FY 2014 audit plan, which was subsequently approved by the BOT Finance and Audit Committee. This report contains the results of that audit.

We had previously completed an audit of the College's auxiliary operations in April 2011. That audit identified that the manner in which fees were established and program costs were accounted for needed improvement. Programs were generally budgeted to break even, but rarely came close. Twenty of the 28 programs had excess of revenues over expenditures, resulting in significant fund balances. That audit resulted in six recommendations. While all of those recommendations were reportedly implemented, during our current audit there was a repeated finding (see Finding No. 2, Program Related Expenditures).

OBJECTIVE, SCOPE AND METHODLOGY

The primary objective of this audit was to determine whether established financial controls and procedures relating to payroll administration, procurement of goods and services, travel and property accounting are: adequate and effective; being adhered to; and in accordance with the University policies and procedures, applicable laws, rules and regulations.

Our audit included the College's expenditures from FIU and its University Foundation accounts for the period from July 1, 2012 through June 30, 2013. The audit was conducted in accordance with *the International Standards for the Professional Practice of Internal Auditing*, and included test of the accounting records and such other auditing procedures as we considered necessary under the circumstances. Audit fieldwork was conducted from August to November 2013.

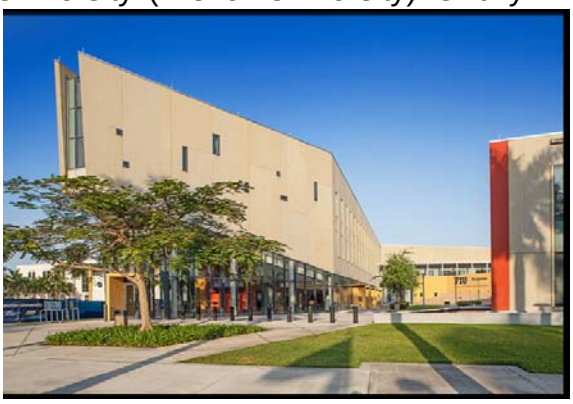
During the audit, we:

- Reviewed University policies and procedures, applicable Florida statutes and regulations, and COB policies and procedures;
- Observed current practices and processing techniques;
- Interviewed responsible personnel; and
- Tested selected transactions.

Sample sizes and transactions selected for testing were determined on a judgmental basis.

BACKGROUND

The College of Business at Florida International University (FIU or University) is fully accredited by the Southern Association of College and Schools (SACS) and by the Association to Advance Collegiate Schools of Business (AACSB). The College was established when FIU opened its doors in 1972 and currently offers 8 undergraduate and 22 graduate programs focused on preparing students for the global technology-driven business climate. The total enrollment for fall 2013 was 6,067 undergraduate and 2,147 graduate students including 53 PhD students.



In addition to the undergraduate and graduate programs, the College has five centers and institutes. They are:

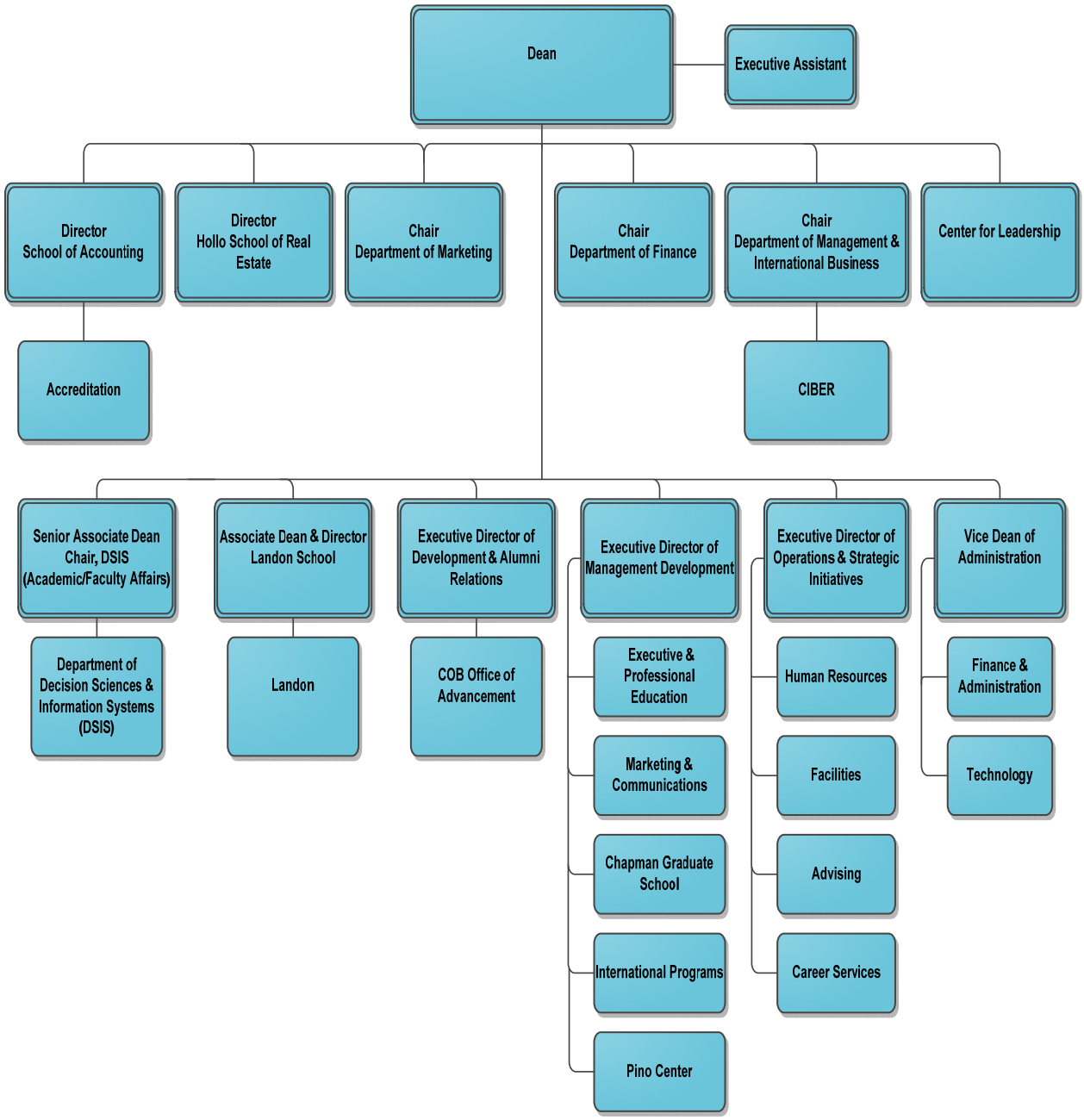
1) Center for International Business Education and Research (CIBER);
2) Center for Leadership;
3) Eugenio Pino and Family Global Entrepreneurship Center;
4) Jerome Bain Real Estate Institute; and
5) Ryder Center for Supply Chain Management.

Each center is dedicated to providing new knowledge and innovative advancements in its respective field. For example, the mission of the Center for Leadership is to engage in cutting-edge interdisciplinary research in the area of leadership development and deliver innovative executive leadership programs that integrate research and training so that practice continually advances knowledge; and to support the leadership development goals of FIU. Also, the Eugenio Pino and Family Global Entrepreneurship Center provides the FIU community of students, alumni, and professionals with the knowledge and contacts that enable them to reach their entrepreneurial objective of designing and launching successful new ventures based on innovative concepts.

The other program we closely reviewed during the audit is the Healthcare MBA (HCMBA). The HCMBA is the professional master of business administration with a health management track, which was approved in 2009 with the first cohort of students enrolled in fall 2010. The HCMBA degree meets the needs of its targeted student population – a diverse group of working professionals interested in obtaining a graduate degree in health management. The HCMBA is an industry-specific professional MBA degree offered by the Chapman Graduate School of Business within the College of Business. The mission of the Healthcare MBA program is to improve the delivery of health services through education and training of healthcare managers, service to the community and the profession, and research.

Personnel

As of December 2013, the College had 16 12-month faculty, 120 9-month faculty, 44 adjuncts, 136 administrative personnel, 30 staff, 52 graduate assistants, 78 student assistants, and 19 temporary non-student employees. The College's organization chart is shown below.



Financial Information

During fiscal year 2013, the College generated revenues totaling $65.6 million, while expending $58.8 million. Approximately $2.5 million of the $6.8 million in net income was transferred to Academic Affairs and the University College. The following table compares the College's financial activity for fiscal year 2012 to fiscal year 2013.

Category	FY 2012	FY 2013
Revenues:		
E&G Support	$23,663,049	$23,220,926
Other DSO Activity	1,001,543	668,154
Self-Generated Tuition & Fees	32,987,512	40,449,465
Revenue Sharing Online and Other	734,564	699,792
Grants and Contracts	-	559,853
Total Revenues	$58,386,668	$65,598,190
Expenditures:		
Salaries & Benefits from E&G	$23,663,049	$22,827,374
Salaries & Benefits other than E&G	$15,862,193	$19,612,580
Total Salaries & Benefits	$39,525,242	$42,439,954
Other Operating Expenditures:		
Scholarships	$2,703,032	$2,242,159
Professional Services & Advertising	2,279,276	3,127,864
Shared Services Fee (Overhead)	1,714,490	2,071,780
Supplies and Materials	1,404,488	1,261,827
Other Equipment & Supplies	1,264,663	165,530
Travel, Training and Entertainment	934,855	1,027,874
Furniture and Equipment	647,180	847,515
Building Rental	336,187	2,095,141
Telecommunications	518,321	281,197
Repairs and Maintenance	581,450	184,107
Miscellaneous	3,490,618	3,075,958
Total Other Operating Expenses	$15,874,560	$16,380,952
Total Expenditures	$55,399,802	$58,820,906
Net Income before transfer out	$2,986,866	$6,777,284
Transfers to AA & UC	$1,434,284	$2,499,975
Net Income after transfer out	$1,552,582	$4,277,309

FINDINGS AND RECOMMENDATIONS

While the College's controls and procedures relating to expenditures were adequately defined, there were areas where internal controls need strengthening, particularly in the areas of: extra compensation, program related expenditures, credit card controls, travel authorization and expenses, and asset management.

Our overall evaluation of internal controls is summarized in the table below.

INTERNAL CONTROLS RATING			
CRITERIA	**SATISFACTORY**	**FAIR**	**INADEQUATE**
Process Controls			**X**
Policy & Procedures Compliance		**X**	
Effect		**X**	
Information Risk	**X**		
External Risk		**X**	
INTERNAL CONTROLS LEGEND			
CRITERIA	**SATISFACTORY**	**FAIR**	**INADEQUATE**
Process Controls	**Effective**	**Opportunities exist to improve effectiveness**	**Do not effectively safeguard assets**
Policy & Procedures Compliance	**Non-compliance issues are minor**	**Non-Compliance Issues may be systemic**	**Non- compliance issues are pervasive, significant, or have severe consequences**
Effect	**Not likely to impact operations or program outcomes**	**Impact on outcomes contained**	**Negative impact on outcomes**
Information Risk	**Information systems are reliable**	**Data systems are mostly accurate but can be improved**	**Systems produce incomplete or inaccurate data which may cause inappropriate financial and operational decisions**
External Risk	**None or low**	**Medium**	**High**

The areas of necessary improvement identified in our audit are detailed below.

1. Payroll Related Expenditures

Salaries and fringe benefits are major expenditures for the College. Approximately $42.4 million, representing 72% of the College's total expenditures for the fiscal year 2012-2013, are payroll related. We focused our review on Extra State (Overload) Compensation.

Approximately $2.8 million of the College's total payroll expenditures were related to extra compensation. We selected 17 employees whose extra compensations totaling $946,165 represented an extra 9% to 94% over their regular salary. Approximately 60% of the selected employees earned 40% or more over their regular compensation.

Extra State Compensation			
Employee	**Salary**	**Overload**	**Percentage**
1	$146,370	$137,900	94%
2	79,926	68,300	85%
3	99,617	85,000	85%
4	134,895	104,051	77%
5	97,162	61,182	63%
6	81,759	46,169	56%
7	124,698	64,260	52%
8	181,455	87,085	48%
9	112,200	51,350	46%
10	140,007	56,364	40%
11	102,000	34,040	33%
12	105,321	31,310	30%
13	88,068	23,279	26%
14	162,965	27,500	17%
15	298,475	45,875	15%
16	83,690	12,000	14%
17	114,258	10,500	9%
Total	$2,152,866	$946,165	44%

Some of the tested employees received extra compensation for assignments that were already included in their normal job duties. For instance, a Director in one of the Centers was paid extra compensation totaling $10,500 for multiple presentations related to the leadership program already included as part of her job duties. In another instance, the former Director of the College's Career Development Services was paid extra compensation totaling $12,000 for conducting a career services professional development seminar for students within the College's several programs, which similarly was part of his regular job duties.

While the College's Policies and Procedures Manual outlines pay rates for faculty teaching overload compensation, it is not evident how the pay rates for overload

compensation for non-teaching related duties is determined. In addition, employees are paid varying amounts for performing similar duties. For example, one employee was paid $3,000 for a four-hour presentation in two-day sessions while a second employee was paid $1,500 for a five-hour presentation in two-day sessions. In another instance an employee was paid $570 to conduct a career service professional development seminar for the MIB online program but was paid $5,670 to conduct the same seminar for the corporate MBA program.

Designing a better defined and consistent overload assignment process would reduce the College's expenditures.

Recommendations

The College of Business should:	
1.1	Assess the extensive use of overload assignments and compensations.
1.2	Ensure that overload payments are for assignments beyond the employee's normal job duties.
1.3	Establish a procedure for overload compensation rates for non-teaching assignments and ensure that employees are compensated at the similar rate for performing the same job beyond their normal job duties.

Management Response/Action Plan:

1.1 New faculty members are being hired to meet the demand of undergraduate and graduate courses for COB. As of this date, 17 new faculty members have been hired for this fiscal year. We will enforce the established policies and procedures of allowing a maximum of four teaching overload assignments in accordance with COB policies and procedures.

Implementation date: December 31, 2014

1.2 COB Finance and Administration will work closely with Central HR to review employee's normal job duties to confirm there's no overlapping of duties.

Implementation date: June 30, 2014

1.3 Non-teaching assignments compensation rates are based on the expertise of the speaker. The rate is also based on the number of students attending in professional developments. All non-teaching assignments will be reviewed and approved by Vice Dean. Starting fiscal year 2014, all new administrative employees job descriptions have been adjusted to incorporate non-teaching assignments to be included in their job duties.

Implementation date: Immediately

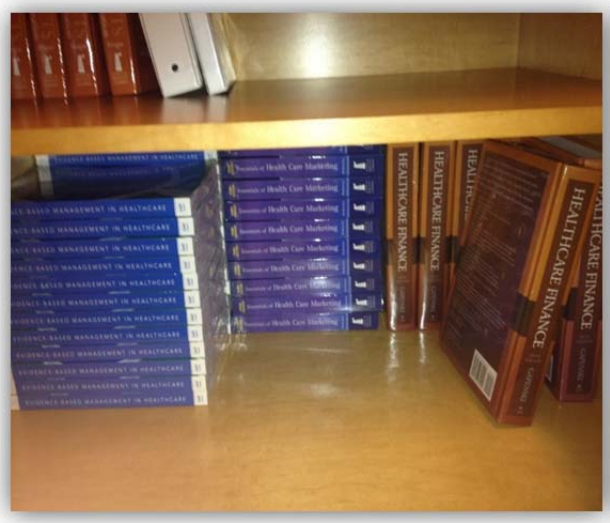
2. Program Related Expenditures

Over $14 million expenditures excluding payroll and overhead were incurred in fiscal year 2012-2013. Each school or program at the College has authority to incur program related expenditures including travel, student meal, materials and supplies, textbooks, and special (graduation) events. These expenditures are covered by tuition and fees paid by the students.

Our test of 275 transactions, totaling $173,662, revealed wasteful spending:

- A greater than necessary number of textbooks were purchased for the Healthcare MBA (HCMBA) program. Our review of 16 textbook purchases, totaling $50,433, revealed that program staff typically purchased more textbooks than the number of students enrolled. For instance, for a cohort of 33 students 38 books were purchased and for another cohort of 20 students 26 books were purchased. Program staff explained that the extra books are purchased so that they are readily available in case students lose their copy and any remaining books can be used by the next cohort taking the same class. However, we observed many unused textbooks.

  As partially depicted below, we observed 196 textbooks on hand costing $16,881.



  Had an inventory record of the number of books purchased, distributed to students, and on hand been maintained these costs could have been better controlled.

- It appears that each program determines the type of meals provided to students during class, who the caterers will be, where a graduation party can be held, and who is invited to the graduation party. This decentralization resulted in inconstancy in spending and providing the services to the students.

In particular, excessive spending was observed for the Healthcare MBA program's graduation dinners, which were held in five star hotels. In addition to the entire program staff, many other College employees and their guests were frequently invited. The number of faculty, staff and their guests attending graduation dinners often exceeded the number of graduating students and their guests.

- For the graduation dinner for Cohort 4 held on August 9, 2012 there were 50 attendants, but only 23 attendants were graduates and their guests. The rest were College employees, included program staff, a financial manager, an accounting coordinator, a coordinator of student financial aid, three faculty administrators, and their guests. The cost for this dinner totaled $2,183 or $43.66 per person. The College has no guidelines as to who may attend graduation dinners and how many guests each student could bring. All guests were invited by the program director. A similar finding was noted in our prior audit.

- For the graduation dinner for Cohort 3 held on December 13, 2012 there were 33 graduating students. The program paid for 80 people, but only 63 people attended the graduation dinner; of those 26 (41%) were College personnel and their guests. Despite the fully paid for excessive number of reservations, two of the graduating students were each required to pay for an extra guest.

- For the graduation dinner for Cohort 5 held on May 2, 2013 a $1,000 room rental fee was paid in addition to $5,165 for the gradation dinner. The program coordinator claimed that $1,000 rental fee was required because the cost of the dinner was under the $8,000 minimum spending required by the hotel. However, there was no room rental charge for another graduation party held at the same hotel in December 2012, where the total spending came to $5,716.

- Unnecessary meals were ordered for the 14 students in HCMBA's Cohort 7. Program staff members explained that the 35 meals ordered and paid for included program staff members working to assist with the class.

- Meals purchased at restaurants for the students (physicians), from the Dominican Republic who attended a certificate program, were consistently more than the number of the students in the group. For instance, the program paid $417 for 12 meals at P.F. Chang's, but the supporting list of participants only had 6 students. The program staff accompanied the students.

- A vendor was overpaid by $270 in Foundation funds because the invoice amount was transposed when the payment was made. Upon audit inquiry, College staff requested a reimbursement from the vendor.

Strengthening controls over program related expenditures will reduce wasteful spending.

Recommendations

The College of Business should:	
2.1	Develop procedures and guidelines for purchasing and accounting for textbooks and other materials provided to students.
2.2	Develop program guidelines for graduation dinners, class meals and other events.

Management Response/Action Plan:

2.1 All existing inventory has been addressed with the Healthcare MBA program and they will utilize the books for upcoming cohorts. The following guidelines will be established for the purchasing of textbooks and other materials: Programs will be allowed to purchase 5% in excess of the projected student enrollment. Once enrollment has been finalized there will be an attempt to return any excess books. If unable to return those books will be used for the following cohorts if still current.

Implementation date: June 30, 2014

2.2 Graduation dinners, class meals and other events have been reviewed and will reinforce policy that the programs spend smart and we are also currently working to centralize events in the College of Business.

Implementation date: December 31, 2014

3. Credit Card Controls

As of August 2013 there were 50 active purchasing cardholders and 8 approvers. This appears to be excessive when compared to other state universities; for instance, the College of Business at University of Central Florida and University of South Florida had 21 and 16 credit cardholders, respectively. We observed that multiple cardholders at the College purchased similar items for the same program such as textbooks, paying for catering services, mailing and printing expenses, which makes it more difficult for the College to track these expenses.[1]

During fiscal year 2012-2013 approximately $2.7 million in goods and services were charged. We reviewed the College's credit card approval process and 275 credit card transactions, totaling $173,662. The following were our observations:

- During the audit period one of the eight credit card approvers approved 5,866 transactions, totaling $2.2 million, for 44 cardholders. Due to the large volume of transactions, the approver did not have adequate time to review each transaction to ensure that it was adequately supported by an appropriate invoice and other supporting documents. Examples follow:

    - The approver approved a number of transactions for purchase of textbooks, where the number of the books purchased exceeded the list of students provided to support the charge.

    - A charge for a graduation dinner included a 10.40% sales tax charge resulting in an additional payment of $375 was not questioned.

    - Thirteen catering receipts were approved without verifying how many meals were actually served for each of three cohorts provided as support for the charges. For 7 of the 13 receipts reviewed none of the three cohorts had a class on the day of meal delivery. When we inquired, the credit card approver was unable to explain why these meals were ordered on the dates when there were no classes held for the cohorts. The credit card approver referred our inquiry to the cardholder who provided additional information that was not part of the original support provided for the 13 credit card receipts. This indicates that the approver approved credit card charges without sufficient information.

  The University Credit Card Guideline requires a cardholder or department to submit a temporary maintenance request form when a cardholder is absent for extended period of time so that the card limits are temporarily reduced to $1. However, a College of Business cardholder's credit limit was not reduced when going on administrative leave. The cardholder's credit card limit remained at the

[1] Based upon past internal audits of the University's purchasing cards, there has been a concerted effort on the part of the University, which has been largely successful to reduce the total number of cardholders.

$25,000 monthly limit and $8,000 per single transaction. The cardholder subsequently charged $60 for printing cost but we determined that it was business related.

- University Credit Card Guideline states that the program administrator or credit card solution team must be notified by the cardholder or by the cardholder's department whenever the cardholder retires, resigns, transfers to another department, or assumes different duties that do not require using the departmental card. One program administrator's credit card remained active after she transferred to another position within the College. The card was canceled subsequent to our inquiry.

A large volume of credit card transactions by many credit cardholders with limited approvers and the lack of supporting documentation unnecessarily exposes the College to the risk of unauthorized charges.

Recommendations

The College of Business should:	
3.1	Ensure that all credit card charges are properly approved after carefully reviewing all supporting documentation.
3.2	Reevaluate the number of credit cardholders at the College and consider centralizing control over textbook purchases, catering and event planning.
3.3	Cancel and/or suspend credit cards when employees are terminated, transferred, or on extended leave.

Management Response/Action Plan:

3.1 A full time employee will be hired to split the number of pro-card transactions to be approved and we will increase the training to current and new cardholders.

Implementation date: June 30, 2014

3.2 We will evaluate current cardholders and determine the need of their pro-card to effectively and efficiently execute their job responsibilities. We will consolidate appropriately. Catering and events will be centralized. Please refer to 2.2.

Implementation date: December 31, 2014

3.3 When employees are terminated, part of the termination process is to submit a separation form at which time pro-card will be collected. For transfers or extended leave, COB HR will establish an internal form and notify COB Finance & Administration to adjust limit or suspend pro-card.

Implementation date: June 30, 2014

4. Travel Authorization and Expenses

Over $1 million in travel, training and entertainment expenditures were made in fiscal year 2012-2013. Our review of 59 transactions, totaling $53,908, disclosed the following:

- An adjunct professor was reimbursed $8,557 for commuting expenses, which are not typically paid to faculty and staff. Also, these computing expenses were not included as compensation (for tax purposes). Upon our inquiry, the program director responsible for authorizing the expenditure stated that it was based on a verbal agreement between her and the professor. The professor worked in Washington, D.C. and also had a residence in Jacksonville, Florida. Commuting expenses were mostly paid from Washington, D.C. to Miami but in some instances from and to Jacksonville.

- Florida Statute section 112.061(3)(a) states, "All travel must be authorized and approved by the head of the agency, or his or her designated representative, from whose funds the traveler is paid. . . ." Also, University Travel Expense Policy No. 1110.060 states, ". . . Travelers are not to make commitments to travel or to incur travel expenses without first obtaining the appropriate approval." In 24 of the 59 transactions we reviewed, travel expenses were incurred prior to the travel authorization (TA) being approved. In 11 cases it involved one traveler: a faculty administrator. The traveler had either purchased an airline ticket or paid a cost of conference prior to obtaining a TA.

In order to ensure the propriety of travel and related expenditures, the College must align its practices with State and University requirements.

Recommendations

The College of Business should:	
4.1	Work with Human Resources when considering including commuting expenses as part of employee compensation and always memorialize such arrangements in an approved employment agreement.
4.2	Ensure that employees obtain Travel Authorization prior to incurring travel expenses or traveling.

Management Response/Action Plan:

4.1 We will establish a policy to include these arrangements in an offer letter.

Implementation date: December 31, 2014

4.2 We will reinforce employees to obtain Travel Authorization prior to incurring any travel expenses. In addition, all employees traveling for the College of Business will be using Panorama Services. Panorama will ensure not to book any travel without a TA.

Implementation date: June 30, 2014

5. Asset Management

The University's Property Control Manual defines attractive property as "…University property costing less than the threshold amount of $5,000, but which are particularly vulnerable to theft and misuse." The Property Control Manual recognizes that "Attractive" property items may vary from department to department, the manual offers such things as laptops, iPads, or video recorders as examples. In evaluating 'attractiveness" in the context of their own environment the factors they are asked to consider include the security of the property location, the size and portability of the item, and its potential resale value if stolen. Attractive items are to be marked as University property and catalogued by the user department. Special property tags are available upon request from Property Control.

During the audit we noted that the College did not maintain appropriate attractive property records. The only records offered was a log maintained by the College's Information Technology (IT) department. The log contained all items purchased by the IT department and the name and location of the person requesting the items, but did not have attractive property purchased by other College departments and no tracking of the items after they were distributed to the staff.

We selected 22 items from the IT department's log to verify their existence. We were able to locate all items except for three. The missing three items were a laptop, a webcam, and a pair of headphones. The webcam was assigned to an employee who was terminated and the headphones were assigned to an employee who claimed it might be lost. The College was unable to identify who the laptop was assigned to.

The lack of accountability over attractive or sensitive property increases the likelihood of waste, fraud and abuse.

Recommendation

The College of Business should:	
5.1	Establish a procedure and track all attractive/sensitive property owned by the College.

Management Response/Action Plan:

5.1 We will centralize the purchase of attractive property to COB Technology Center. COB Technology Center will perform an annual inventory. COB HR will notify COB Technology Center when an employee transfers internally/externally or employee is terminated and their log is updated. COB Technology Center will establish policy for computer refreshments.

Implementation date: December 31, 2014