



## **Office of Internal Audit**

**Audit of the Education Effect Program**

**Report No. 15/16-12**

**May 17, 2016**



OFFICE OF INTERNAL AUDIT

**DATE:** May 17, 2016

**TO:** Jaffus Hardrick, Vice President of Human Resources and Vice Provost for Student Access & Success

**FROM:** Allen Vann, Chief Audit Executive

A handwritten signature in blue ink that reads "Allen Vann".

**SUBJECT: Audit of the Education Effect Program, Report No. 15/16-12**

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We have completed an audit of the Education Effect Program. The Program was created to improve educational outcomes in Liberty City and is funded through donations from private companies. Over the past five years, the Education Effect Program received approximately \$2.9 million in total funding and incurred \$1.5 million in expenditures. Of the total expenditure of \$1.5 million, 76% were spent for Miami Northwestern Senior High School and 24% for Booker T. Washington Senior High School.

We evaluated financial management practices and assessed compliance with endowment and grant requirements. Overall, we concluded that the Program's financial management needed significant improvement as there was a lack of adequate documentation and monitoring of payments to contractors, consultants, employees, and student interns. Also, there are opportunities to better monitor grant deliverables and report on program outcomes. The audit resulted in five recommendations, which management agreed to implement.

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  
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Andres Gil, Vice President for Research

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## **OBJECTIVE, SCOPE AND METHODOLOGY**

We have completed an audit of the Education Effect Program (The Program). The primary objective of our audit was to: 1) evaluate the adequacy of the Program's financial management; 2) assess the Program's compliance with endowment and grant requirements; 3) determine appropriateness of the endowment funds transferred to other departments; and 4) examine selected expenditures for their propriety.

Our audit included the Program's financial transactions from January 2011 to December 2015. The audit was conducted in accordance with *the International Standards for the Professional Practice of Internal Auditing*, and included test of the accounting records and such other auditing procedures as we considered necessary under the circumstances. Audit fieldwork was conducted from January to March 2016.

During the audit, we:

- Reviewed Florida International University (FIU) and FIU Foundation policies and procedures and the Program's Reference Manual, as well as grant/gift agreements between FIU Foundation and donors;
- Observed current practices and processing techniques;
- Interviewed responsible personnel;
- Tested selected transactions; and
- Visited the high school site.

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

As this was the first internal audit of the Program, there were no prior internal audit recommendations related to the scope and objectives of this audit requiring follow-up. Similarly, there were no other external audit reports issued during the last three years with any applicable recommendations related to the scope and objectives of this audit.

## **BACKGROUND**

In September 2011, the Florida International University and Miami-Dade County Public Schools (MDCPS), using an initial grant of \$1 million provided by the JP Morgan Chase Foundation, established The Education Effect, a university supported community school partnership to improve educational outcomes in Liberty City. Subsequently, the JP Morgan Chase Foundation provided an additional \$.8 million.

The Education Effect focuses on connecting the community, schools, students and parents with University expertise and resources. Some of the key initiatives are:

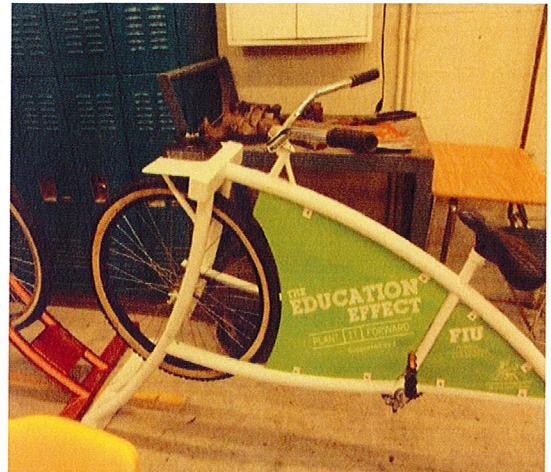
- Aquaponics Lab and Organic Garden at Miami Northwestern Senior High School (MNWSH), an integrated program for advancing Science, Technology, Engineering and Math (STEM) education and healthy living in Liberty City, in collaboration with the FIU College of Arts and Sciences and Chaplin School of Hospitality & Tourism Management.



- Expanding the Dual Enrollment program at MNWSH for high school students to earn college or vocational credit toward a postsecondary diploma, certificate, or degree at FIU while earning credit toward a high school diploma.
- Financial Literacy and Investment program for MNWSH students in collaboration with the FIU College of Business.

- Enhancing the MNWSH Welding program and the construction of an electronic car and blender bicycles.

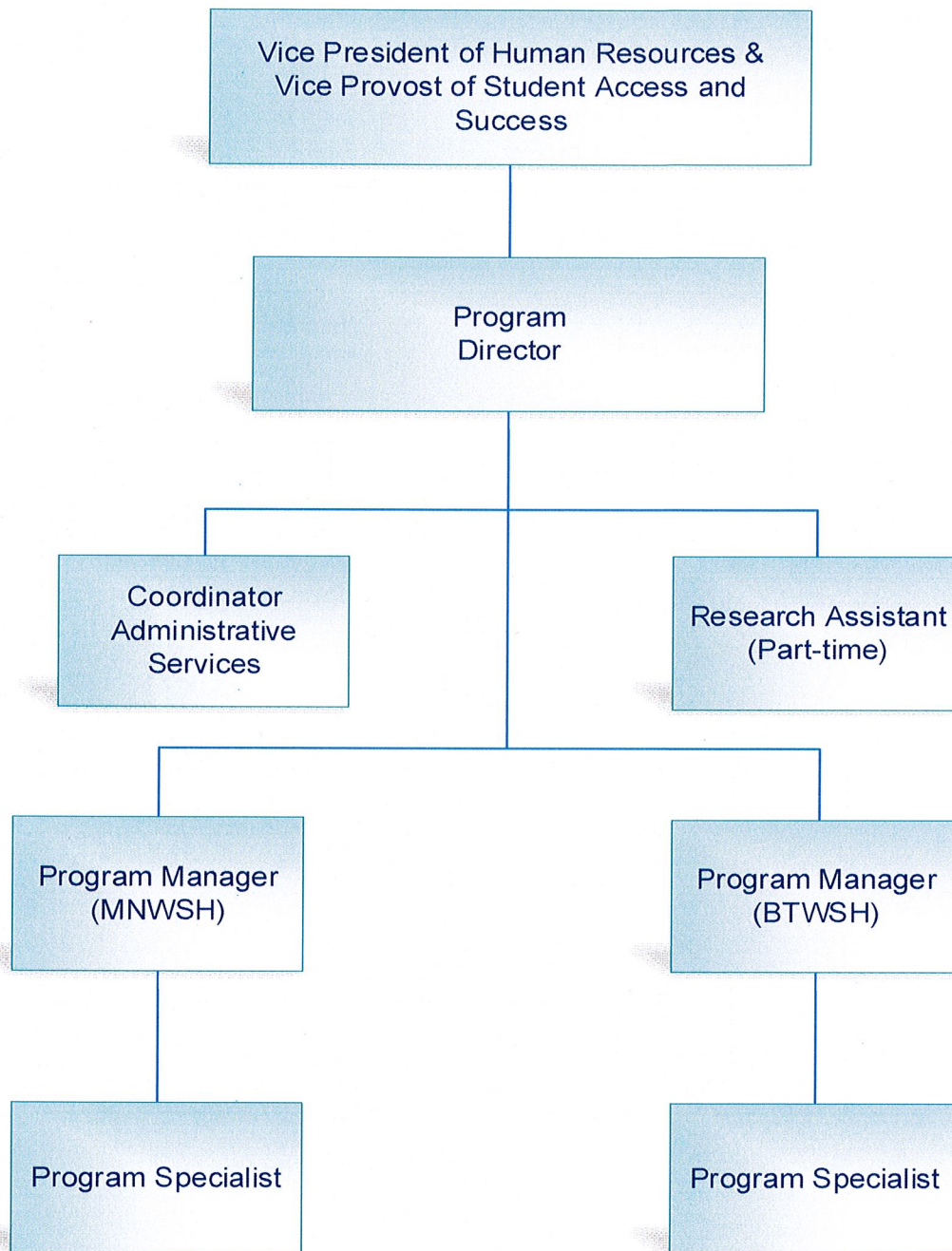
In January 2014, The Education Effect expanded its program to Booker T. Washington Senior High School (BTWSH) with a \$1 million seed investment from Lennar Corporation. The program at BTWSH focused on promoting 100 percent graduation, improving college and career readiness and increasing the engagement of parents and the community. Special emphasis was placed on STEM, including enhancing the school's existing Engineering Academy.



Florida International University Office of Engagement administered the Education Effect Program for four years from September 2011 to August 2015. Subsequently, the Program has been administered by Florida International University Office of Student Access and Success.

## Personnel

As of February 2016, the Education Effect Program had 7 employees and its organization chart is shown below.



## Financial Information

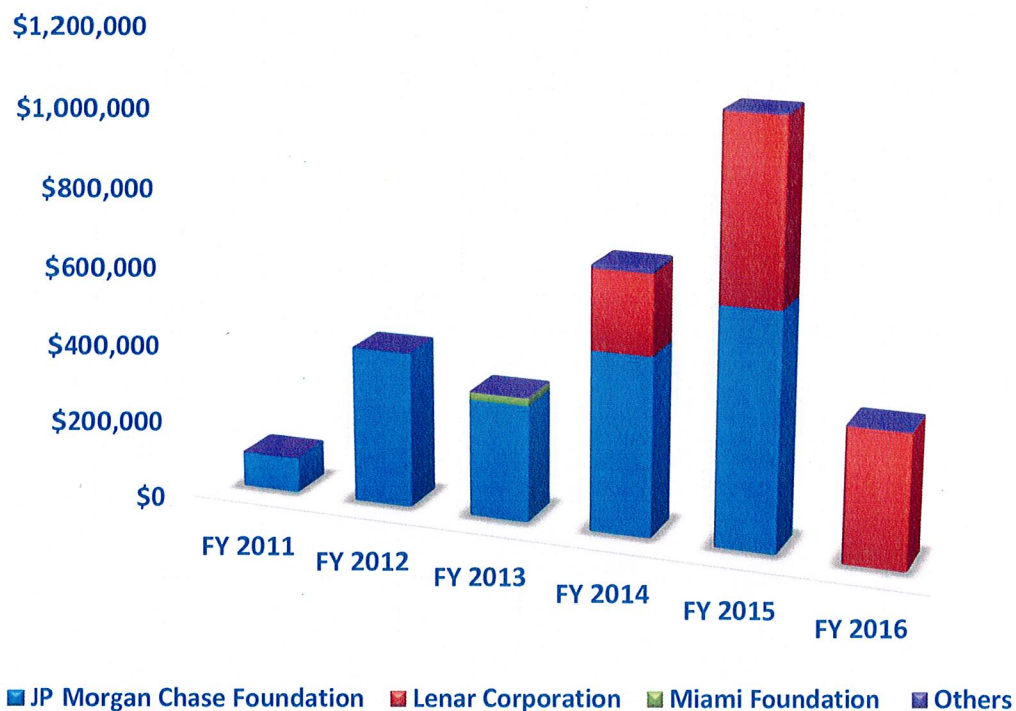
The majority of the Education Effect Program's funding came from the JP Morgan Chase Foundation and Lennar Corporation. The Program's revenue, fund balance, and expenditure are described below.

### Revenue and Fund Balance

Total funding received for the Program as of December 31, 2015 was \$2.9 million. Approximately \$1.8 million (62%) was provided by the JP Morgan Chase Foundation over a five-year period and \$1 million (35%) came from Lennar Corporation over a three-year period. The remaining was provided by the Miami Foundation and others.

As of December 31, 2015, the Program's fund balance was approximately \$1.2 million; \$615,000 for MNWSH and \$631,000 for BTWSH. The chart below provides a breakdown of the Program's funding sources for the six-year period from the fiscal year 2011 through 2016.

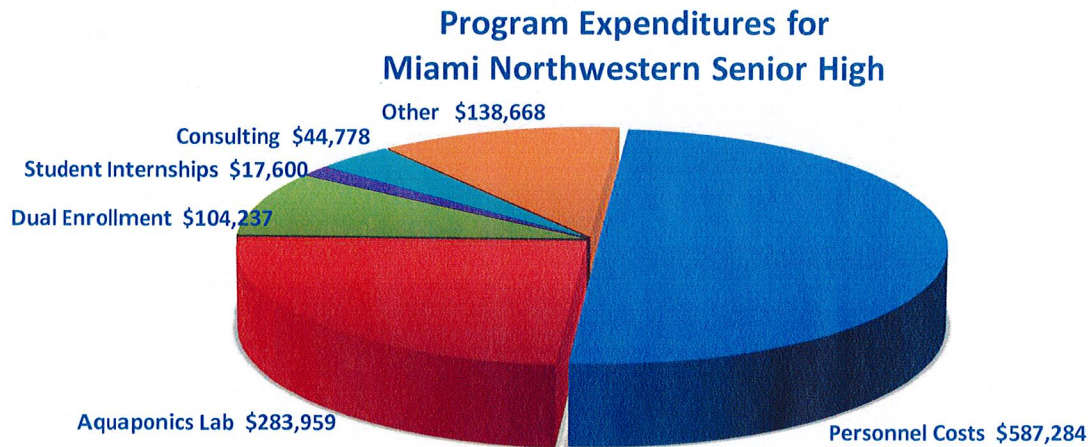
**Revenue by Funding Sources for FY 2011-2016**



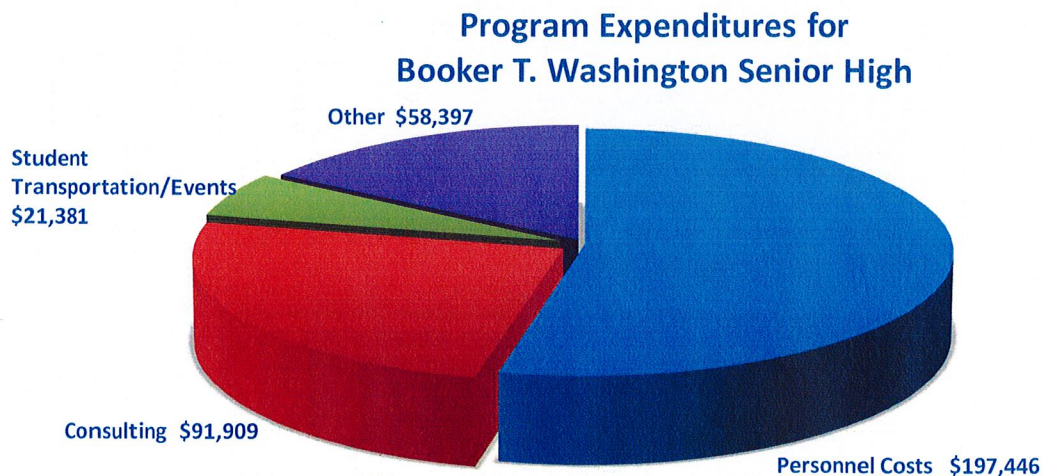
## Expenditure

As of December 31, 2015, the Program's total expenditures were approximately \$1.5 million. Of this amount, 76% were spent for Miami Northwestern Senior High School and 24% for Booker T. Washington Senior High School. Expenditures for each high school are detailed below.

As depicted in the chart below, approximately 50% (\$587,000) of the total MNWSH expenditures were related to personnel related costs for the program administration; 24% (\$284,000) were related to the operation of the Aquaponics Lab and Organic Garden, and the remaining 26% (\$305,000) were for other operating expenses such as dual enrollment, student internships and consulting expenses.



Approximately 53% (\$197,000) of the total BTWSH expenditures were related to personnel related costs for the program administration and the remaining 47% (\$172,000) were related to other operating expenses such as consulting, student transportation and events. The following chart provides BTWSH expenditures by major categories.



## **FINDINGS AND RECOMMENDATIONS**

Overall, our audit disclosed that the Program's financial management was inadequate. Especially, there were a lack of adequate documentation and monitoring system to support payments to contractors, consultants, employees, and student interns. Also, controls over grant deliverables and reporting need improvement. Many of these issues occurred under the previous management and are being addressed by the current management.

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

<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>	Effective	Opportunities exist to improve effectiveness	Do not exist or are not reliable
<b>Policy &amp; Procedures Compliance</b>	Non-compliance issues are minor	Non-compliance issues may be systemic	Non-compliance issues are pervasive, significant, or have severe consequences
<b>Effect</b>	Not likely to impact operations or program outcomes	Impact on outcomes contained	Negative impact on outcomes
<b>Information Risk</b>	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
<b>External Risk</b>	None or low	Medium	High

The areas of our observations during the audit are detailed below.

### **1. Financial Management**

Effective August 2015, the administration of the Education Effect Program was transferred to the Office of Student Access and Success from the Office of Engagement.

At the time of our audit, there were many outstanding invoices that were not processed due to a lack of adequate documentation such as a maintenance contract for the Aquaponics Lab, a consulting agreement with MDCPS teachers, and student interns' duties and working hours. As a result, the Office of Student Access and Success had to investigate and delay the payment of 23 invoices totaling \$40,369.

According to the former Program Director in the Office of Engagement, she did not have finance/budget person resulting in the deficient accounting records. The Program Director in the Office of Student Access and Success has worked with the Budget/Finance department of the Division of Human Resources to develop controls for the Program's fiscal activities, which include budget management, analysis of expenditures and monitoring of spending. For example, in contrast to past practices, all of the Program's expenses are now approved by the Program Director and reviewed by the Budget/Finance department prior to payment.

### **2. Revenue and Fund Transfer Controls**

As of December 31, 2015, the Program received approximately \$2.9 million. The funds were received via check or wire transfer and deposited into the FIU Foundation accounts. Five separate projects were established in the FIU Foundation to account for these funds in accordance with each grant/endowment agreement, which detailed the budget, deliverables and reporting requirements.

Our review of the Program's revenue receipts totaling \$2.9 million (100%) disclosed that all of them were timely received and deposited into the correct project accounts. We also reviewed a sample of 15 fund transfers, totaling \$497,500 from the Foundation accounts to other University departments such as the College of Business, the Chaplin School of Hospitality & Tourism Management, and the Division of Research. All of the 15 fund transfers were properly authorized and made for the purpose of meeting the required deliverables mentioned in the grant/endowment agreements. Therefore, we concluded that there were appropriate controls over revenues and fund transfers.

### **3. Expenditure Controls**

As of December 31, 2015, the Program spent approximately \$881,000 for payroll related expenditures and \$662,000 for non-payroll operating expenditures. Our sample testing of those expenditures revealed that controls over the Program's expenditures were inadequate. As a result, our test identified \$148,472 in questionable expenditures.

Schedule of Questionable Expenditures	
Description	Amount
Payroll related costs	\$90,950
Payments to "contractor"	21,022
Student intern payments	14,900
MDCPS teachers paid as consultants	12,100
Employee paid as a consultant	7,500
Scholarship payments	1,500
Meal reimbursements	500
<b>Total</b>	<b>\$148,472</b>

#### a) Payroll Expenditures

Over the last five years, salaries and fringe benefits were \$881,120, representing 57% of the Program's total expenditures. They were dispersed as follows: \$520,545 for Program staff members; \$264,184 for the former Program Director; and \$96,391 for the Aquaponics Lab employees.

We noted that two accounts were established in the Division of Research: one for the former Director's payroll and the other for the operations of the Aquaponics Lab including two part-time employees' payroll.

We reviewed the payroll of the former Director and two Aquaponics Lab employees to determine if the former Director's salary was adequately allocated since she was also teaching and the two part-time employees' working hours at the MNWSHC site were properly monitored and approved. Our review of the former Director's salary allocations, Time & Effort reports, and Instructor Schedules disclosed that her salaries were adequately charged to the Program. For the two Aquaponics Lab employees, we noted the following control weaknesses.

- There was a lack of adequate supervision for two part-time employees (a former and a current employee) working for the Aquaponics Lab. They were paid a total of \$90,950 for 30 hours of working in the Aquaponics Lab a weekly at the MNWSH site, in addition to teaching a dual enrollment class at the same location. However, we found that the employees did not have the scheduled hours working at the Lab and there was no documentation to support the actual hours worked such as attendance records. Therefore, there is a lack of certainty that they actually worked the number of hours they were paid for.

- A former part-time employee was paid a total of \$37,980 for supervising the Aquaponics Lab for the period from January 9, 2012 through June 28, 2013. At the same time, he was paid an additional \$7,500 as a consultant (\$5,000 on March 15, 2012 and \$2,500 on June 4, 2013). The description of the service on the consulting invoice was the same as his job description such as: “unit monitoring and measurements; review of garden practices, table bed use and pest management and planting and raised bed construction as required.” Although the former Director said he was paid as a consultant for the extra works performed, there was no a written consulting agreement. Also, the employee must not be a consultant while he or she is employed by FIU, as required by University Policy No. 2320.015, *Consulting Services on Sponsored Project Proposals*. This policy states, “Consultant payments on sponsored projects must represent compensation to individuals who are NOT FIU employees and who render independent services that are needed for the performance of particular project.”

The absence of adequate employee supervision and monitoring employees' working hours left the Program vulnerable to paying employees for time not worked.

#### **b) Other Operating Expenditures**

As of December 31, 2015, the Program incurred approximately \$662,000 for non-payroll operating expenditures over the last five years. To determine if the expenditures were appropriate, allowable, and in accordance with grant/endowment requirements and University policies, we reviewed 121 transactions totaling \$444,861 as follows:

- 34 transactions totaling \$179,165 related to the Aquaponics Lab;
- 10 transactions totaling \$19,440 paid to consultants;
- 23 transactions totaling \$14,900 paid to Miami Northwestern student interns;
- 5 transactions totaling \$104,237 paid for the Dual Enrollment program;
- 2 transactions totaling \$1,500 paid to a FIU student; and
- 47 transactions totaling \$125,619 for miscellaneous expenses such as transportation, catering and events.

Except for some of the observations noted below, our review disclosed that the Program's non-payroll operating expenditures were appropriate, allowable, and in accordance with the grant/endowment requirements and University policies.

##### **1) Aquaponics Lab**

In August 2012, the Aquaponics Inc. was hired via competitive solicitations to develop an aquaponics lab and garden teaching curriculum and to design, construct, maintain and repair the aquaponics lab system. A purchase order totaling \$120,800 was issued to the Aquaponics Inc., which included a construction cost of \$54,800 and a maintenance cost of \$66,000 for three years (annual maintenance cost of \$22,000). As of June 2015, the University paid the Aquaponics Inc. a total of \$112,250 and discontinued doing a business with them due to unsatisfactory works and a complaint

from their subcontractor for not getting paid for the monthly maintenance and repair services provided. The former Program Director allowed the subcontractor to continue providing the monthly maintenance and repair services without going through the University's Purchasing Services and following a procedure for competitive purchases. Therefore, there was no a written contract between the University and the subcontractor, which became a contractor.

The contractor was paid \$15,022 and \$6,000, through PayPal using the University credit card, for the services provided in fiscal year 2015 and the first four months of fiscal year 2016, respectively. However, the University's Departmental Card Guidelines & Procedures do not allow to use the University credit card for contractual services. The contractor informed us that the former Program Director agreed to pay a \$1,500 monthly fee to cover one to two weekly maintenance visits and minor repairs. During the site visit, we observed that there was no verification process for the services provided by the contractor, such as a maintenance check list and vendor sign in/out log.

Without a competitive purchase, a written contract/purchase order, and/or monitoring contractor's work, the Program incurred questionable costs.

## **2) Payments to Consultants**

Our test of ten invoices totaling \$19,440 paid to MDCPS teachers hired as consultants for the Program disclosed that all of them were approved and their works were related to the Program. However, we noted that for six invoices totaling \$12,100, there was no adequate documentation to support the work performed and/or when and who received the services, e.g., gardening workshops and welding projects. Furthermore, it was unclear if the work allegedly performed by the teachers were not performed during their normal working hours.

## **3) Payments to Miami Northwestern Student Interns.**

The JP Morgan Chase Foundation's grant allowed approximately \$17,000 to be used for Miami Northwestern Senior High School (MNWSH) students to work in the Aquaponics Lab located at their school site. During the audit period, 23 invoices totaling \$14,900 were processed and paid to student interns. However, there were no established criteria for selection of the student interns. Also, there was no written supporting documentation for the student interns' duties and specific time and dates worked.

Our review of all of the 23 invoices disclosed that all except for one were MNWSH students as the Program intended. The exception was for a recent graduate who continued to work at the Aquaponics Lab and was paid \$3,250 as a student intern. The supervisor for the Aquaponics Lab informed us that this former student served as the assistant supervisor assisting the maintenance of the Aquaponics Lab. However, the grant was only intended for the current students. In addition, the arrangement with

the former student was not documented and it is not evident that his work was monitored.

#### **4) Student Scholarship**

While testing the Program's expenditures, we noted that during the fiscal year 2014-15, two separate amounts, \$1,000 and \$500, were disbursed to an FIU student as an Education Effect Scholarship from the Aquaponics Research Project fund, which came from the JP Morgan Chase Foundation's grant. Per discussions with the former Program Director, the FIU student was hired as a student intern per the grant, worked in the Aquaponics Lab and garden, and helped with science lessons and curriculum. However, the grant does not include provisions for providing scholarships to FIU students.

#### **5) Financial Literacy Lab**

The Education Effect Program provides MNWSH students to participate in the University's financial literacy program. Approximately 50 students enrolled in the financial literacy classes were transported to the University and received two semesters of in-depth financial planning education in the State Farm Financial Literacy Lab of the FIU College of Business (College). To administer the financial literacy program for MNWSH students, the College received \$33,061 in January 2013. Of this amount, \$10,000 was intended to set up the investment account to enable trading for MNWSH students and the remaining \$23,061 was to support program expenses such as administration cost, transportation and snacks.

We reviewed relevant documents to support the investment and the College's accounts. Our review disclosed that the \$10,000 investment account was never opened. And the financial literacy program ended in the spring of 2014 due to low enrollment, but the unused funds, \$19,157, were retained by the College. Upon our inquiry, the Financial Literacy Lab Manager informed us that the remaining fund balance will be returned to the Education Effect Program.

#### **6) Other**

The Education Effect Program provided \$53,280 to the FIU Chaplin School of Hospitality & Tourism Management (CSHTM) in January 2014 for the administration of a mentor program for MNWSH students in food and nutrition lessons, cooking demonstrations, and coordinating field trips to industry facilities. Upon our inquiry, CSHTM management informed us that the mentor program ended in March 2015 due to inactivity. However, a fund balance of \$6,907 still remains with CSHTM.

While testing the Program's expenditures, we noted that a professor and a staff member from School of Architecture were reimbursed \$390 and \$110, respectively for meals from the Program. The documentation supporting the meal reimbursements for the professor and the staff was for dining with department guest speakers and for "Master Juries Final Reviews reception", respectively. According to the former

Program Director, the reception was for School of Architecture students for the presentation of their thesis, which was based on the design and landscape of the Liberty City. However, the grant was not intended for this purpose, but for improving the nutrition and wellness of the Liberty City community. For the professor's reimbursement, the former Program Director could not provide justification as to why the guest meals were reimbursed from the Program's funds.

#### **4. Deliverables and Reporting Requirements**

During the audit, we observed that grant deliverables and reporting requirements need improvement. For example,

- The initial report provided to the JP Morgan Chase Foundation in year 2012 provided statistics detailing outcomes of the grant's specific deliverables. However, the deliverables disclosed in the report could not be verified because a tracking system was not developed and the documents were not maintained to support the deliverables.
- Subsequent reports provided to the JP Morgan Chase Foundation for years 2013 and 2014 were very general and did not detail grant specific outcomes.
- The initial report submitted to Lennar Corporation in 2015 was detailed; however, the report did not provide specific grant outcomes such as the number of students participated in FIU's Math and Civics Summer Academy.

In September 2014, a database software costing \$4,770 was purchased to assist with client (student) monitoring and logging all details of the contract. We noted that the software was used at Booker T. Washington Senior High School but not at Miami Northwestern Senior High School. Although it was used at Booker T Washington Senior High School, the students impacted by the Program were not being tracked by services provided; therefore, it's difficult to support the deliverables.

#### **5. Property Controls**

While testing the Program's expenditures, we noted that a camera costing \$193 and a video camera costing \$320 were purchased by the former Program Director. The former Program Director indicated that the items were used to document the Program's deliverables and were stored in her office at Miami Northwestern Senior High School. However, these items were not transferred to the current Program Director.

## **Recommendations**

The Education Effect should:	
1.1	Establish financial and operational controls to ensure that there are adequate documentation and monitoring system to support payments to employees, contractors, consultants, and student interns.
1.2	Follow the University's purchasing requirements for competitive selection and secure a purchase order and/or or a contract prior to receiving goods or services.
1.3	Track program funds transferred to other University departments to ensure that the funds are used as originally intended and unused funds are timely recovered.
1.4	Ensure that the grant deliverables are properly tracked and supported by adequate documentation.
1.5	Ensure that all property purchased are identified and tracked.

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

- 1.1 Employee time is being monitored more closely and time logs will be implemented for site based operations. Other expenses are being supported by an engagement plan outlining details of the activity, list of students, and purpose of engagement. Stipend payments for internship or other participation are being better documented.

Implementation date: Immediately

- 1.2 A secondary quote was obtained and a Purchase Order was issued to the current aquaponics maintenance vendor. An independent contractor agreement is being developed to clarify the scope of services covered by the monthly maintenance fee.

Implementation date: July 1, 2016

- 1.3 Funds transferred to other departments were located and approval authority was transferred to Student Access and Success for all the projects known at the time. Student Access and Success will request access to the Bull Funds currently managed by the College of Business and track the remaining balance in Plant it Forward, currently managed by the School of Hospitality & Tourism Management.

Implementation date: September 1, 2016

- 1.4 Director and Program Managers will provide a scope and sequence of grant deliverables annually to properly track progress. A database will be used to track services provided to students. Annual impact reports will be provided.

Implementation date: July 1, 2016

- 1.5 A system will be implemented to track all property.

Implementation date: September 1, 2016