FIU | FLORIDA INTERNATIONAL UNIVERSITY

Office of Internal Audit

AUDIT OF THE COLLEGE OF BUSINESS ADMINISTRATION AUXILIARY OPERATIONS

Report No. 10/11-10

April 27, 2011

FLORIDA INTERNATIONAL UNIVERSITY

OFFICE OF INTERNAL AUDIT

Date: April 27, 2011

To: Douglas Wartzok, Provost & Executive Vice President
Joyce Elam, Executive Dean, College of Business Administration

From: Allen Vann, Audit Director

Subject: **Audit of the College of Business Administration Auxiliary Operations Report No. 10/11-10**

We have completed an audit of the controls over the College of Business Administration (CBA) Auxiliary Operations. The primary objective of our audit was to determine whether the auxiliary revenue and expenditure streams were properly accounted for and were operated in accordance with established University policies and procedures, and applicable laws, rules and regulations.

Overall, our audit disclosed that the CBA's expenditures were appropriate, allowable, and in accordance with University policies and procedures, and applicable laws, rules and regulations. Also, overall the auxiliary funds were spent for their intended purpose. Nevertheless, our audit identified some areas in need of improvement, particularly the manner in which program costs are accounted for and fee structure documentation.

In all, the audit resulted in six recommendations, which management agreed to implement. We wish to express our appreciation for the cooperation and courtesies extended to us by the staff of the CBA while conducting the audit.

C: Albert Maury, Chair, Board of Trustees, & Finance and Audit Committee Members
Mark B. Rosenberg, University President
Kenneth A. Jessell, Chief Financial Officer and Senior Vice President
Javier I. Marques, Chief of Staff, Office of the President
Tonja Moore, Associate Vice President Academic Affairs, Provost Office
Claudio Pico, Director of Finance & Administration, College of Business Administration

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OBJECTIVES, SCOPE, AND METHODOLOGY

The objective of our audit of the College of Business Administration (CBA) Auxiliary Operations was to determine whether the auxiliary revenue and expenditure streams were properly accounted for and were operated in accordance with established University policies and procedures, and applicable laws, rules and regulations.

Our audit included the CBA's auxiliary fund revenues and expenditures for the period from July 1, 2009 through June 30, 2010 and was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*, and included tests of the accounting records and such other auditing procedures as we considered necessary under the circumstances. Audit fieldwork was conducted from September to December 2010 and from February to March 2011.

During the audit, we reviewed University policies and procedures, Florida statutes, and University rules, 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. Our sample of auxiliary operations included programs in 28 CBA departments, which generated $16.8 million in revenues (99% of the CBA's auxiliary revenues) and incurred $7.3 million in related expenses (49% of total CBA's auxiliary expenditures), of which approximately 59% was payroll related expenses.

We also reviewed internal and external audit reports issued during the last three years to determine whether there were any prior recommendations related to the scope and objectives of this audit and whether management had effectively addressed prior audit concerns. There were prior recommendations related to the CBA.

BACKGROUND

The CBA's auxiliary operations consists primarily of FTE-generating, graduate degree-awarding programs, where students are required to pay a premium over normal tuition rates to attend. Total auxiliary fund revenues generated during the period approximated $17 million, while expenditures incurred were approximately $15 million, excluding transfers-out.[1] Approximately 1,200 students are enrolled per term in these programs. These are mostly for-credit courses, and the fees collected from the students must cover all of the program's cost. Students were charged from $23,000 to $54,000 for master's degree programs and $18,500 for one bachelor's degree program.

Graduate degree-awarding programs operate under the provisions of the Florida Administrative Code (F.A.C.) Section 6C-8.002(2)(b)(4), *Continuing Education.* The code authorizes FIU's president the authority to:

> Approve continuing education credit courses and to establish the fees for these activities when there is a demonstrated and justified need. Such courses shall not in any way be in competition with, or replace, the regular on-campus program of Educational and General credit courses taken by degree seeking and special students.

The Code requires that continuing education credit courses need to be scheduled and offered so as to prevent adverse impact on FIU's legislatively funded enrollment plan. The fees students pay for continuing education credit activities that are higher than the regular Board of Trustees approved fee structure need to be limited to recovering the increased costs resulting from offering these courses.

Subsequent to our audit scope period, on February 17, 2011, the Florida Board of Governors' (Board) approved a revision to Section 6C-7.001, F.A.C., which allows FIU to adopt market rate tuition for four of the University's graduate master's degree programs. The Board's approval included three of the CBA's degrees, which cover 10 of the current auxiliary programs:

1. Master of International Business,
2. Master of Accounting, and
3. Master of Business Administration.

Credit hours generated by the market tuition rate program courses are not to be reported as fundable credit hours and all costs are to be recouped within the market tuition rate. FIU is authorized to operate these programs for a pilot period in order to assess the merit and success of market based programs. After three years, FIU will be required to provide its assessment to the Florida Board of Governor's Budget Committee.

[1] Transfers out consists primarily of indirect costs incurred by other departments associated with the management of these programs.

FINDINGS AND RECOMMENDATIONS

Overall, our audit disclosed that the CBA's expenditures were appropriate, allowable, and in accordance with University policies and procedures, and applicable laws, rules and regulations. Also, overall the auxiliary funds were spent for their intended purpose. Nevertheless, our audit identified some areas in need of improvement, particularly the manner in which program costs are accounted for and fee structure documentation.

1. Auxiliary Program Funds

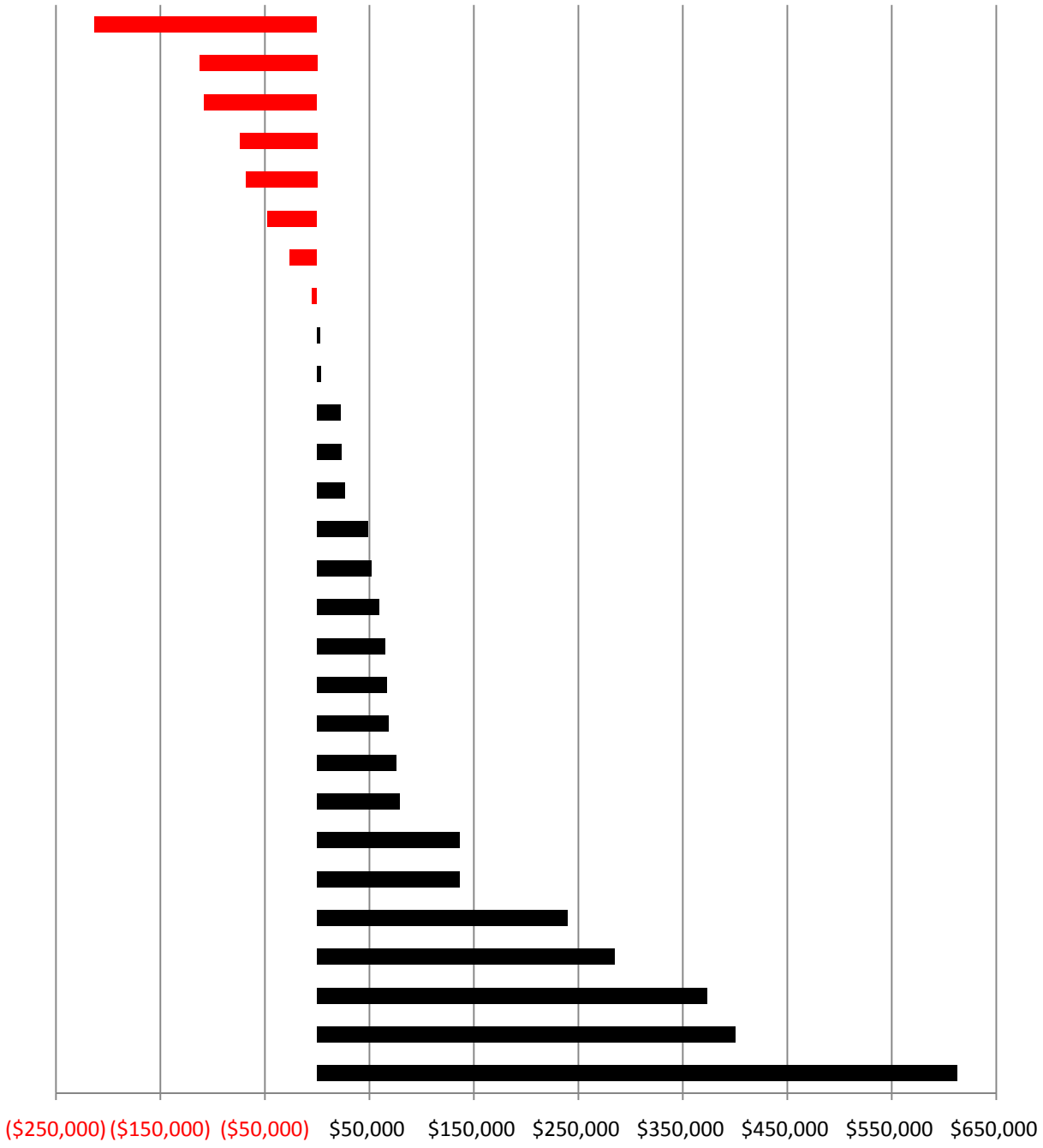
The University accounts for program revenues and expenses in its Auxiliary Trust Fund. Rule 6C-9.013, F.A.C., states, "Each auxiliary service is an individual entity and shall be accounted for as such. . . . all pertinent institutional revenues and costs shall be assigned to each auxiliary and the consequent financial results of operations determined." Accordingly, the CBA needs to provide an all inclusive accounting for all its sources of auxiliary revenues and expenditures for related programs.

Rule 6C-8.002, F.A.C., states, "Any fees charged students for continuing education credit activities, which are higher than the normal Board approved fees for similar credit activities offered in the regular on-campus program, shall be established solely for the purpose of recovering all increased costs which result from offering these courses as continuing education activities." Thus, the CBA is required to operate this continuing education, degree-awarding and FTE-generating programs by establishing a fee structure geared toward recovering the increased costs associated with these course offerings. Each program should have its own fee schedule developed to ensure the full recovery of costs.

Most of the CBA's programs more than fulfilled their obligation to recover the costs associated with their respective operations. In fact, over $2.1 million in excess revenues were generated during fiscal year 2010 for the 28 programs we reviewed.

During the course of our audit it was unclear to us how the CBA established its fees for the auxiliary programs. Programs were generally budgeted to break even, but rarely came close. In fiscal year 2010, 20 of the 28 programs reportedly had excess of revenues over expenditures, ranging from $2,200 to $612,700. The remaining 8 programs had excess of expenditures over revenues ranging from ($4,900) to ($212,900). The results of operations for each of the 28 programs are graphically depicted on the following page.

Excess (Deficit) of Revenues Over Expenditures for the 28 Programs Reviewed FY 2010



Nineteen of the programs, which accounted for almost 95% of total revenues, had a fund balance of $4.8 million at June 30, 2008. The cumulative fund balance for these same programs grew by 73%, to almost $8.3 million by June 30, 2010[2] and to over $10 million at the time of this report.

We requested, but were not provided, documentation showing specific itemization of the marginal costs that serve as the basis for the fees assessed on the different programs.[3] Without specific itemization, we were unable to determine the actual causes for the large fund balance reserves. We were informed that a "working capital reserve" was factored into the calculation of the program fees to reserve against future contingencies, but that does not appear to be a necessary program cost for current students.

Outside of the "working capital reserve," large fund balances could have resulted from a combination of two other factors we noted during the audit: 1) Not accounting for all of the program's expenditures within the individual program as required; and 2) student program fees charged in excess of the actual increased costs resulting from these course offerings.

On the expenditure side, we observed that it is the CBA's practice to only book paid faculty overloads to the auxiliary programs. In-load 9 and 12-month faculty salaries & benefits are not charged to the programs. According to management, (1) these salaries and benefits are charged to the Educational and General (E&G) fund since the tuition collected for these courses include the normal Board approved fees; and (2) the programs' revenues would not be sufficient to financially absorb the proportionate share of the costs of the faculty's salaries and benefits. To be able to do so management believes that a restructuring of the programs would prevent courses from qualifying as FTE-generating programs. Meanwhile, the CBA isn't accounting for the full costs of these programs in the University's auxiliary accounts as required, which is also, in our opinion, a contributing factor to the excess fund balances. Not properly accounting for the full costs of each program also limited our ability to provide full assurance as to the propriety of the student fee schedules.

On the revenue side, as mentioned earlier, the student program fee should be based on the total estimated costs of the program divided by the estimated number of students. The CBA determines enrollment goals for each program based on

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[2] On March 30, 2011, the FIU Board of Trustees approved the construction of a $22.3 million mixed-use auxiliary building, which would house auxiliary programs. This will be funded with auxiliary fund balances generated by the CBA programs to be housed in the building and FIU's Online program. While the FIU Online program was not part of this audit, its fund balance of $4 million as of June 30, 2010 increased by 25% from the previous year's balance. Its current fund balance is $6 million.

[3] In 2008, the Florida Auditor General issued Report No. 2008-045, commenting on the University of Florida's Master of Business Administration programs. The report stated:

> The University's [University of Florida's] methodology for determining the program fees as provided to us does not provide for documenting that the fees charged for a program is sufficient to cover actual costs to administer the program, that students are not charged more than necessary, and that fee revenues are not subsidizing costs of another program.

historical data and market trends. Properly estimating the anticipated enrollment is particularly important for covering the fixed costs portion of the programs. In our review of student enrollment figures provided, we noted the CBA had program goals of 1,245 new students for 18 of its largest programs, while actual new students enrolled was 1,180. For five of these programs, enrollment was underestimated by 20%. For eleven programs, enrollment was overestimated by 12%. The larger the number of class participants, the less each student's fee needs to be and vice versa.

In conclusion, the CBA needs to do a better job accounting for the full costs of auxiliaries and better documenting the development of their fee structures.

Recommendations

The CBA should:	
1.1	Ensure that all costs are included within each program's auxiliary account.
1.2	Review and adjust student program fees annually based on total program costs and the most current historical enrollment figures.

Management Response/Action Plan:

1.1 The College will evaluate on an on-going basis the processes and procedures to ensure that all costs are included within each program's auxiliary account. We are cognizant that direct program expenses will reflect in each program's auxiliary account and indirect expenses will be apportioned based on the College's shared services guidelines. All expenses will be allocated to the programs' auxiliary accounts, so management can properly review the overall financial results of the programs on a yearly basis. Negative cash balances at the end of the fiscal year will be reviewed and the appropriate steps will be taken to determine the corrective measures for each auxiliary. The College does recognize that certain program(s) may need to run at a deficit for a period of time as part of the mission and vision of our institution.

Implementation date: Immediately

1.2 The College will review and adjust student program fees annually based on total program costs and the most current historical enrollment figures. This process will be managed on a yearly basis during the budget cycle process for each respective program. Any adjustments to the student program fees will be taken into account for the next academic and fiscal years. These adjustments will require approval from the appropriate University areas before they are considered official.

Implementation date: Immediately

2. Payroll and Personnel Administration

Over 59% of the sampled expenses related to auxiliaries are payroll related. Consequently, we tested time and attendance and personnel files for compliance with related University policies and current procedural controls. Overall, the CBA is following current procedures and practices. The following observations had no material impact on accounting for auxiliary operations but nevertheless require some attention on the part of the CBA.

Time and Attendance

In accordance with current University procedures, the CBA's HR Manager approves employee's hours and leaves via an en masse approval process in the University's ADP system. This involved approximately 250 of the 550 CBA employees. The work and leave hours are reported by individuals within each area, who have reviewed their own employees' input within the ADP timekeeping system. The HR Manager accesses the system and makes any necessary adjustments and approves all hours en masse. We made the following observations:

- The 20 active employees tested were bona fide employees.

- All full-time employees tested were properly reporting their attendance and leave time electronically.

- One employee's time was erroneously approved by his/her previous employer, the College of Medicine, instead of the CBA.

- One employee who was approved, albeit with zero hours, had departed the University four months previously.

- The HR Manager was approving his own time. The former Executive Dean's Assistant, who approved the HR manager's time had separated from the University in August 2010 and her time approval function had not been re-assigned.

- Although the HR Manager consistently obtained verification of the hours worked prior to the en masse approval, we found that at times employee supervisors were not providing the written confirmation of the hours worked, as required. In one instance an Associate Director/adjunct professor provided written confirmation for a Faculty Director's hours worked and also provided the confirmation of the hours worked for 44 other employees, working in different areas, including providing confirmation of his/her own hours.

Employee Payroll Files

With regard to personnel administration, there were eight instances of employees who had separated from the University within our sample where it was not evident that the employee's supervisor completed the required separation clearance form per University Policy 1710.125, *Exit Interviews*. This form is used to document the return of any University property and help serve to ensure that access to IT systems is terminated and balances due for various items are collected. Three of the eight employees still had access to secured areas within the CBA, which should otherwise have been terminated for security purposes. Similarly, three of the employees' personnel files did not contain a required outside employment – conflict of interest form.

Recommendation

The CBA should:	
2.	Review and adjust current practices to align with all time and attendance and other HR requirements.

Management Responses/Action Plan:

2. The College will refine its process to review and adjust current practices to align with all time and attendance and other HR requirements.

   Implementation date: June 30, 2011

3. Procurement Process

The 28 departments recorded $3.1 million in expenditures related to non-payroll items. We tested forty-two purchases, totaling $356,854, from the 28 selected departments. The results of our testing found that the CBA was generally complying with University policies and procedures, and applicable laws, rules and regulations. Some of the exceptions noted relate directly to requirements that apply to auxiliary-type programs, while others are more universal in nature:

- One payment, for $5,500, to a speaker for one of the programs was made without competitive solicitation. We noted this speaker was paid a total of $118,450 via four purchase orders from September 2009 to March 2010. In February 2010, the Auditor General issued an audit report, No. 2010-096, with similar findings and concerns related to the CBA. They observed that the University should take advantage of and observe competitive bidding requirements when small dollar purchases with individual vendors cumulatively meet competitive bidding thresholds ($75,000).
- Two transactions, totaling $28,962, were not properly approved: One contained the incorrect list of participating students ($1,500), while the other transaction ($27,462) did not contain the required list. We subsequently were provided with the list of participating students, which were deemed proper.
- Four transactions, totaling $69,351, were paid via the un-encumbered process, which was not sufficiently justified to bypass the normal procurement process.
- Six transactions, totaling $79,214, were inaccurately classified.
- Four transactions, totaling $21,460, for graduation dinners and annual membership fees were not written into the respective program summaries as being included in the student's tuition.
- One of the graduation dinners included 16 students and 51 guests. The number of guests allowed per student and faculty was not evident.

As part of the procurements related expenses, we also reviewed travel expenses and found that at least two travel authorizations, totaling $12,735, were approved after the respective travel dates. Expense reports for $1,350 from the related travel reimbursement were not evident.

Recommendation

The CBA should:	
3.	Ensure that all applicable procurement, travel and accounting procedures and documentation requirements are followed.

Management Response/Action Plan:

3. The College has taken the appropriate steps to ensure that all applicable procurement, travel and accounting procedures and documentation requirements are followed. The CBA Finance and Administration Office has the responsibility to ensure this recommendation is followed College-wide and will continue to work closely with the Controller's Office as policies, procedures and guidelines change.

   Implementation date: Immediately

4. Property Controls

University Property Manual, Section VI, *Property Inventories*, requires that all tangible and movable property items valued at $1,000 or above,[4] are to be inventoried yearly by Asset Management. Section IV, *Responsibilities & Duties – General*, requires the Accountable Officer to yearly verify the Department's Inventory Report list for Accountable Property furnished by Asset Management and available through the financials asset management module, and is responsible for locating items that have not been found.

During our audit, we noted that 17 of the 28 departments being tested had property inventory, encompassing 94 items with a cost slightly more than $300,000. A review of the inventory listings found that 53 of the 94 items had not been inventoried within the last year, as follows:

- 9 items, costing $24,267 had not been inventoried for 1-2 years.
- 28 items, costing $74,893 had not been inventoried for 2-5 years.
- 16 items, costing $46,926 had not been inventoried for over 5 years.

Recommendation

The CBA should:	
4.	Work with the Controller's Asset Management group to ensure that all items are annually inventoried and accounted for.

Management Response/Action Plan:

4. The College will refine its process and work with the Controller's Asset Management group to ensure that all items are annually inventoried and accounted for.

   Implementation date: June 30, 2011

[4] On March 24, 2011, the Florida Board of Governors approved its intent to adopt a regulation to increase the tangible personal property accounting threshold from $1,000 to $5,000.

5. Telephone Bill Administration

University procedures requires that monthly telephone bills be reviewed for propriety and individuals sign-off on all their calls ensuring they are for business purposes, while paying for any personal calls made.

During the audit, we selected five department administrators and found that none of the five were properly or timely reviewing their telephone bills. One reviewed it against his/her budget, while two others reviewed it against their previous spending, and two never reviewed their bills.

During the period audited there were long distance charges totaling $3,416. We were unable to determine the propriety of these calls, as none had been reviewed by the respective employees.

Recommendation

The CBA should:	
5.	Require all employees to review and sign off on their respective University telephone bills.

Management Response/Action Plan:

5. The College will develop a process to require all employees to review and sign off on their respective University telephone bills.

   Implementation date: June 30, 2011