



## Office of Internal Audit

**Audit of the South Beach  
Wine and Food Festival**

**Report No. 12/13-02**

**September 6, 2012**

**Date:** September 6, 2012  
**To:** Pete Garcia, Executive Director of Sports & Entertainment  
**From:** Allen Vann, Audit Director   
**Subject:** **Audit of the South Beach Wine and Food Festival  
Report No. 12/13-02**

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We have completed an audit of the South Beach Wine and Food Festival (Festival). The primary objective of our audit was to determine whether the auxiliary operations were properly accounted for and were managed in accordance with established policies and procedures, applicable laws, rules and regulations. The annual four-day event co-hosted by Southern Wine & Spirits of America and FIU has raised substantial sums of money for the Chaplin School of Hospitality and Tourism Management. During 2011, the Festival generated over \$8 million in revenues and almost \$2.8 million, resulting from the 2011 and prior festivals, were transferred to benefit the University.

Overall, our audit disclosed that there were many opportunities to improve financial, administrative, and compliance controls. Governance over the festival should be improved by having a written agreement between the parties. Revenues controls were inadequate as there was no oversight over ticket and gate controls, which are entirely outsourced. There was also a lack of adherence to University policies and procedures as it related payroll and travel. The audit resulted in 21 recommendations, which management agreed to implement. Management's responses to each of our recommendations are included after each set of recommendations in the report. A complete copy of management's responses will be provided upon request.

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

C: Sukrit Agrawal, Chair, BOT Finance and Audit Committee and 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  
Douglas Wartzok, Provost & Executive Vice President  
Mike Hampton, Dean, Chaplin School of Hospitality & Tourism Management  
Lee Schragar, Festival Executive Director

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

The objective of our audit of the South Beach Wine and Food Festival (Festival) was to determine whether the auxiliary operations were properly accounted for and were managed in accordance with established policies and procedures, applicable laws, rules and regulations.

Our audit included the Festival's auxiliary fund revenues and expenditures for the period from July 1, 2010 through June 30, 2011 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. We evaluated the adequacy of internal controls and financial practices associated with this revenue generating activity, which also encompassed the 2012 Festival. We did not examine other related Festival auxiliary accounts, "Friends of SOBE" or "Fun and Fit as a Family" as they were not material in amount, nor did we examine the Chaplin School of Hospitality and Tourism Management (School) account, construction account, or its University Foundation account, which represent the post disposition of net revenues generated by the Festival.

Audit fieldwork was conducted from November 2011 to May 2012.

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.

This was the first audit conducted of the Festival since its inception. Nevertheless, we reviewed other internal and external audit reports issued during the last three years to determine whether there were any applicable prior recommendations related to the scope and objectives of this audit. There were no prior recommendations related to the Festival.

## **BACKGROUND**

The South Beach Wine and Food Festival (Festival) is a four-day event co-hosted by Southern Wine & Spirits of America (SWS) and Florida International University (FIU or University). The net proceeds benefit FIU's Chaplin School of Hospitality and Tourism Management (School).<sup>1</sup> The Festival showcases the talents of some of the world's most renowned wine and spirit producers, chefs, and culinary personalities. In 2012, the Festival attracted approximately 60,000 guests from around the world.

Over the years, the Festival has raised substantial sums of money for the School. During 2011, the Festival generated over \$8 million in auxiliary fund revenues. During fiscal year 2011, almost \$2.8 million in net revenues and transfers resulting from the 2011 and prior festivals benefited the University, as follows: 1) \$893,540 in ticket sales revenue were transferred directly to the FIU Foundation; 2) \$750,000 was transferred to Hospitality Management Dining Construction; 3) \$717,107 was transferred to the Hospitality Management SOBE Auxiliary; and 4) \$399,045 in Auxiliary Overhead went to the University.

### **The Festival's History**

The Festival began as a one-day event known as the Florida Extravaganza held at FIU's Biscayne Bay Campus. For five years, from 1997-2001, the Florida Extravaganza showcased wines from national and international wineries paired with food from local restaurants and chefs working with students of FIU's School of Hospitality and Tourism Management. In 2002, Southern Wine & Spirits of America partnered with the University and the one-day Festival moved to South Beach. The renamed South Beach Wine & Food Festival attracted close to 7,000 guests to a series of dinners, seminars, a Grand Tasting Village and live auction in its first year. The following year the festival grew, attracting close to 10,000 people and garnered extensive national media coverage. In 2004, with the addition of a number of events and a revamping of the program, the Festival doubled in size and attracted more than 20,000 guests to the three-day event. During the planning of the 2007 Festival, Food Network entered into a partnership with the Festival to become its title sponsor. The resulting Food Network South Beach Wine & Food Festival presented by Food & Wine combined the international appeal of top-quality libations from around the world, the national appeal of the Food Network and its



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<sup>1</sup> The school was named for the Chaplins who are the principal owners of Southern Wine & Spirits of America.

celebrity chefs and hosts, and the appeal of Latin and Caribbean-inspired regional cuisine.

### **Operational and Financial Details**

The Festival is administered as an auxiliary unit of the University pursuant to Board of Governors Regulation 9.013, *Auxiliary Operations*. Expenses related to the operation of the Festival are funded from its revenues, primarily sponsorship and ticket sales. The Festival is operated as a stand-alone unit that reports administratively to FIU's Athletics Department. While the operations of the Festival are accounted for in the University's books and records, SWS has registered the trademark name of "South Beach Wine & Food Festival." In addition, ten University employees currently work alongside SWS employees and various consultants at SWS' offices. Founded in 1968, SWS is a private, for-profit entity based in Miami and the leading nationally recognized wine and spirits distributor in the United States.

Funds raised from the Festival are used for various purposes. A portion of each ticket sold is transferred to the University Foundation as a donation to the School of Hospitality and Tourism Management. During 2011, \$893,540 was transferred to the Foundation. Current uses of revenues include an allocation which is made for the construction project fund for the expansion of FIU's School of Hospitality and Tourism Management's existing dining room into a full service teaching restaurant. Other revenue from the Festival is invested in the support of beverage management classes and maintenance of the SWS Beverage Management Center, a 4,500 square-foot facility that features the latest technology for beverage tasting and analysis. Additionally, funds are awarded as scholarships to students of the School who demonstrate exceptional performance while volunteering in all facets of the Festival. Not only are students awarded scholarships but culinary students receive the opportunity to obtain valuable experience working alongside and learning from some of the most celebrated chefs in the world by volunteering for the Festival.

Below is a detail of General Ledger for the 2011 Festival's Results of Operations as of June 30, 2011:

**REVENUES:**

Ticket sales, net of \$893,540 donation portion of tickets	\$ 3,830,421
Sale of goods (auction items)	334,888
Sponsorship revenues	3,229,304
Total revenues <sup>2</sup>	<u>\$ 7,394,613</u>

**EXPENDITURES:**

**Salaries & benefits:**

Festival Staff salaries & benefits	\$ 911,100	
Festival Staff & consultant bonuses (paid via SWS)	40,250	
OPS - temporary employment & benefits	52,503	
Administrative & Faculty overload	38,500	
Performance bonus	5,000	
Total salaries & benefits	<u>\$ 1,047,353</u>	16%

**Operating expenditures:**

Consulting services	3,036,930	46%
Rentals of hotels, buildings, etc.	625,524	10%
Rental of equipment & facilities	542,654	8%
Auxiliary overhead	399,045	6%
Festival cookbooks, publishing and related costs	252,030	4%
Materials & supplies	235,136	4%
Others	107,717	2%
Food & catering	96,274	1%
Promotional & employment advertising	77,797	1%
Travel & entertainment	32,293	1%
Cost of auction & auction items	31,401	1%
Postage	22,462	-
Insurance	19,137	-
Professional services	11,785	-
Donation	4,000	-
Clothing & uniforms	858	-
Telephone & equipment	801	-
Total operating expenditures	<u>5,495,844</u>	84%
Total expenditures	<u>6,543,197</u>	100%

**Net income**

	<b>\$ 851,416</b>
Beginning Fund Balance, July 1, 2010	\$ 2,029,217
Transferred to Hospitality Management Dining Construction	(750,000)
Transferred to Hospitality Management SOBE Auxiliary	(717,107)
Ending Fund Balance, June 30, 2011	<u>\$ 1,413,526</u>

<sup>2</sup> Does not include *Friends of SOBE* and *Fun and Fit as a Family* whose combined net income were \$129,054 reflected in separate unaudited auxiliary accounts.

## FINDINGS AND RECOMMENDATIONS

Overall, process controls and compliance with policy and procedures need considerable improvement. Administrative control over ticket sales, which are primarily outsourced, and revenues controls in general were inadequate. There was a lack of adherence to University policies and procedures as it related to expenditures, particularly relating to payroll and travel. The propriety and justification for some expenditures were not evident. Contributing to this were governance issues outlined in the next section of this report.

<b>INTERNAL CONTROLS RATING</b>			
<b>CRITERIA</b>	<b>SATISFACTORY</b>	<b>FAIR</b>	<b>INADEQUATE</b>
<b>Process Controls</b>			x
<b>Policy &amp; Procedures Compliance</b>			x
<b>Effect</b>		x	
<b>Information Risk</b>		x	
<b>External Risk</b>		x	
<b>INTERNAL CONTROLS LEGEND</b>			
<b>CRITERIA</b>	<b>SATISFACTORY</b>	<b>FAIR</b>	<b>INADEQUATE</b>
<b>Process Controls</b>	<b>Effective</b>	<b>Opportunities exist to improve effectiveness</b>	<b>Do not exist or are not reliable</b>
<b>Policy &amp; Procedures Compliance</b>	<b>Non-compliance issues are minor</b>	<b>Non-compliance Issues may be systemic</b>	<b>Non-compliance issues are pervasive, significant, or have severe consequences</b>
<b>Effect</b>	<b>Not likely to impact operations or program outcomes</b>	<b>Impact on outcomes contained</b>	<b>Negative impact on outcomes</b>
<b>Information Risk</b>	<b>Information systems are reliable</b>	<b>Data systems are mostly accurate but can be improved</b>	<b>Systems produce incomplete or inaccurate data which may cause inappropriate financial and operational decisions</b>
<b>External Risk</b>	<b>None or low</b>	<b>Potential for damage</b>	<b>Severe risk of damage</b>

## 1. Festival Governance

Beginning in 2002, Southern Wine & Spirits of America (SWS) became the cohost and directed the Festival's business arrangements. SWS has registered the trademark name of "South Beach Wine & Food Festival." The Festival's financial operations are accounted for in the University's accounting records. The arrangement between the two cohosts is based completely on a verbal understanding. No written agreement exists between SWS and the University regarding its cohosting of the Festival, any facet of how it operates the Festival, including vendor and guest selection, and the reimbursement of its expenses or the distribution of net proceeds.

During the period covered by our audit, the University reimbursed SWS for expenses totaling \$204,056. SWS rents office space and equipment for \$1,125 a month to FIU within their own facilities under a verbal agreement. The University also reimburses SWS for Festival related office supplies and other expenses. Reimbursements also included \$40,250 used by SWS to pay University employees and two consultants' bonuses (see Payroll & Personnel Administration, page 13), and \$120,780 for costs associated with a Festival Cookbook.<sup>3</sup> The Festival Director, an employee of SWS, was the primary financial beneficiary of the books' sales proceeds.

The book contract was not formally approved by any FIU employee or reviewed by the General Counsel's Office. While FIU appeared to pay the book's production costs, it was not a party or financial beneficiary in its publication. The Festival Cookbook contract between the publisher, Random House, and the Festival Director



provided him with a non-returnable \$100,000 advance on all royalties from the sale of the book. The University subsequently purchased 7,500 books at a cost of \$131,250 (a 50% discount off retail price), which the author was financially obligated to purchase under his agreement with Random House. The books were not sold separately but were rather distributed to Festival attendees with their purchase of admission to the Grand Tasting Village.

As there was no written agreement between the parties, we were unable to determine the propriety of any of the aforementioned expenditures. A written agreement between the parties would provide a clear identification of their respective duties and obligations, including the need for compliance with FIU policies and FIU's supervisory/managerial responsibility over Festival staff. This would also solidify the relationship between the cohosts.

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<sup>3</sup> These costs included photography fees, ghost-writer fees, editor costs, public relations fee, food stylists and their assistant's fee, and recipe testing fees, as well as flight and hotel stay in New York City for the ghost-writer paid indirectly by FIU.

## **Recommendation**

1.1	Ratify a written agreement outlining the cohosts' respective duties and responsibilities.
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## **Management Response/Action Plan:**

- 1.1 Management agrees that a ratified written agreement including the cohosts' respective duties and responsibilities would improve the understanding and management of assets, liabilities, terms, conditions, operating procedures, and cash flows between FIU and Southern Wine & Spirits and South Beach Wine & Food Festival contractors. This process will begin once senior leadership from both entities provides guidance.

Implementation date: December 2012

## **2. Revenue and Accounting Controls**

### **Ticket Sales**

The Festival's main source of revenues is through ticket sales, which during the audit period generated over \$3.8 million. The process of ticket sales is mainly outsourced to International Players Championship, Inc., d/b/a IMG Tickets (IMG).

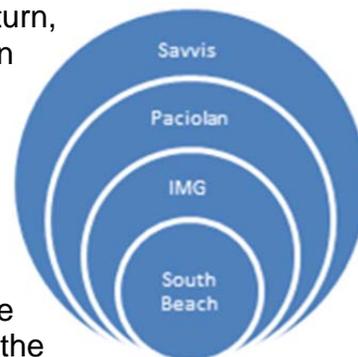
As a third-party vendor, IMG manages all aspects of the Festival's ticket operations, from order fulfillment, including order processing, ticket printing, and mailing, to on-site staffing during the event to manage all aspects of ticket operations, including walk-up sales and will call, and gate entry controls. IMG provides Festival staff with access to their ticketing system to input tickets sold by Festival staff and to obtain cumulative ticket sales reports. IMG also provides monthly settlement reports to correspond with monthly wire transfers. Thus, Festival staff relies on IMG to manage and account for all tickets, except for those handled directly by Festival staff.

Currently, on a monthly basis, IMG transfers via wire the respective funds to the University, and provides Festival staff with a Cumulative Settlement Report. We reviewed monthly Settlement reports provided by IMG and traced all deposits to the University's PantherSoft system without exception. However, this Settlement Report could not be reconciled with the Daily Sales report, either for a selected month of sales or for the entire period. According to Festival staff, the "Daily Sales report was never intended to be used as an accounting reconciliation tool." They explained there would be various reasons, most notably the timing of payment, as to why the two reports would not agree. However, no monthly reconciliation of the two reports was conducted to account for all differences. Such reconciliation would identify any errors on a timelier basis.

Further, we found that Festival staff does not have an independent means of verifying ticket sales as reported by IMG and there are no mitigating controls to ensure that reported ticket sales are complete and accurate. Without any mitigating controls, such as controlling the gate, or obtaining and reconciling gate admittance records subsequent to the events, or testing/obtaining assurance of IMG's internal controls over ticket sales and ticket distribution, there is no assurance that recorded ticket sales are accurate and complete. Additional measures should have been taken by management to provide greater assurance as to IMG's ticket sales and gate controls. The purchase order audit clause requires IMG to "... provide specific records and/or access to all of Vendor's records related to the contract . . ." This allows for greater monitoring than currently in place.

Finally, IMG maintains sensitive patron financial payment data and personally identifiable information (PII) on their information systems as part of the ticketing process. IMG's contract signed in August 2010 acknowledges that they are required to adhere to current Payment Card Industry – Data Security Standards (PCI-DSS).

Based on our concerns regarding IMG’s compliance, which we cited in our draft report, management obtained additional documentation which we reviewed. We were informed that IMG uses Paciolan, Inc. and in turn, Paciolan uses Savvis, Inc. to provide hosting services in support of its application hosting environment. The tests performed, which were documented in the Service Organization Control (SOC) report’s section 4) Logical Security – Ticketing Operations, and 5) Computer Operations’ were restricted to Paciolan. The report also states that “if an effective control structure is not in place at user entities, the Paciolan controls may not compensate for such weaknesses”. This places the responsibility onto the South Beach Wine and Food Festival to ensure that its Information Security controls are appropriate and effective. Upon examination of the SOC Report, an exception was found in that 6 of the 8 weeks of backup tapes tested for Paciolan’s Ticketing operations were not sent to the offsite storage location. The lack of offsite backup tapes may adversely affect disaster recovery procedures.



As a result, we are unable to determine the overall effectiveness of the confidentiality, integrity, and availability of South Beach Wine and Food Festival internal controls over its sensitive data since this data may reside at multiple locations, i.e., Paciolan and Savvis.

### **Sponsorship and Other Revenues**

Festival personnel maintain a manual system using spreadsheets to account for sponsorship revenues, accounts receivables, exhibitor revenues, and auction revenues, amongst others. Sponsorship revenues exceed \$3 million, and are significant. When sponsorship contracts are signed, the sponsor and the related sponsoring amount are recorded on a spreadsheet. An un-numbered invoice is manually prepared and sent to each sponsor. Amounts are generally received in the form of checks at the SWS offices or via wires through the University’s Controller’s Office. As amounts are collected they are recorded on the spreadsheets to offset the contract (receivable) amount.

The University requires that all checks be deposited within 2 business days of their receipt. Revenue controls did not provide for a daily log to be maintained by the individual receiving the checks. Hence, we were unable to determine when checks were received and thus, could not determine whether this requirement is being followed.

There is no applicable external billing system or accounting software that Festival personnel can use so they have been invoicing sponsors manually, while maintaining the accounting records on spreadsheets. The use of manual spreadsheets is inherently prone to errors. Although such occurrences were not evident, considering the aggregate amount of revenue involved, the use of such an

inherently weak system from an internal control vantage point represents an unnecessary risk.

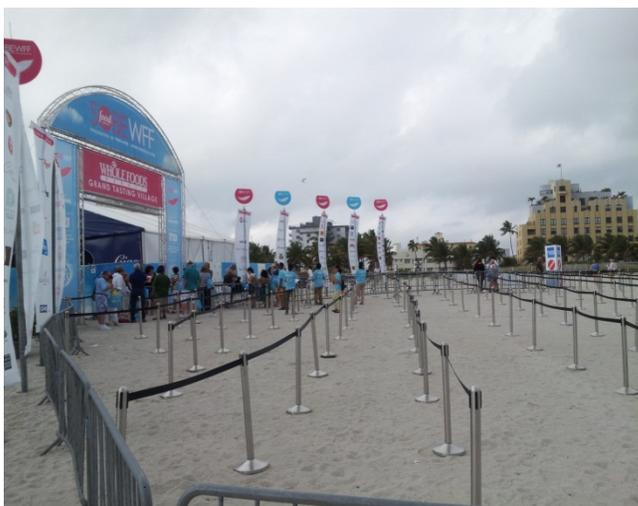
### **Receipts**

Festival management did not obtain the required approvals from the Controller's Office necessary for revenue collections. There was only one annual approval form on file found for the 2011 collections at the "Best of the Best" event. University Policy 1110.010, *Cash Control Policy Statement*, requires Festival management to obtain annual approval in advance for its revenue collection and handling policy and procedures from the Controller's Office. Furthermore, the Policy requires that employees within the department designated to make collections must undergo background checks. Two of the three employees who receive and/or handle collections had not undergone a background check and none of the three had been fingerprinted as required by University policies.

### **Event Entry Access Controls**

During the actual event days six ticketed events were tested for physical entry access controls:

1. The Q held at the North venue;
2. Burger Bash held at the North venue;
3. Tribute Dinner held at the Loews Hotel;
4. Grand Tasting Village on South Beach;
5. Lifestyle Seminar held at the Miami Beach Convention Center; and
6. Wine and Cheese party held at The Betsy Hotel.



Even though controls at the North venue events were successful in preventing access without a ticket, entry access controls were circumvented in the other four events, allowing entry into the venue without a ticket. At three of these four events, even after gaining entry to the event, an opportunity existed to detect unauthorized access but the controls were either not in place or were not effective. The fourth event was not tested for such controls.

## **Recommendations**

2.1	Develop a system to ensure that all ticket sales are being accounted for, processed and collected.
2.2	To verify the completeness of reported ticket sales and related wire transfers, management should consider engaging an independent CPA firm or alternatively have the Office of Internal Audit perform an audit of IMG's books and records.
2.3	Obtain from IMG evidence of its adherence with PCI-DSS standards and require in future contracts SAS 70 or SOC 2 reports.
2.4	Consult with the Controller's Office on available billing systems or consider acquiring an "off the shelf" accounting software system, similar to other University units.
2.5	Ensure that the individual opening the mail and processing checks maintains a daily log of receipts and deposits or consider having sponsors mailing checks directly to the Athletics Department.
2.6	Provide the Controller's Office with Festival's cash collections and handling policy procedures for approval.
2.7	Ensure all employees who receive and/or handle cash have undergone background checks and been fingerprinted.
2.8	Design and implement stronger entry access controls.

### **Management Response/Action Plan:**

- 2.1 Management will evaluate options for enhancing controls over the ticket sales system that is currently outsourced to IMG Inc.

Implementation date: October 2012

- 2.2 Management will consider engaging an independent CPA firm or the Office of Internal Audit to perform an audit of IMG's books and records.

Implementation date: December 2012

- 2.3 Management has obtained evidence of IMG's adherence with PCI-DSS standard and SOC report.

Implementation date: Immediately

Auditor's Comment: We examined the evidence and it is advisable that additional management monitoring and assurance be obtained particularly for third party service organizations. See our observations on page 9.

- 2.4 Management will acquire an “off the shelf” accounting software system to be used for the issuance of invoices and application of cash to accounts receivables only.

Implementation date: October 2012

- 2.5 Management will ensure that the individual opening the mail and receiving checks maintains a daily deposit log ensuring deposits are made within 48 hours.

Implementation date: Immediately

- 2.6 Management will provide the Controller’s Office with Festival’s cash collections and handling policy for approval.

Implementation date: October 31, 2012

- 2.7 Management will ensure all employees who receive and/or handle cash have undergone background checks and been fingerprinted.

Implementation date: September 30, 2012

- 2.8 Management will implement stronger entry access controls.

Implementation date: February 2013

### **3. Payroll and Personnel Administration**

Over \$1 million, representing approximately 16% of total Festival expenditures, are payroll related. The payroll covers ten University employees who work off-campus at Southern Wine & Spirits' facilities.<sup>4</sup>

#### **Merit Bonuses Paid to FIU Employees**

As noted in a previous section, Southern Wine & Spirits (SWS) was reimbursed \$40,250 from the Auxiliary fund for extra compensation they paid to 13 current and former University employees and two consultants. These payments, categorized as merit bonuses, ranged from \$500 to \$6,500. Bonuses provided to University employees must follow a process provided for in University Policy No. 1710.038. Bonuses need to be approved by Human Resources. Since SWS was paying the University employees the bonuses, we are unaware of what criteria were used in determining the individual amounts and whether the payments complied with University standards.

Payroll tax issues are also of concern in the manner in which this was handled by SWS. Extra compensation would normally be included on all University employees' Wage and Tax Statement (W-2). As such, the University would have paid employee payroll taxes due on the bonuses. SWS treated the payment to the employees as if they were made to independent contractors and provided them with a Form 1099 (nonemployee compensation), which was not subject to withholding of taxes.

#### **Payroll Approval**

During the audit period, the University was using the ADP system for time and attendance. The work and leave hours were reported by each individual employee and required a supervisor's approval. The one supervising employee was the designated approver. Time and attendance records were tested for compliance with related University policies and procedural controls covering pay periods from July 1, 2010 through December 31, 2011. There were:

- 18 instances where the biweekly payroll was not approved by the supervisor; and
- 22 instances (100% of the time) where the payroll approver was either approving her own time (17 instances) or else it was being approved

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<sup>4</sup> FIU employees assigned to the Festival were all listed in the HR system as working in the Modesto Maidique Campus' PC Building when in fact they all work off-site at SWS. According to Human Resources, it is each department's responsibility to notify them when employees are working off-site on a permanent basis, which has been the case for FIU Festival employees since 2001.

automatically by the Payroll Department (5 instances) instead of being approved by her supervisor.

### **Compensatory Time**

Compensatory time was allowed to be accrued by nine exempt employees for every hour they purportedly worked in excess of their 40 hours per workweek. Per University Policy 1710.230, exempt employees are not entitled to compensatory time.

One non-exempt employee who was entitled to compensatory time did not properly account for the compensatory time in the University's payroll system as required. The Policy, which requires non-exempt compensatory time to be used within 30 days of its accrual and should be credited at a rate of one and one-half times the number of hours in excess of 40 hours worked in a workweek, was similarly not followed.

Although a log of compensatory time balances was maintained on a spreadsheet, no records were maintained of when each employee accrued or used compensatory time. As of March 9, 2012, there was a balance of \$40,473 worth of compensatory hours per the informal log for the nine exempt employees, plus an additional \$2,478 for the non-exempt employee, all calculated at straight time.

Nine of the ten Festival employees worked the New York City Wine and Food Festival (NYC Festival), a non FIU event, sponsored in part by Southern Wine & Spirits. Six of the nine employees did not report any annual leave to attend and work the 2011 NYC Festival. Instead, employees used their accumulated compensatory time to do so. The exact amount of compensatory time taken could not be determined since the records maintained were insufficient, as no log was maintained tracking the days compensatory hours were accumulated or taken.

As of December 31, 2011, Festival employees' leave records reflected a limited number of leave days taken:

- one employee had taken only one annual leave day in 17 months;
- another employee had taken no sick leave in 17 months;
- a third employee had not taken any leave time in 14 months; and
- three other employees took no leave time in the last 5 to 8 months.

Because the University's compensatory time policies were not followed, additional leave accrued in employee's accounts. Accumulated vacation leave is paid out when employees separate their employment.

## **Outside Activity Form**

One employee who performed work for both the Festival and the NYC Festival during 2011 had not prepared an Outside Activity Form as required by University Policy 1710.075. Any employee considering outside activity is required to complete the Outside Activity Form and obtain approval prior to engaging in such activity.

The remaining eight employees who completed the Outside Activity Form did so but after the May 1, 2011 outside activity starting date, ranging from May 24 to June 22. The latter not being approved by Human Resources until June 30, 2011.

One of the determining factors in approving an employee's Outside Activity Form is whether the activity is in the same field as that which the employee is employed at the University. In completing the Form, all eight employees who were seeking approval to work the NYC Festival answered that the outside activity was not in the same discipline. Employees should properly respond to questions on the Form.

A second determining factor is whether the employees are scheduled to work during regular work hours. Two of these employees completed the Form indicating they were working weekday hours (5 hours per week for 18 weeks and 15 hours per week for 23 weeks), which would be during University working hours. A third determining factor is the total number of hours these employees are working outside their regular work hours. On average, the eight employees were working 18 hours per week for 22 weeks at the NYC Festival.

## **Potential Conflict of Interest**

A School of Hospitality and Tourism Management faculty member and his spouse are co-owners of a Festival vendor, Aspire Catering & Events, Inc. (Aspire), which was paid \$43,006 during the audit period, and a total of \$215,978 since 2006 for Festival related business. The faculty member also received extra compensation in the amount of \$20,000 in 2011 for duties related to the Festival, and a total of \$108,000 since 2005. In 2011 the professor's extra state compensation form was approved for the specific purpose, among other things, to serve as culinary support manager for the Bubble-Q (The Q) event. The Q event was one of five events that Aspire was contracted for chef coordination and related planning.

Florida Statute Section 112.313(7) forbids an agency employee from having or holding any employment or contractual relationship with any business entity doing business with an agency of which, he or she is an employee. The faculty member signed an Outside Employment -- Conflict of Interest form upon being hired by the University in 1992 acknowledging his understanding of the State Statute.

According to State records, the corporation was administratively dissolved by the Florida Department of State, Division of Corporations on September 24, 2010 for

lack of an annual report yet the University continued to conduct business with the entity.

**Recommendations**

3.1	Ensure that all forms of employee compensation are approved by the University in advance, are made pursuant to University policies, and paid through the regular payroll system.
3.2	Communicate the permanent location of all Festival employees to Human Resources so personnel records can be updated in the system.
3.3	Ensure that the payroll approval process is adhered to.
3.4	Discontinue providing compensatory time to exempt employees and process non-exempt employee compensatory time in accordance with University Policies and Procedures.
3.5	Ensure that employees use annual leave to work on or attend the NYC Festival.
3.6	Ensure that Outside Activity Forms are properly completed and approved.
3.7	Consult with Academic Affairs and take appropriate action to address the apparent violation of Florida Statute Section 112.313(7).

**Management Response/Action Plan:**

3.1 Management will ensure that all forms of employee compensation are approved by the University in advance, are made pursuant to University policy and paid through the regular payroll system.

Implementation date: Immediately

3.2 Management will communicate the location of all employees to Human Resources.

Implementation date: Immediately

3.3 Management will ensure the payroll approval process is adhered to.

Implementation date: Immediately

3.4 Management will discontinue providing compensatory time to exempt employees and process non-exempt employee compensatory time in accordance with University Policies and Procedures.

Implementation date: Immediately

3.5 Management will ensure employees use annual leave to work on the NYC Festival.

Implementation date: Immediately

3.6 Management will ask employees to ensure that Outside Activity Forms are properly completed and approved.

Implementation date: September 30, 2012

3.7 Management will work directly with the Dean of the Chaplin School of Tourism & Hospitality Management so that the school can take appropriate action to address any potential conflict of interest.

Implementation date: Immediately

#### **4. Expenditure Controls**

Over \$5 million in non-payroll expenditures were expended for the Festival. Seventy-two disbursements, including 27 credit card transactions, totaling \$4,125,373, were tested for compliance with University policies and procedures and applicable laws, rules and regulations.

Exceptions found during our testing are as follows:

#### **Contractual Agreements**

Major Festival vendors were last competitively selected in 2008 when the Florida Board of Governors regulation 18.001(5)(c), exempted this type of activity from the \$75,000 bidding requirement threshold. Festival staff have expressed satisfaction with the current vendors and generally renegotiate fees on an annual basis. Nevertheless, the administration and oversight of contractual agreements need to be strengthened. Our observations follow:

- Logistics Management Group, Inc. (LMG) provides Festival logistics administration for the entire event. During the audit period the company was paid \$1,569,782. The LMG contract provides for reimbursement of “any expenses not expressly contemplated within the agreement but ... necessary for the execution of Festival events provided any such expenses are pre-approved in writing by the University.” Accordingly, LMG was reimbursed for \$342,511, or \$77,469 above the budgeted amount for the North venue, but without prior written approval. According to Festival personnel, approvals were either given over the phone, in-person, or through email. Notwithstanding, documentation was not evident.
- Dev-Incorporated of Colorado (Dev-In) provides senior level management and consulting services for the entire event. The University signed a fee-for-service contract with Dev-In for \$141,260 in January 2011, effective retroactively to July 1, 2010. However, after the contract was signed, Dev-In was reimbursed \$12,137 for expenses incurred prior to the contract being signed. In total, the vendor was reimbursed for \$29,939 for expenses actually incurred and paid for, but did not receive the requisite pre-approval by Festival management. Included in this reimbursement were \$384 in unallowable items such as a parking ticket, and personal items. Dev-In was also contractually required to submit itemized receipts for all items purchased. Of the 107 receipts submitted for reimbursement, 58, totaling \$4,996, were either illegible or not itemized.
- The agreement with the Loews Hotel for “Paula’s Gospel Brunch” event stipulated that the estimated fees “shall not exceed \$2,500” and that Loews agreed to provide its kitchen, event staffing needs, including culinary staff, banquet set-up and breakdown staff. The total paid by the University was

\$7,376; \$4,876 more than the contract. According to Festival management, the reason for the difference was because labor costs were erroneously excluded from the contract fee. However, the contract specifically included staffing as part of the services. Thus, an opportunity existed to provide a more accurate estimate at the time of the contract.

- A separate agreement with Loews Hotel did not include pricing for the Hospitality suite. \$6,559 was paid for food, beverages, parking, and phone and internet usage. While these costs were not easily predictable, pre-established billing rates could have been included in the agreement and the total cost should not be open-ended.
- Metro Signs, Inc. provided Festival signage for all events and was paid a total of \$102,449. No fees for vendor services were included in the contract. Festival management stated the prices and actual signage could not be pre-determined. However, past experience could have been used to establish base level signage needs and the contract should have included specified rates for signs based on size, etc.
- Aspire Catering provided chef coordinating and related planning, as well as other additional services. The contract was for \$38,000, plus reimbursement of “expenses pre-approved in writing and actually paid or incurred.” It is not evident that expenses were pre-approved in writing and several invoiced items should have been more carefully reviewed prior to payment: (a) No support was obtained to substantiate \$2,390, mostly intern hours and other labor; (b) one item for \$240 for 6 grills was supported by duplicate invoices supporting the purchase of only 2 grills. Subsequently, Festival staff obtained invoices from the vendor supporting the 6 grills; (c) no detailed support justifying a \$205 reimbursement for dinner; and (d) a duplicate invoice for \$300 for a musician was paid twice, the second time to support an unrelated registration charge. Subsequently, Festival staff provided the proper invoice.

## **Travel**

All vendors, regardless of whether a contract or purchase order is used to obtain the services, are required to follow the University/State of Florida travel guidelines and rules, and procedures apply to non-employees in the same manner as University employees. The following were our observations:

- The University’s Travel and Other Expenses Manual (Travel Manual) states that the purchase of airfare must be “the most economical rate and class available.” “The cost of an upgraded ticket cannot be reimbursed unless justified in detail and approved by the CFO.” The University reimbursed two vendors and paid via the Departmental Card for first class air fare, as follows:

- Dev-In was reimbursed \$2,857 for two first class, one-way flights without providing justification or receiving CFO approval. Since the contract allowed for travel reimbursement, no Travel Authorization was required. Nevertheless, the reimbursement should have been made using the Reimbursement of Travel Expenses for Non-Employees Payment Form and submitted through Accounts Payable. Instead, the consultant was reimbursed via an invoice.
- The Festival Director was reimbursed \$6,061 via an invoice for three first class, round-trip flights purchased for “talent” and their guests without providing supporting documentation, justification or CFO approval. Since the Festival Director does not have a contract with the University, a Travel Authorization should have been completed.
- Five transactions for the purchase of airline tickets for talent to attend the Festival totaled \$13,676. All tickets purchased with a Departmental Card were for first class airfare without preparing a Travel Authorization with an accompanying written justification and required approval.
- When traveling on behalf of the University, employees must create and submit a Travel Authorization (TA), allowing sufficient time for online approval prior to the trip. Once the TA is approved, employees can then proceed to make travel arrangements, including flight, hotel, and car rental reservations. One TA selected for testing for employee travel to Aspen, Colorado was approved after the hotel reservation was made.
- The Travel Manual states that transactions incurred for business or entertainment require detailed receipts and documentation to support the need for the expenditure: a list of attendees, agendas, a statement of the business purpose, and any additional information to support the expenditure. Without such support, it is questionable whether the expenditures were reasonable, prudent, and appropriate to the occasion and were Festival related.
  - A consultant was reimbursed \$2,320 for entertainment related meals, including mini-bar and room service while on Festival business. The receipts provided for reimbursement did not provide any support. Meals for personal consumption should have been reimbursed at the University’s per diem rates and reimbursement for gratuities should have been, but were not, limited to 15%.
  - Three selected transactions for the purchase of meals totaling approximately \$2,500 did not have the required support.

## **Credit Card Purchases**

The Departmental Card Guidelines and Procedures require the cardholder to sign and date the original receipt or other documentation as proof of delivery. During our testing, we found that 20 of the 27 (74%) transactions, totaling \$35,443, were not signed and dated by the cardholder as required.

## **Other**

Other expenditure control observations were:

- University Rule 6C8-7.030(3)(a) at the time, and currently BOT Rule 2201 gives Purchasing Services the sole responsibility to “Canvass sources of supply and contracting for the purchase or lease of all commodities and contractual services for the University...” When using the University’s procurement system, purchase order amounts are encumbered and thereby ensuring the availability of funds for future payment. If there is an emergency requiring a purchase or when purchasing certain items, the *Un-encumbered Payment Form* may be used to justify not using the University Purchasing System. Five invoices selected for testing, totaling \$213,889, were paid via the un-encumbered process. These un-encumbered payments did not meet the outlined exception criteria.
- A donation of \$4,000 was paid to the “Susan G. Komen Breast Cancer Foundation.” According to the Controller’s Office, University funds are not permitted to be used in such a manner.
- There were 43 instances of business card purchases for non-University employees, an unallowable auxiliary expense per a matrix maintained by the Controller’s Office.
- Expenditures related to the Festival Cookbook, totaling \$3,947, were reimbursed to SWS without any supporting documentation or with illegible receipts.

## **Recommendations**

4.1	Ensure that in the future all vendors comply with contract terms and conditions: (a) as they relate to obtaining prior written approval for unbudgeted expenses, and that the Festival retain such approval; and (b) the submittal of itemized and legible receipts supporting the request for reimbursement.
4.2	Comply with the University’s Travel and Other Expenses Manual, as it relates to employees, as well as non-employees.

4.3	Review and update contracting/purchasing processes so that: <ul style="list-style-type: none"> <li>(a) Contracts are negotiated on a timely basis;</li> <li>(b) Vendor contracts include all services and activities;</li> <li>(c) Only transactions that meet the un-encumbered payment requirements are processed as un-encumbered;</li> <li>(d) All expenditures directly benefit the Festival;</li> <li>(e) Business cards are not paid for non-employees; and</li> <li>(f) The Departmental Card Guidelines and Procedures requiring cardholders to sign and date original receipts are adhered to.</li> </ul>
4.4	Request reimbursement or credit from vendors for unallowable items reimbursed.

**Management Response/Action Plan:**

4.1 Management will continue to work with vendors to ensure they obtain prior written approvals if applicable and that itemized and legible receipts support reimbursements.

Implementation date: October 2012

4.2 Management will comply with the University’s Travel and Other Expenses Manual.

Implementation date: October 2012

4.3 Management will review contracting/purchasing processes to; improve the timeliness of negotiations, include all services and activities within the scope, use unencumbered payment form only to the extent justified under Controller’s Office criteria, eliminate the purchase of business cards for non-employees and require the department card holder to sign and date original receipts in addition to each line of the statement currently being signed. All expenditures will directly benefit the festival.

Implementation date: October 2012

4.4 The items considered unallowable for reimbursement were purchased for celebrity chefs and other talent present at the Hospitality “Green Room.” These personal items will be purchased using FIU Foundation Inc. funds going forward.

Implementation date: October 31, 2012

## **Operations Manual**

The Festival's policies and procedures are not documented in a written operations manual. The University's Auxiliary Enterprises Operating Guidelines states, "Every auxiliary must have written policies and procedures which guide the day-to-day operations of the activity..."

A manual provides direction to new personnel, is a ready reference source for all employees, provides clarification of responsibilities, and helps assure consistent application of management's expectations. Since many of the unique tasks are assigned to only one employee to perform, a manual would serve as a valuable guide in case of employee substitution and/or turnover.

## **Recommendation**

5.1	Develop an operations manual to document current policies and procedures.
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## **Management Response/Action Plan:**

5.1 Management will review and develop an operations manual to document current policies and procedures.

Implementation date: January 2013