



**FLORIDA
INTERNATIONAL
UNIVERSITY**

Office of Internal Audit

Audit of College of Law

Report No. 15/16-10

March 14, 2016



MEMORANDUM

DATE: March 14, 2016

TO: R. Alexander Acosta, Dean – College of Law

FROM: Allen Vann, Chief Audit Executive

SUBJECT: Audit of College of Law, Report No. 15/16-10

Pursuant to our approved annual plan, we have completed an audit of the College of Law (College). The primary objectives of the audit were to determine whether the established financial controls and procedures 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.

The College with its approximate 50 full-time faculty members and 487 students was funded mainly through tuition and fees, state appropriations and university and investor contributions of \$22.5 million in fiscal year 2015. Expenditures, including fees retained by the University of \$4 million, totaled approximately \$23 million.

Overall, our audit disclosed that the College's established controls and procedures were generally satisfactory and effective. However, there were areas where internal controls need strengthening, particularly in the areas of: Human Resources; Travel and Credit Card & Other Expenditures; Student Fees; and Asset Management.

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

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OBJECTIVES, SCOPE, AND METHODOLOGY

Pursuant to our approved annual plan, we have completed an audit of the College of Law for the period from July 1, 2014 through June 30, 2015. The objectives of the audit were to determine whether revenue and expenditure streams were properly accounted for and were applied towards their intended educational purposes.

Established controls and procedures over the procurement of goods and services, including travel, property, student fees and other areas were tested to ensure that they were: (a) adequate enough to provide reasonable assurance that significant errors or irregularities are prevented or detected in a timely manner; and (b) are being properly adhered to. We also evaluated the College's compliance with relevant laws, rules and regulations and University policies and procedures. 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 related to the scope of this audit requiring follow-up.

Our 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 from July to December 2015.



BACKGROUND

The College of Law (College) has been fully-accredited by the American Bar Association (ABA) since 2006, only four years after its opening in 2002. The College prepares its students to become lawyers. FIU College of Law graduates have earned the top bar



passage rate in Florida. For the July 2015 bar examination the student's passage rate was 89%, placing FIU Law first among Florida's 11 law schools with a passage rate 20% higher than the statewide average. Of the 2014 graduates, 79% secured full-time jobs.

The College has about 50 full-time faculty members and also has various visiting professors who teach subjects within their areas of expertise. Currently, the College

has about 487 students, including both part-time and full-time. The student-faculty ratio is 10.7:1. Listed below are their many programs:

- Academic Excellence Program (AEP)
- Experiential Learning
- Intellectual Property Certificate
- International & Graduate Studies
- International Student Exchange
- Joint Degree
- Law Review
- Legal Externship
- Legal Skills and Values
- Pro Bono
- Study Abroad
- Trial Advocacy

The College's operations are funded mainly through Tuition and Fees (\$12,006,286) and State Appropriations, University or Investor Contributions (\$10,477,649), as reported in the College's filing to the ABA's financial information section for the year ended June 30, 2015.

Current FIU Law Tuition & Student Fee Rates:		
	In-State/Annual	Out-of-State/Annual
Day	\$ 21,407	\$ 35,650
Evening	14,501	24,150
Per Credit Hour	691	1,150
Student Annual Fees	399*	399*

**Not included in tuition.*

The College reported to the ABA expenditures for fiscal year 2015 totaling \$17,630,454, net of \$1,236,642 of other University expenditures. Foundation expenditures totaled \$749,681 and were not included in our testing.

We selected the following 11 accounts for testing:

Account	Expenditures
2600120003 – Faculty Programs Budget Account	\$ 6,413,675
2600120001 – Law Dean’s Office	2,762,161
2650020001 – Law Library	2,059,680
2610020001 – Student Services	1,154,992
2600120008 – Center for Ethics & Professionalism	1,007,202
2600100005 – Law Scholarship Fund	870,251
2600130008 – Legal Studies Institute	712,127
2610040025 – Test Preparation Fee – Bar Preparation	303,659
2600120004 – Information Technology Law	265,085
2600120002 – Law School Summer Account	255,211
2600140003 – Tech Fee: Law e-Classrooms Upgrade	168,732
Total	\$ 15,972,775

FINDINGS AND RECOMMENDATIONS

Our audit disclosed that the College's controls and procedures were generally satisfactory and effective in ensuring that procedures over the procurement of goods and services, including travel, property, student fees, and other areas are being properly adhered to. Nevertheless, there were areas where internal controls need strengthening, particularly in the areas of: Human Resources; Travel and Credit Card Expenditures & Other Expenditures; Student Fees; and Asset Management.

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

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	Some instances of non-compliance may be evident	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 need to be improved	Systems produce incomplete or inaccurate data which may cause inappropriate financial and operational decisions
External Risk	None or low	Moderate	High

The areas where internal controls need improvement are detailed below.

1. Payroll and Personnel Administration

For the fiscal year 2014-15, payroll expenditures were \$11.5 million. We reviewed processes for payroll approval, accrued faculty sick/vacation leave, and overload compensation.

a) 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. In this regard, the College's payroll approval process, for the most part, adhered to the University's guidelines.

We reviewed time and attendance records from July 1, 2014 through June 30, 2015, which included 14,374 entries. The majority of the entries were approved by appropriate level supervisors. Over 97% were approved by staff who had knowledge of the employees' hours. Human Resources approved a relatively small number of the entries. The table below illustrates the number and percentage of payroll transactions by approver type:

Approver	Total Transactions	Percentage of Total Transactions
Supervisor	8,588	59.7%
Non-supervisor with direct knowledge	5,413	37.7%
Human Resources	373	2.6%
Totals	14,374	100.0%

b) Accrued Faculty Sick/Vacation Leave

During a previous audit at the College in 2009, we reported that faculty members were not properly reporting their leave time, so we examined the hours of leave reported by selected faculty members.

According to 2011-2014 *Collective Bargaining Agreement between The Florida International University Board of Trustees and The United Faculty of Florida*:

Accrual of Annual Leave: Full-time employees appointed for more than nine (9) months, except employees on academic year appointments, shall accrue annual leave at the rate of 6.769 hours biweekly or 14.667 hours per month.

Accrual of Sick Leave: A full-time employee shall accrue four (4) hours of sick leave for each biweekly pay period, or the number of hours that are directly proportionate to the number of days worked during less than a full-pay period, without limitation as to the total number of hours that may be accrued.

We obtained a list of all faculty members at the College to determine whether sick/annual leave was being taken during the audit period. Our list consisted of 56 faculty members: 24 12-month and 32 9-month. The value of the total sick and annual accrued time for those faculty members as of July 3, 2015, except for 4 faculty members who had separated from the University during the audit period, was \$1,934,531 and \$277,701, respectively.

Our testing revealed the following:

- Of the 24 12-month faculty, 7 had no sick leave recorded, while 4 had no annual leave.
- However, of the 32 9-month faculty, none had any sick leave recorded. This may suggest that 9-month faculty are still neglecting to report sick leave.

c) Overload Payments

According to University Policy No. 1710.110, *Dual Employment and Compensation*, "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.... Approval must be requested and granted by Human Resources prior to commencement of the secondary employment."

We sampled 6 secondary employment contracts totaling \$91,000. Our review disclosed that, for the most part, secondary employment did not interfere with the regular work of the employees and did not result in any conflict of interest between the two activities. Also, our sampled contracts were signed by the employee's immediate and secondary supervisor, respectively. However, the overload assignment process needs to be improved as three of the six contracts were approved after the overload course starting date, ranging from 20 to 38 days after the starting date.

d) Employee Background Checks

According to University Policy No. 1710.257, *Pre-Employment Requirements*, 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.

During our testing, we observed that criminal background checks were not on file for the five employees who received and/or handled collections at the College. We found that two of the five employees were properly fingerprinted, even though 2 and 5 years,

respectively, after their hire date. These two files were maintained in Human Resources' (HR) current system, *Truescreen*. HR informed us that it does not have access to the old system, *HireRight*, in which previous criminal background checks information would be stored for these employees. Thus, we found no evidence that these employees had undergone the necessary criminal background checks or fingerprinting. Lastly, a criminal background check was not conducted for an employee that was hired on 8/21/1998. Even though the current policy was implemented subsequent to their hire date, the University had security background policies dating back to 1990 and 1992.

Recommendations

The College of Law should ensure that:	
1.1	Faculty sick leave is properly reported when taken.
1.2	Overload payment contracts are approved before the secondary assignment start date.
1.3	Criminal background checks and fingerprinting are obtained for all employees in positions requiring them.

Management Response/Action Plan:

1.1 An enhanced process for monitoring faculty sick leave will be implemented. The Associate Dean of Academic Affairs will be tasked with monitoring faculty sick leave on behalf of the Dean, as he is most aware of faculty class schedules and cancellations. The Associate Dean of Academic Affairs will inform the HR Liaisons via email on a biweekly basis, the names of the faculty who should be reporting sick leave for that pay period, along with the total sick hours that should be reported. The HR Liaisons will then ensure that these match the payroll system when closing the pay cycle.

Implementation date: Immediately

1.2 The Dean and the Associate Dean of Academic Affairs will request the HR Liaisons to process the overloads payment contracts with sufficient time in advance so that that the overload payment contracts are approved **“before”** the secondary assignment start date.

Implementation date: Immediately

1.3 Since Human Resources does not have the back-up information from the old system *HireRight*, the College will perform criminal background checks for the employees with the new system *Truescreen* so that there is a record.

Implementation date: April 30, 2016

2. Expenditures

a) Travel and Credit Card

According to Florida Statute Section 112.061(3)(a): “All travel must be authorized and approved by the head of the agency, or his or her designated representative, from whose funds the traveler is paid. . . .” Also, University Travel Expense Policy No. 1110.060 requires staff: “. . . not to make commitments to travel or to incur travel expenses without first obtaining the appropriate approval.” Using a Travel Authorization (TA) benefits the College by encumbering funds resulting in better budgetary control over its funds.

In order to ensure that travel and credit card expenditures were in accordance with University policies, we tested a sample of 47 transactions relating to travel, totaling \$40,547, out of a total of \$404,454 (or 10%), and tested a sample of 16 transactions relating to credit card expenditures, totaling \$52,593, out of a total of \$409,165 (or 13%). Our examination found that all 63 transactions were properly processed, with the exception of the following classification errors:

- Four transactions, totaling \$3,168, were classified as In-state expenses, but were incurred outside of Florida. We understand this may have been a system error.
- One transaction, totaling \$5,348, was incorrectly classified as computer equipment under \$5,000, rather than as computer property over \$5,000.
- One transaction, totaling \$618, related to office supplies was incorrectly classified as professional services.
- One transaction, totaling \$5,000, for the purchase of U.S News database subscription was incorrectly charged to the Other Advertising account.

b) Other

As part of our audit, we examined a list of Other Expenditures, totaling \$4,057,353, of which we tested a sample of 14 transactions, totaling \$2,557,523 (or 63%). Our examination resulted in the following control deficiencies:

- Four scholarship transfers, totaling \$1,167,371, were entered into the system and reviewed and approved by the same person. All four transfers were determined to be proper.
- There was a transfer performed by an employee, totaling \$200,470, which had no written approval.
- One transaction, totaling \$130,922, was charged to Lab Supplies-Chemicals account, rather than to Professional Services.

Recommendations

The College of Law should:	
2.1	Ensure that transactions are properly classified and charged to the correct accounts.
2.2	Segregate the duties of entering and approving transactions in PantherSoft, and ensure all transactions are properly approved.

Management Response/Action Plan:

- 2.1 A meeting will be held with all College of Law Purchasers reminding them the importance of selecting the correct expense accounts for classifying transactions. Additional scrutiny will be used by the finance team to enforce this.

Implementation date: April 30, 2016

- 2.2 Written documentation will be kept to enhance segregation of duties for the scholarship awards and cash transfers.

Implementation date: Immediately

3. Student Fees & Other Revenues

The fees charged students, and their respective expenditures are accounted for as auxiliary operations. 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."

During the audit period, we examined the following types of revenues earned by the College of Law:

- Test Preparation Fees - \$328,950. We reviewed the supporting documentation related to the 129 Test Prep Fees of \$2,550 each to determine whether the fee was assessed at cost. Our testing results found the Test Preparation Fees being properly charged at cost.
- College of Law Student Bar Association - \$60,000. Consists of a \$60,000 transfer from the University. We noted that the account had a deficit of \$7,381 during the year but ended the year with a surplus fund balance of \$6,704.
- LSAT Prep Course - \$56,616. We analyzed the supporting documentation for the expenses related to the LSAT Prep Course to determine if the fee was assessed at cost. Based on our own analyses, the LSAT Prep Course was being properly charged at cost.
- Orientation Fee - \$25,350. Per Board of Governors Regulation 7.003, each university board of trustees is authorized to assess an orientation fee of up to \$35. However, the fee charged, \$150, was much higher than the \$35 orientation fee limit set by the BOG under Regulation 7.003. We were informed that the orientation fee also includes funds allocated to fund food expenditures for orientation events throughout the year.
- Student Deposit - \$22,600. The total consists of \$200 admission deposits (as set by the BOG under Regulation 7.003) paid at the time of application and eventually forfeited by students who did not enroll. These funds are to be used to expand financial assistance, scholarships, student academic and career counseling services, and admission services at the University. The account ended the year with a surplus of \$12,186.
- Summer Public Interest Fellowship - \$10,082. The total consists of monies collected through the sale of items donated to the College for a live auction event. Related expenses amounted to \$13,500. However, the auction proceeds were not transferred to the University Foundation as required. Per Foundation staff: "[The] Foundation would have been the proper entity to deposit the funds to ensure that we could disburse the funds for the purpose that was disclosed." The funds instead remained in the auxiliary account from which they were disbursed.

- Student Services Graduation - \$24,972. The amount is mostly composed of the sale of 1,341 graduation tickets at \$5 each, plus a \$17,559 transfer to cover the beginning fund balance deficit. We noted that the account ended the year with a deficit of \$9,924.
- Black Student Organization - \$2,333. We noted that the account consisted entirely of a University transfer to cover the beginning fund balance deficit. The account ended with a \$0 fund balance.

Recommendations

The College of Law should:	
3.1	Re-evaluate whether fees charged are in compliance with BOG regulations and University Auxiliary Enterprise Operating Guidelines.
3.2	Ensure that future sales proceeds from donations to the College are deposited within the Foundation.

Management Response/Action Plan:

- 3.1 Review currently being held with auditors and auxiliary enterprises to ensure this.
Implementation date: July 1, 2016
- 3.2 Ensure that donations from the Public Interest Fellowship auction are deposited into Foundation.
Implementation date: Immediately

4. Asset Management

The College had 18 capital assets (cost of \$5,000 or greater) listed on the University's Property Master List as of August 2015 with an associated cost of \$189,702. All 18 capital assets were accounted for during the University's annual physical inventory in October 2015.

In addition to capital assets, 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.

During the audit, we noted that maintaining and tracking attractive property was the responsibility of the College's Information Technology (IT) department. We noted that the College's IT department was tracking 611 attractive property items. However, our testing reflected that the list was not up-to-date and included items that may otherwise not be considered attractive property items:

- A large number of computers and printers were found to be in storage and on the attractive property list, even though they served no useful purpose other than for spare parts.



- We located and verified 15 of the 21 items in the sample, including 4 of which were located in a different location than assigned in the attractive property list.
- One item was returned to the vendor, but not updated on the attractive property list.

- Of the 5 items not located, 1 was assigned to a faculty member but no Off-Campus form was found, even though College procedures require one to be completed.

Recommendations

The College of Law should:	
4.1	Evaluate the items currently in storage and determine which should be included in the attractive property list and which items should be surplus.
4.2	Ensure that the attractive property list is up-to-date.

Management Response/Action Plan:

- 4.1 The College of Law IT department is now under new management, being supervised directly by UTS. Items in storage will be reviewed accordingly.

Implementation date: July 1, 2016

- 4.2 The College of Law IT department is now under new management, being supervised directly by UTS. Once items in storage are reviewed, attractive property list will be updated accordingly and updated as needed.

Implementation date: July 1, 2016