FIU | FLORIDA INTERNATIONAL UNIVERSITY

Office of Internal Audit

Audit of College of Education

Report No. 15/16-09

March 14, 2016

FLORIDA INTERNATIONAL UNIVERSITY

OFFICE OF INTERNAL AUDIT

MEMORANDUM

DATE: March 14, 2016

TO: Michael Heithaus, Dean – College of Arts, Sciences & Education

FROM: Allen Vann, Chief Audit Executive

SUBJECT: **Audit of College of Education, Report No. 15/16-09**

Pursuant to our approved annual plan, we have completed an audit of the College of Education (College). The primary objectives of the audit were to determine whether financial controls and procedures relating to revenues and expenditures are working.

During the audit, the College was integrated with the College of Arts and Sciences to form a new college, the College of Arts, Sciences & Education. The College generated Educational and General (E&G) revenues totaling $12.4 million and Auxiliary and Research revenues of $5.4 million, with expenditures of $11 million and $5.2 million, respectively.

Our audit disclosed opportunities to strengthen financial processes and procedures in the following areas: asset management, revenue controls, payroll and personnel administration, and numerous expenditure controls. According to Management eight of the fourteen resulting recommendations have already been implemented and the remaining four recommendations will be completely implemented by the end of this fiscal year.

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

Attachment

C: Claudia Puig, Chair, FIU Board of Trustees
Gerald C. Grant Jr., Chair, FIU Board of Trustees Finance and Audit Committee
FIU Board of Trustees Finance & Audit Committee Members
Mark B. Rosenberg, University President
Kenneth G. Furton, 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
Kristina Raattama, General Counsel

TABLE OF CONTENTS

OBJECTIVES, SCOPE, AND METHODOLOGY

Pursuant to our approved annual plan, we have completed an audit of the College of Education (COE or College). The objectives of the audit were to determine whether the established financial controls and procedures relating to revenues, payroll administration, procurement of goods and services, travel and property accounting are: (a) adequate to provide reasonable assurance that significant errors or irregularities are prevented or detected in a timely manner; (b) being properly adhered to; and (c) in accordance with University policies and procedures and applicable laws and regulations.

Our audit included the COE's University financial transactions for the fiscal year 2014-2015. The audit 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 in July and from November to December 2015. Sample size and transactions selected for testing were determined on a judgmental basis.

As part of our audit, we 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 no prior audit recommendations within the last three years related to the scope of this audit requiring follow-up.

BACKGROUND

The College of Education prepares students for a variety of careers in education and education related fields. The College is accredited by the National Council for the Accreditation of Teacher Education. College faculty integrate theory and practice by working closely with teachers, administrators and policymakers at the local, state, and national levels. The faculty are acknowledged scholars, researchers and teachers. Most recently, the College's *Reading Education* master's program was ranked as the number one teacher preparation program in the State of Florida by the Florida Department of Education.

To support its mission, the College is organized into two separate departments, the department of Teaching and Learning and Leadership and Professional Studies.

The College has approximately 92 Faculty/Staff/Administrative members, 103 adjunct faculty and overload assignments, and 148 grant-funded full- and part-time staff.

For the fiscal year 2014-15, the College generated Educational and General (E&G) revenues totaling $12.4 million and Auxiliary revenues totaling $1.7 million. The College also generated approximately $3.7 million in research funds and incurred expenses of approximately $11 million in E&G funds, $1.2 million in Auxiliary funds, and $4 million in research funds.

The College is currently undergoing a significant reorganization. On December 22, 2015, the Provost announced the integration of the College of Education within the College of Arts & Sciences to a new college. On January 29, 2016, the new College was named the College of Arts, Sciences & Education (CASE) at FIU. The stated goal of the integration is to attract additional students, faculty and donors while also creating new opportunities for collaboration, trans-disciplinary research and entrepreneurship. The faculty of the new college will be led by the current Dean of the College of Arts & Sciences.

FINDINGS AND RECOMMENDATIONS

Overall, our audit disclosed that the College's established controls and procedures need strengthening, particularly in the areas of: asset management, revenue controls, payroll and personnel administration, and expenditure controls.

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 exist or are not reliable**
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 where internal controls need improvement, as identified in our audit, are detailed below.

1. Asset Management

The College had 13 capital assets (cost of $5,000 or greater) listed on the University's Property Master List as of December 2015 with an associated cost of $75,276. All 13 capital assets were accounted for during the University's annual physical inventory in October 2015. Notwithstanding, our greatest concern was the manner in which the College manages its attractive property. These represent non capital assets costing less than $5,000 such as computers and other technical equipment. We found that they were generally not adequately accounted for. In addition, there are indications of excessive purchases of these items and assignment of multiple units to individuals, as indicated below.

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 Asset Management.

Maintaining and tracking attractive property was the responsibility of the College's Information Technology (IT) department. The College's IT department was tracking 924 attractive property items. However, based on a review of 45 sampled attractive property items (laptops, computers, and printers) our testing reflected that the list was inaccurate. It included surplus, lost, transferred, and duplicate items:

- We could only locate and verify 21 of the 45 items (47%) in the sample.
- 7 items shown as active and assigned to faculty and staff had been previously surplused.
- 7 items shown as being on campus were actually located off-campus.
- 4 items shown as loaned and assigned to a faculty off-campus had already been returned to the granting agency.
- 1 printer was shown as active and assigned to a faculty member who terminated in May 2015. The printer had actually been transferred to the College of Arts & Sciences upon the faculty member's termination.

- 1 Apple MacBook Air, costing $1,178, was shown as off-campus and assigned to a faculty member who was terminated in May 2015. The *Separation from Employment/Transfer Clearance Form* noted the equipment had been returned. We were informed that the Chair allowed the terminated faculty member to keep the computer as a loaner "for a couple of weeks" after their termination to search for a new job. To date the Apple MacBook has not been returned.

- 2 items (laptop and iPad) shown as located off-campus and loaned were in the possession of a faculty member who retired in May 2015. The *Separation from Employment/Transfer Clearance Form* was signed noting the equipment was returned. The equipment was subsequently returned after our inquiry.

- 1 laptop shown as off-campus and loaned was assigned to a faculty member who was terminated in December 2014. No *Separation from Employment/Transfer Clearance Form* was completed. The laptop was returned on December 11, 2015 after our inquiry.

- 1 iMac computer, costing $1,957, was shown as active and assigned to a faculty member who was terminated in May 2015. The faculty member had previously reported the computer stolen from an off-campus location, although no authorization was found for off-campus use. University Police were not notified by the Chair of the stolen computer as required by the Property Manual.

Overall, our review indicated that the College did not have procedures in place to ensure compliance with the University policy regarding the separation of University employees and the retrieval of attractive property or the loaning of equipment.

Acquisition and Assignment of Equipment

The College had a large number of laptops and iPads purchased throughout the years with University Technology fees, grant funds, and other funding sources. We observed that several faculty and staff members were assigned multiple equipment for off-campus use. From the attractive property list, we determined that there were 26 employees assigned two or more computers off-campus. Eleven of those employees had three or more computers off-campus, totaling 40 computers.

The purpose and justification of assigning multiple laptops, iPads, and desktop computers both for off-campus and on campus use was unclear. When we inquired of the purpose for instance of a faculty member being assigned two iPads and two laptops for off-campus use, we were informed that the items were purchased using grant funds. However, this does not appear to be sufficient rationale or justification for allowing a single faculty member to have so many computers off-campus.

The authorization for new equipment assignment does not appear to be centrally coordinated. A Chair or a Principal Investigator authorizing an employee to receive equipment may not be aware of what other equipment the employee already has and there was no evidence that the Assistant Director of Technology, who distributes the equipment,

requested the return of old equipment when providing a new or updated version. Furthermore, besides the multiple equipment assigned to faculty and staff, and computer labs and offices with computers and other equipment for use by adjunct faculty and Graduate Assistants, the College also has 120 iPads that could be checked out by faculty, 90 of these iPads were purchased with University Technology fees. The other 30 were purchased with grant funds and were not included in the College's attractive property list. We were informed that the iPads are used in classrooms and loaned to students to complete specific assignments requiring expensive applications. Since the inception of the University Technology fee in 2009, the College has been awarded just over $1 million.

Recommendations

The College of Education should:	
1.1	Ensure that the attractive property list is up-to-date and includes all attractive property items, including iPads.
1.2	Ensure equipment is returned by separating faculty and staff prior to signing the *Separation from Employment/Transfer Clearance Form*.
1.3	Re-evaluate the number of equipment assigned to faculty and staff for on campus and off-campus use and establish procedures for the assignment of equipment.
1.4	Assess the need for the number of loaner iPads and laptop computers.

Management Response/Action Plan:

1.1 The IT department will continue to track all attractive property using a web based database. A formal procedure is in place to track attractive property including the use of "FIU Attractive Tags". All iPads have been re-tagged and inventoried as of 2/1/2016. The COE IT department will regularly re-scan equipment and update database when equipment is checked out and returned. Existing tracking process will be revised and put in place.

Implementation date: March 31, 2016

1.2 The IT department will continue to work with Department chairs and provide them with up to date list of equipment assigned to faculty for authorized off campus use. A new process for tracking termination and retirement of employees is being revised to make sure IT Department is kept informed by HR Liaisons.

Implementation date: March 31, 2016

1.3 The IT department will continue to work with Department chairs to identify and evaluate duplicate off campus equipment and assess needs

Implementation date: June 30, 2016

1.4 The IT department will continue to assess the needs of iPads and laptop computers with the help of Department Chairs.

Implementation date: June 30, 2016

2. Auxiliary Revenue Controls

The College's Auxiliary revenues were $1.7 million, of which the majority was generated by cost-plus fees totaling $896,966. We tested one program, the Master of Science in Curriculum and Instruction (MSCI) offered in Jamaica (Jamaica Program).

During the audit period, MSCI had total revenues of $188,840. The Jamaica Program was run in partnership with the University College of the Caribbean (UCC). The fees for the Jamaica Program were collected off-site and outside of the University's PantherSoft system. FIU offered the MSCI program to qualified students recruited by UCC and admitted by FIU. The agreement between the College of Education/FIU and UCC stipulated that the revenue was shared 60% FIU and 40% UCC, with the fees collected by UCC and remitted to FIU in twelve scheduled payments.

We tested the revenue procedures relating to the Jamaica Program and noted the following:

- UCC delayed remittance to FIU for all 12 scheduled payments, from 6 to 77 business days late. The contract stated that payments received 15 days after the scheduled date would be assessed a late fee of 5% of the pending balance. Although UCC was more than 15 days late in remitting 11 of the 12 scheduled payments, late fees were not assessed. A total of $8,626 in late fees should have been assessed and collected.

- When remittances were received, the checks were deposited in a timely manner by the COE, however, we were informed that the checks were not restrictively endorsed as soon as received. The Budget Director stated that he was not aware of the check endorsement requirements. The University procedures state that "…all checks must be restrictively endorsed immediately upon receipt".

- Although the Jamaica Program was suspended subsequent to Cohort VII's completion, the College of Education has continued to pay 50% of the Program Director's salary out of the auxiliary account dedicated to the Jamaica Program. As of January 25, 2016, the total Program Director's salary paid out of the Jamaica Program after its suspension totaled $43,719.

  The Program Director explained that she still works in recruiting for the Jamaica Program in case the suspension is lifted. However, according to the agreement UCC was responsible for recruiting students, not FIU. In addition, recruiting should have been completed prior to the spring 2015 semester before FIU suspended the Jamaica Program. The Program Director added that she is also currently working on establishing similar programs in other countries. As of January 25, 2016, the Jamaica Program account had a fund balance of $113,786, after deducting for the salary paid to the Program Director since the its suspension.

The University's Auxiliary Enterprises Operating Guidelines states that, "The funds generated by for credit academic activities are restricted in that fees charged should approximate costs with reserves generally allowed for working capital needs and future capital outlays. Accumulating general reserves to guard against adverse market demand conditions or to fund new auxiliary opportunities are expressly prohibited". Paying 50% of the Program Director's salary form the Jamaica Program when the Program is suspended and has no activities does not appear to be appropriate. As the Program Director pointed out she is working on establishing new programs unrelated to the Jamaica Program and her effort should not be covered by the Jamaica Program. Finally, the large ending fund balance indicates that the fees charged by the auxiliary operation appear to have been in excess of the costs.

Recommendations

The College of Education should:	
2.1	Going forward, assess and collect agreed-upon late fees.
2.2	Ensure that all checks received are restrictively endorsed upon receipt.
2.3	Ensure that each auxiliary operation is charged only for its related costs. The salary costs charged to the Jamaica Program since its suspension will need to be addressed.
2.4	Re-evaluate whether fees charged for the Jamaica Program are in compliance with the University Auxiliary Enterprise Operating Guidelines.

Management Response/Action Plan:

2.1 All future late fees will be collected for programs where fees are collected off-site. This practice will begin as soon as Jamaica MSCI cohort VIII begins, and also the similar Panama MSCI program.

Implementation date: Immediately

2.2 All checks received will be endorsed upon receipt. This practice has already been implemented by the School of Education.

Implementation date: Immediately

2.3 Beginning this fiscal year, the program director's (0.50FTE) salary will be allocated to the school's cost recovery auxiliary activity until the Jamaica MSCI program begins its next cohort (VIII).

Implementation date: Immediately

2.4 Student fees will be reassessed prior to start of the Jamaica MSCI cohort VIII, ensuring compliance with the University Auxiliary Enterprise Operating Guidelines.

Implementation date: Immediately

3. Payroll and Personnel Administration

For the fiscal year 2014-2015, salaries and fringe benefits were $13.5 million or 83% of the College's total expenditures. We focused our review primarily on: (a) extra compensation appointments; (b) employee background checks; and (c) payroll approval.

a) Extra Compensation Appointments

University Policy No. 1710.110, *Dual Employment and Compensation*, states:

> All employees may be approved for secondary employment which constitutes dual employment provided such employment does not interfere with the regular work of the employee, does not result in any conflict of interest between the two activities, and . . . Approval must be requested and granted by Human Resources prior to commencement of the secondary employment.

We sampled eight secondary employments/appointments totaling $20,350. All of the appointments reviewed were for duties beyond the employee's primary job assignments. However, approval for secondary employment (overload) was done after the fact, ranging from 43 to 79 days after the employee started teaching. In one instance, we observed an adjunct lecturer was teaching for the College without a contract and the University's Human Resource records showed him as terminated. After our audit inquiry, the College completed the required forms 5 business days prior to the end of his assignment. One of the purposes of the approval of secondary employment (overload) is for the employee's supervisor to ensure that the assignment does not conflict with the primary job function and time; approval after the employee has begun the secondary employment does not accomplish such purpose. In addition, the College cannot properly budget for payroll when employees work without a contract and the College has to make retroactive pay for unpaid payroll.

b) Employee Background Checks

Two employees who received and/or handled cash collections on behalf of the College had not undergone a level II background check prior to collecting cash.

According to University Policy No. 1710.257, *Pre-Employment Requirement,* more in-depth criminal history checks including fingerprinting, through the Florida Department of Law Enforcement are required for new employees (or employees recently promoted) who are handling cash or managing cash transactions and all financial services positions.

c) Payroll Approval

The University's payroll guidelines require managers/proxies to have first-hand knowledge of the employee's work and/or leave hours or obtain written confirmation from the employee's supervisor of the hours being reported prior to approving the payroll.

We reviewed time and attendance records for the period July 1, 2014 through June 30, 2015, which included 9,452 payroll entries. Our review revealed that 446 entries or 5%

were not approved by the employee's supervisor/proxy. As a result, they were approved by default by the University's Payroll Department who had no knowledge of the employee's hours worked or leave taken.

The absence of an adequate payroll approval process leaves the University vulnerable to paying employees for time not worked and maintaining inaccurate leave records, which can be costly in the long term.

Recommendations

The College of Education should ensure that:	
3.1	Overload assignments are approved by employees' supervisors and contracts are executed prior to their commencement.
3.2	All employees who receive and/or handle cash are fingerprinted.
3.3	Manager/supervisors who have direct knowledge of the employees' work and/or leave hours approve all biweekly payrolls.

Management Response/Action Plan:

3.1 The approval of overload assignments and the execution of adjunct/overload contracts on a timely basis will be greatly improved by the merger. As the School of Education adopts the efficient model that already exists in Arts & Sciences, we're confident that it will bring about positive change.

Implementation date: Immediately

3.2 The employees who receive and/or handle cash have already gone through the background/fingerprint process.

Implementation date: Immediately

3.3 We'll increase the number of notifications that go out to managers/supervisors leading up to the payroll deadline. This practice will begin immediately.

Implementation date: Immediately

4. Expenditure Controls

We selected 67 transactions, totaling $330,589, relating to travel and other expenditures and reviewed all activity numbers related to the College's optional student fees, such as material & supply fees. In addition, we reviewed 73 credit card transactions totaling $37,998.

Except for some of the observations noted below, our audit disclosed that the College's non-payroll related expenditures tested were appropriate, allowable, and in accordance with University policies and procedures, applicable laws, rules and regulations.

a) Other Expenditure Controls

We reviewed 21 sampled transactions, totaling $307,563, and determined that two smart bill payments to the Office of Publications, totaling $150,000, were not made in compliance with University policies and procedures. The University guideline on year-end fund balance carry-forward allows only 50% of such year-end balance to transfer to a carry-forward account. The smart bill payment to the Office of Publications was made at the end of FY 2015 for services benefiting FY 2016. The payment appears to have been made to circumvent the University's available carry-forward guideline. In addition, the College incorrectly classified the expenditure as printing and typesetting when the payment was to cover part of the account manager's salary and benefits and other future service costs.

b) Use of Student Fees

The University is allowed to assess optional student fees, such as an equipment use fee or a material/supply fee, provided that the proceeds are used for the instruction of the course and equipment or material/supply is used directly by the students. Accordingly, the College's academic departments were authorized to charge students an equipment use fee or a material/supply fee for certain courses.

We reviewed 25 sampled material/supply fees transactions, totaling $13,236, and determined that the expenditures from optional student fees were properly used, except for the payment of an art professor's cellular phone allowance, totaling $600.

In addition, the College under-budgeted the cost of materials (assessment kit) for a course. Although the actual cost of the material was $15,119, with additional upkeep costs, the college only budgeted $750 per class. Since the revenue collected to cover the cost of the material was insufficient, the College paid the $15,119 out of its Educational and General (E&G) Fund.

BOG Regulation 7.003(7) material and supply fee states that revenues from materials and supply fees shall be budgeted in an auxiliary trust fund. The University's auxiliary enterprise operating guidelines define auxiliary operations as being managed as self-supporting activities through the fees they charge their customers for products or services rendered and may not obtain support from the E&G Fund. The College however covered the cost of the assessment kit for the course with E&G funds.

c) Travel

We reviewed 46 sampled travel related transactions, totaling $23,026, and determined that the expenditures were all appropriate.

d) Credit Card Controls

We also tested 73 credit card transactions, totaling $37,998, and determined that all of the expenditures tested were related to the College's operations and were mostly in accordance with University policies and procedures, except for one payment for the purchase of a retirement plaque costing $25 which was paid out of the FIU After School Grant. The grant did not have an allowance for such an expenditure.

Recommendations

The College of Education should ensure that:	
4.1	The University guideline regarding year-end carry-forward is adhered to and discontinue the practice of making payments for services not received.
4.2	Materials and supplies fees revenues are used only for approved materials and supplies expenses.
4.3	Each auxiliary operation is managed as a self-supporting activity.

Management Response/Action Plan:

4.1 Effective immediately, the School of Education will discontinue the practice of making end of fiscal year payments to the Office of Publications, as the practice can be seen as a way of sidestepping the University's carry forward policy. In addition, the Account Manager's (Office of Publications employee) salary (0.75FTE) will be allocated to a School of Education activity, ensuring that all payroll related expenditures are tracked appropriately.

Implementation date: Immediately

4.2 Beginning this fiscal year, the art professor's cellular/data allowance will be charged to E&G since the allowance is not considered a "consumable" item according to University materials/supplies fee guidelines.

Implementation date: Immediately

4.3 The School of Education will also monitor the psychology lab fees activity to ensure that the revenues being collected on an annual basis are adequate to sustain the expenditures of consumable items related to the courses.

Implementation date: Immediately