FIU | FLORIDA INTERNATIONAL UNIVERSITY

Office of Internal Audit

Audit of the Chapman Graduate School

Report No. 18/19-09

May 22, 2019

FIU | FLORIDA INTERNATIONAL UNIVERSITY

OFFICE OF INTERNAL AUDIT

Date: May 22, 2019

To: Joanne Li, Dean of the College of Business

From: Trevor L. Williams, Chief Audit Executive

Subject: Audit of the Chapman Graduate School - Report No. 18/19-09

We have completed an audit of the Chapman Graduate School ("School") at the College of Business ("College") for the period July 1, 2017, through September 30, 2018, and an assessment of the School's current practices through January 2019. The primary objectives of the audit were to determine if the established financial and operational controls and procedures were: (a) adequate and effective; (b) being adhered to; and (c) in accordance with established University policies and procedures, and applicable laws, rules, and regulations.

The School brings together all of the graduate and executive education programs the College offers. It consists of multiple MBA programs, specialized master's degree, and PhD programs. The School's total enrollment for the 2017-2018 academic year was 2,556 graduate students. For fiscal year 2017-2018, the School's operating revenues totaled $38.6 million and operating expenditures totaled $38.9 million.

Our audit concluded that the School's financial controls included within a prior audit of the College have improved and those unique to the School were adequate. Revenues were properly accounted for and managed in accordance with established policies and procedures. Nevertheless, opportunities for improvement exist in the School's management of fund balances that have accumulated for certain programs; payroll approval and overload compensation; general expenditure controls; and attractive property inventory. The audit also identified the need for targeted training in ethics to the School's employees. The audit resulted in 14 recommendations, including one (1) for the Payroll Division, which both the School and Payroll management teams have agreed to implement.

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

Attachment

C: FIU Board of Trustees
Mark B. Rosenberg, University President
Kenneth G. Furton, Provost, Executive Vice President and Chief Operating Officer
Kenneth A. Jessell, Senior Vice President and Chief Financial Officer
Javier I. Marques, Vice President and Chief of Staff, Office of the President

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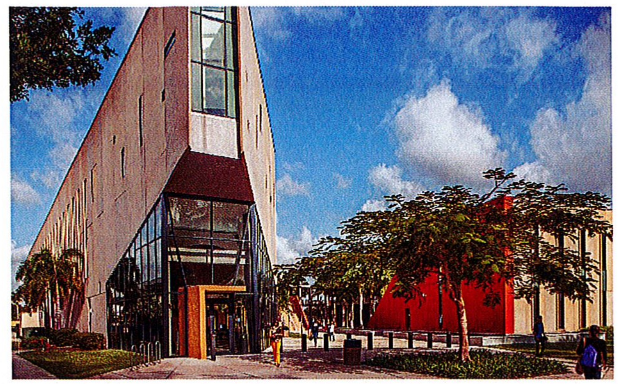
OBJECTIVES, SCOPE, AND METHODOLOGY

Pursuant to the Office of Internal Audit approved annual audit plan for fiscal year 2018-2019, we have completed an audit of the Chapman Graduate School ("School") at the College of Business ("College" or COB) for the period July 1, 2017, through September 30, 2018, and an assessment of the School's current practices through January 2019. The primary objectives of the audit were to determine if the established financial and operational controls and procedures were: (a) adequate and effective; (b) being adhered to; and (c) in accordance with established University policies and procedures, and applicable laws, rules, and regulations.



The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing,* and included tests of the accounting records and such other auditing procedures, as we considered necessary under the circumstances. Audit fieldwork was conducted from September 2018 through March 2019. Our audit included an examination of revenues and expenditures from the operation of the School's continuing education programs and its corresponding accounts at the FIU Foundation. However, since over 80% of the School's revenue was generated by market rate programs, greater emphasis was placed on these programs.

During the audit, we:

- Reviewed College and University policies and procedures, and applicable Florida statutes, rules, and regulations;
- 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 applying a non-statistical sampling methodology.

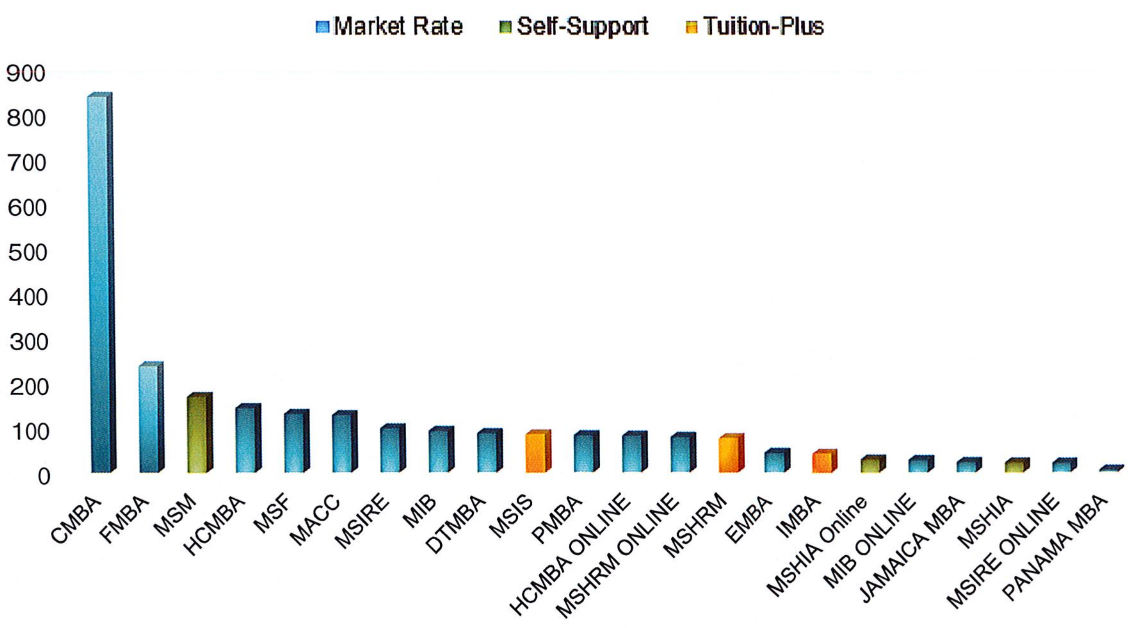
As part of our audit, we reviewed our internal audit Report No. 13/14-11, College of Business Expenditures, issued in February 2014 to determine the status of any applicable prior recommendations related to the scope and objectives of this audit. Throughout this current audit report, we have indicated any repeated observation or improvements from the 2013/14 audit.

BACKGROUND

The College of Business at Florida International University (FIU or "University") is fully accredited by the Association to Advance Collegiate Schools of Business (AACSB). The College was established when FIU opened its doors in 1972. The College is based on the Modesto A. Maidique campus and offers programs at the Biscayne Bay campus, FIU at I-75 in Broward County, and the FIU Downtown campus in downtown Miami's Brickell neighborhood. In 2001, the graduate school was named the Chapman Graduate School of Business.

The School brings together all of the graduate and executive education programs the College offers. It consists of multiple MBA programs, specialized master's degree, and PhD programs. These programs are continuing education programs classified as either market rate, self-support, or tuition-plus graduate programs, and their operations are accounted for in the Auxiliary Fund. The School's total enrollment for the 2017-2018 academic year (the most recent complete academic year) was 2,556 graduate students. The chart below provides a breakdown of the student enrollment by each program.

2017- 2018 Student Enrollment by Program



Program Acronym	Program Name
CMBA	Corporate Master of Business Administration
FMBA	Flex Master of Business Administration
MSM	Master of Science in Marketing
HCMBA	Healthcare Master of Business Administration
MSF	Master of Science in Finance
MACC	Master of Accounting
MSIRE	Master of Science in International Real Estate
MIB	Masters in International Business
DTMBA	Doctor of Business Administration
MSIS	Master of Science in Information Systems
PMBA	Professional Master of Business Administration
HCMBA ONLINE	Healthcare Master of Business Administration Online
MSHRM ONLINE	Master of Science in Human Resource Management Online
MSHRM	Master of Science in Human Resource Management
EMBA	Executive Master of Business Administration
IMBA	International Master of Business Administration
MSHIA Online	Master of Science in Health Informatics & Analytics Online
MIB ONLINE	Master of International Business Online
JAMAICA MBA	Jamaica Master of Business Administration
MSHIA	Master of Science in Health Informatics & Analytics
MSIRE ONLINE	Master of Science in International Real Estate Online
PANAMA MBA	Panama Master of Business Administration

Beginning in 2011, the Florida Board of Governors ("BOG") adopted regulations allowing it to approve market rate for graduate courses offered online or through continuing education. Market rate tuition programs allows universities to adjust their tuition rates for certain programs making them more marketable and appealing for potential students. Additionally, at FIU these programs provide more income than the cost of the program, which results in a revenue stream the University may use to support its mission.

BOG Regulation 8.002(a) defines market rate tuition as a rate that is competitively aligned with comparable programs offered by public and independent institutions located both in-state and out-of-state. The University Board of Trustees may submit a proposal for market tuition rates for graduate-level courses offered online or through the University's continuing education unit when such courses are included as a major of an existing approved degree program or as a college credit certification program. The new degree proposal must provide a convincing rationale for seeking market tuition rate and the proposed budget must clearly indicate that the revenue generated will be sufficient to operate the program without Education & General (E&G) funding. New degree programs approved for market rate tuition must be submitted to the Board of Governors for consideration and approval of the tuition and any associated fees before enrollment of any students.

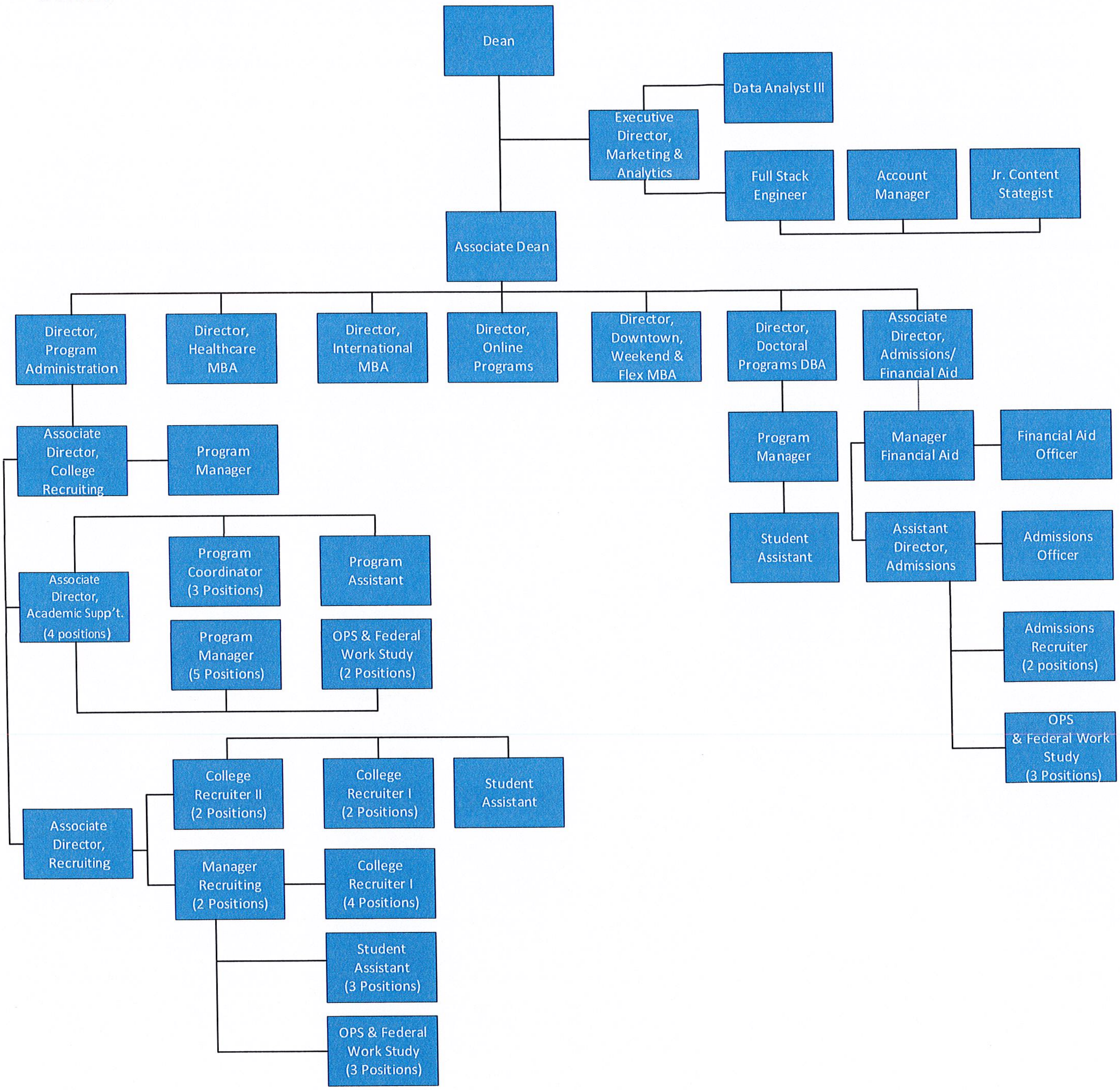
The majority of the programs the School offers are market rate tuition programs approved by the BOG. During our audit, we examined proposals related to the market rate tuition programs and ensured they complied with BOG Regulation 8.002(4) requirements. The following chart provides the School's market rate programs' total tuition cost effective for enrollees during the 2017-2018 academic year for in-state and out-of-state students.

2017-2018 Market Rate Programs' Tuition Cost

	In-State Tuition Cost	Out-of-State Tuition Cost
CMBA	$42,000	$42,000
FMBA	$48,000	$52,000
HCMBA	$52,000	$54,000
MSF	$30,000	$33,600
MACC	$36,000	$39,000
MSIRE	$28,000	$30,000
MIB	$33,000	$36,600
DTMBA	$48,000	$52,000
PMBA	$48,000	$52,000
HCMBA ONLINE	$59,892	$59,892
MSHRM ONLINE	$35,000	$35,000
EMBA	$65,000	$70,000
MIB ONLINE	$33,000	$33,000
JAMAICA MBA	$21,000	$21,000
MSIRE ONLINE	$28,000	$30,000
PANAMA MBA	$21,000	$21,000

Personnel

As of March 2019, the School had 60 employees[1] including administrative personnel, student assistants, and work-study employees. The School organization chart is shown below.



[1] Faculty employees are not included in the organizational chart as the majority of the faculty support both the undergraduate and graduate programs at the College.

Financial Information

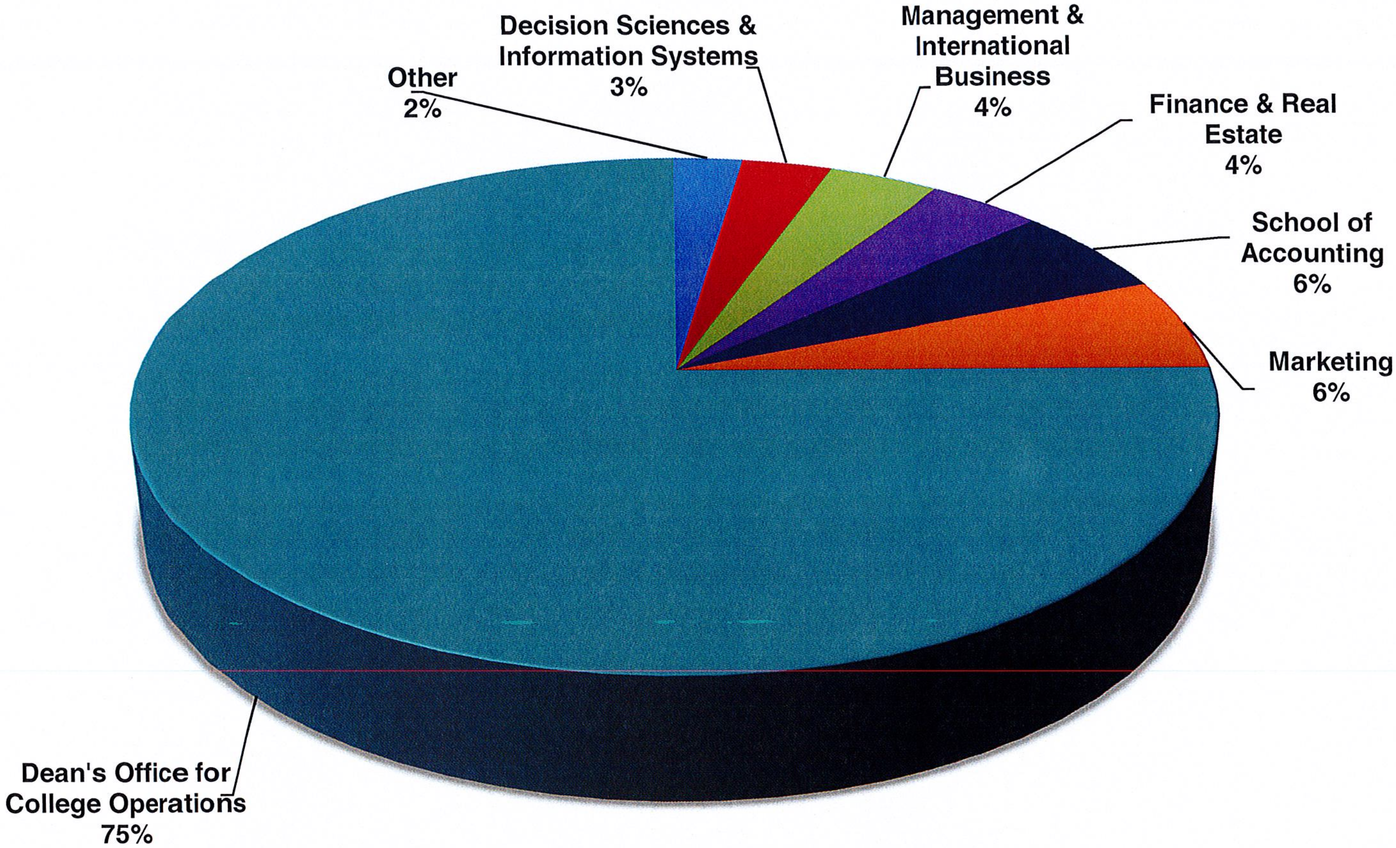
For fiscal year 2017-2018, the School's operating revenues totaled $38.6 million and operating expenditures totaled $38.9 million. Included in operating expenditures is approximately $15.3 million transferred to other academic and non-academic units within the College to help support its operations and $3.2 million transferred to Academic Affairs, Continuing Education, and Auxiliary & Enterprise Development for University fees.

Chapman Graduate School July 1, 2017 - June 30, 2018		
	Amount	**Percentage**
Revenues:		
Market Rate Tuition	$32,025,432	83%
Self-Support/Tuition-Plus	6,113,077	16%
Transferred In[2]	356,927	1%
Continuing Education	26,103	-
Lab Fees	17,346	-
DSO Non-Operating Revenue	16,771	-
Other Fees	9,113	-
Total Revenues	**$38,564,769**	**100%**
Expenses:		
Salaries & Benefits	$ 9,874,555	25%
Faculty & Administrative Overload	1,943,616	5%
Total Salaries & Benefits	$11,818,171	30%
Other Operating Expenditures:		
Transferred Out[2]	$15,269,910	39%
Academic Affairs & Other University Fees	3,187,152	8%
Scholarships	3,044,405	8%
Rental of Buildings	2,206,477	6%
Professional Services and Consulting	1,465,834	4%
Advertising and Promotion	651,583	2%
Catering and Events	467,763	1%
Travel	339,075	1%
Materials & Supplies	190,057	1%
Miscellaneous	78,537	-
Software License	63,541	-
Telecommunications	40,468	-
Computer Equipment under $5,000	32,298	-
Total Other Operating Expenses	$27,037,100	70%
Total Expenses	**$38,855,271**	**100%**
Excess of Expenses over Revenues	**($290,502)**	

[2] Net amount of transfers excludes $1.6 million that was transferred within the School.

The School transferred approximately 40% of its total revenues to academic and non-academic units at the College. The vast majority of these transfers were to the Dean's Office for administrative overhead, including but not limited to marketing and recruiting, and in general support of the College's operations. The transfers for the 2017-2018 year are depicted in the following graph as a percentage of total net amount of transfers out. Analyses of these transfers was performed on page 21.

2017-2018 Transfers Out Within COB



Seventy-five percent of the total transfers out were to the College's Dean's Office to support College Operations. The College collects 30% of the School's graduate programs' gross revenue each quarter to support the operations of the graduate and undergraduate programs.

OBSERVATIONS AND RECOMMENDATIONS

Our overall assessment of internal control is presented in the table below. In summary, our audit concluded that the School's financial controls included within the prior audit of the College have improved and those unique to the School were adequate. Revenues were properly accounted for and managed in accordance with established policies and procedures. Nevertheless, opportunities for improvement exist in the following areas: (1) fund balance accumulation; (2) payroll overload expenditures; (3) controls over expenditures; (4) attractive property; and (5) the control environment. Our observations and recommendations pertaining to these identified areas are detailed on the following pages of this report. We have also included management's response to our observations and recommendations.

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	Instances of non-compliance are 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

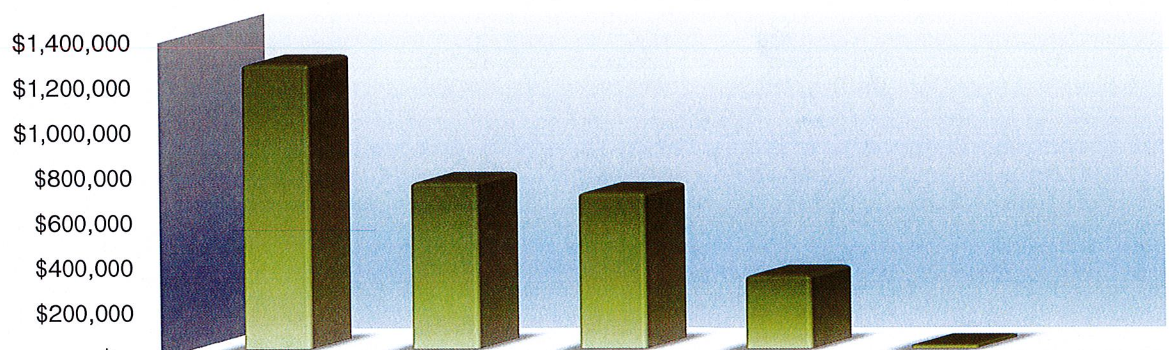
1. Financial Management

Fund Balances

The FIU Auxiliary Enterprises Operating Guidelines notes that fund balances are characterized as either restricted or unrestricted activities. Unrestricted activities fund balances can be used for working capital and expected capital outlay and for the benefit of other unit/college operations. Market rate programs are examples of unrestricted activities. Currently, the School uses excess market rate program fund balances to fund operations throughout the College, which management states is in the absence of adequate E&G support. During our audit, we reviewed all auxiliary fund balances and noted the School's unrestricted activities fund balances as of June 30, 2018, amounted to $1.3 million.

Self-support and tuition-plus programs are examples of activities where fund balances are considered restricted, as such, they are prohibited from accumulating general reserves to guard against adverse market conditions or to fund new auxiliary opportunities. Fees charged under these programs should approximate costs with reserves generally allowed for working capital needs and future capital outlays. BOG Regulation 8.002(2b)4 states, "Any fees charged students for continuing education activities, which are higher than the normal Board approved fees for similar credit activities offered in the regular on-campus program, shall be established solely for the purpose of recovering all increased costs which result from offering these courses as continuing education activities." At June 30, 2018, the School's restricted auxiliary funds balances exceeded $3 million, as summarized below:

Auxiliary Activities with Restricted Fund Balances



	MSM	MSIS	MSHRM	Other Self-Support/ Tuition-Plus	Lab Fees	**Total**
Fund Balance As of June 30,2018	$1,264,941	$740,874	$693,463	$326,600	$17,828	**$3,043,706**

MSM, MSIS, and MSHRM Programs

The MS in Marketing (MSM), the Master of Science in Information Systems (MSIS), and the Master of Science in Human Resource Management (MSHRM) programs fund balances amounted to $2,699,277 (89%) of the total self-support/tuition-plus fund balances.

The excess fund balance generated by the latter two programs above (as the MSM is a relatively new program) is a similar observation as noted in our internal audit Report No. 10/11-10, Audit of the College of Business Administration Auxiliary Operations, issued on April 27, 2011, in which the MSIS and MSHRM fund balances at June 30, 2010 were $249,572 and $229,077, respectively. It was noted back then that the excess fund balances could have resulted from a combination of the following factors: 1) not accounting for all program's expenditures within the individual program; 2) not properly estimating student enrollment; and 3) student programs fees charged in excess of the actual increased costs resulting from these course offerings.

When we inquired about these excess fund balances in our current audit, management stated that one of the reasons for the excess could be that rather than hiring additional faculty or allocating in-load courses they paid overload compensation to existing faculty. The MSM program had an excess fund balance of approximately $646,000 and $178,000 at June 30, 2017, and 2016, respectively. Albeit delayed, management has stated that they were in the process of obtaining quotes to convert a room into a lab or adding computers to an existing lab and adding two additional faculty members.

In the case of the MSIS and MSHRM programs, management provided the following explanations/reasons for the excess fund balances:

- The balances for both of these programs have never been this high.
- The fund balances started to increase when the instructor compensation for credit courses needed to be paid from E&G.
- The University was assisting us by applying waivers to our non-resident students but they no longer have the budgets and are not applying them.
- The MSIS program had one entire cohort of non-resident students that was unexpected.
- The MSHRM program recently started two new cohorts a year at the I-75 location.

Our review of the MSIS program reveals that the MSIS fund balance was approximately $568,000 and $414,000 at June 30, 2017, and 2016, respectively. While the MSHRM program's fund balance was approximately $525,000 and $387,000 at June 30, 2017, and 2016, respectively.

Lab Fees

The University may assess optional student fees, such as an equipment fee, lab fee, or material and supply fee, provided the proceeds are used for the instruction of the course and equipment or material/supply are used directly by the students from whom the fee is collected. BOG Regulation 7.003(7), material and supply fees can be assessed to offset the cost of materials or supply items that are consumed in the course of the student's instructional activities, excluding the cost of equipment and equipment repairs and maintenance. These fees are to be reevaluated on a yearly basis and expended during the term collected. As such, we determined that student lab fees should be evaluated to ensure fees approximate costs and minimize its $17,828 fund balance.

Recommendations

The Chapman Graduate School should:	
1.1	Monitor auxiliary restricted activities ensuring that future tuition rates are established solely to recover the increased costs that result from offering these courses, while properly estimating anticipated enrollment figures and working to reduce related excess fund balances.
1.2	Review student-related lab fees to ensure fees charged approximate costs, and develop remediation strategy to reduce or eliminate the excess fund balances.

Management Response/Action Plan:

1.1 FIU Business will promote practices that are in alignment with University practices to account for all expenditures related to the self-supporting and tuition plus programs to bring the restricted fund balance to the desired optimal level. A stronger leadership team is now in place to focus on how to manage these non-market rate programs.

Implementation date: September 30, 2019

1.2 FIU Business will review the lab fees charges and identify ways to remediate and bring it to the desired optimal level.

Implementation date: December 31, 2019

2. Revenue Controls

The School generated $38.6 million in revenues from auxiliary operations in fiscal year 2017-2018, of which $32 million (83%) was derived from its 16 market rate tuition programs and 16% from self-support and tuition-plus programs.

The areas of revenues tested are as follows:

Market Rate Tuition Programs

During 2016, the BOG amended its regulation requiring any increases to market rate tuition costs for graduate level programs to first be approved by the BOG's Budget and Finance Committee. Pursuant to BOG Regulation 8.002(4), as amended, University Board of Trustees would petition the BOG, in a format designated by the Chancellor, for the increase. Prior to this, annual increases were allowed as long as they did not exceed 15% of the preceding year's tuition.

We reviewed tuition rates from 2014-2018 for all market rate tuition programs and noted that the rates have remained stable and have not changed since 2016. Prior to 2016, we noted three of the market rate programs increased tuition rates between 6% and 13%, which complied with the BOG's maximum allowed tuition rate increases at the time. The remaining 13 programs' rates remained unchanged.

In addition, we reviewed three of the programs to ensure compliance with the requirements of BOG Regulation 8.002(4) and found no exceptions. We believe the School has adequate practices and controls in place to ensure market rate tuition programs comply with BOG Regulation 8.002(4).

However, notwithstanding the School's compliance with BOG Regulation 8.002(4), opportunities for enhancement to controls exist. Specifically the School does not reconcile student enrollment to actual revenues recorded in the PantherSoft Financials to ensure revenues are collected for all enrolled students and are posted accurately. The School consolidates student enrollment by term at the start of each semester for each graduate program. This process includes cohort, student name, resident/non-resident type, and tuition due for the student. We examined the School's consolidation for three market rate programs totaling $12.6 million in revenues for the fiscal year 2017-2018 and compared it against the revenues posted in PantherSoft Financials, and found:

- One program with a difference of $566,128 (8%) less revenues recorded in PantherSoft than calculated in the consolidation performed based on enrollment statistics.
- Two other programs with differences of less than $22,000 (1%).

In our discussion with management, they stated that differences are due mainly to students dropping the course subsequent to their consolidation or the timing of payments. When we re-performed the consolidation, we instantly noted a difference with the enrollment statistics used by management. Thus, it is evident that management must update its consolidation after the drop date deadline for each program for the purposes reconciling to PantherSoft Financials. Nonetheless, any resulting differences with PantherSoft Financials would still need to be identified and reconciled.

Reconciling back to the general ledger helps to properly account for any differences and ensure irregularities or unintentional errors are timely detected.

Cash Collection

The School collects payments in the form of checks, money orders, and online credit card payments for program enrollment deposits known as Professional Development Services (PDS). Payments made by check or money order are delivered in person to the School and then forwarded to the Student Financials Services Office for deposit. Online payments can be made by credit card through the student registration process, in which an internal third-party website is used for the collection of payments. Through our tests, observations, and inquiries, we noted the School complied with the University Cash Control Policy completing proper background checks for all employees with cash handling responsibilities and obtained appropriate approval from the University Controller's Office to make cash collections. However, we identified some opportunities for improvement in the manual reconciliation and cash deposits processes:

- PDS payments are recorded as deferred revenue when collected and then credited to the student as part of their tuition cost after program enrollment. During our review of the deferred revenue account reconciliation maintained by the School, we noted that as of June 30, 2018, the School has a $282,300 deferred revenue balance, which included student payments dating back to 2015 and 2016. We were informed that on occasion students could defer their intended enrollment period to a subsequent semester. However, there is no policy in place for the maximum deferment period allowed.

- Two instances totaling $800 where students' deposits were not included in the deferred revenue reconciliation. Additionally, we found a credit of $500 for a student deposit that was not properly removed from the reconciliation. This was due to a clerical error in the reconciliation process when students' names were not included or removed from the reconciliation. We brought this error to management's attention during the audit and it was promptly corrected.

Recommendations

The Chapman Graduate School should:	
2.1	Reconcile revenue collected from program enrollment against PantherSoft Financials and ensure reconciliation is completed in a timely manner.
2.2	Ensure the accuracy of the deferred revenue account and establish a policy with a reasonable timeframe for those students that defer their enrollments to a later semester.

Management Response/Action Plan:

2.1 A new process has been implemented in which at the beginning of each semester the item type query will be run to generate the headcount and revenue by student, by program. This process will be repeated two times each semester. This will update the file to pick up additional enrollments and/or drops that took place after the beginning of the semester. Every quarter, a Trial Balance will be run by activity to compare the revenue/enrollment for every program. At the end of the fiscal year, the item type query will be run for all terms in that fiscal year as well as one year prior. This will account for appeals that the Registrar's Office approved. In addition, every semester program managers will receive an e-mail to confirm that the enrollment and revenue by program are accurate.

Implementation date: Immediately

2.2 A new process guideline has been implemented in which the College will review quarterly the deferred revenue reconciliation and a new policy has been implemented for students to remain in the deferred revenue account for up to a year.

Implementation date: Immediately

3. Payroll and Personnel Administration

Payroll and fringe benefits totaled $11.8 million or 30% of the School's total expenditures. Our examination of payroll expenditures primarily focused on the approval process, amount paid for extra compensation (overload), and the documentation required for separated employees. Based on our examination, we noted opportunities for improvement in the following areas:

Payroll Approval

FIU's Human Resources Department requires that all employee time/leave entries must be signed off by their manager by 2:00 p.m. on the Monday of the pay week; otherwise, the Payroll Department automatically approves the entries. Additionally, Managers shall avoid delegating their time approval function to a direct report.

We reviewed 4,491 entries, representing 100% of the approved employees' hours worked and leave taken during fiscal year 2017-2018 and noted the following:

- An appropriate level supervisor approved 3,631 entries (81%);

- 796 entries (18%) were approved directly by the Payroll Department without approval from School personnel having first-hand knowledge of the hours worked and leave taken by the employees;

- 64 entries (1%) were self-approved or approved by a proxy or an HR liaison without support maintained for audit records. Proxy or HR liaison do not have first-hand knowledge of the hours worked and leave taken by the employees.

Not properly approving payroll may result in employees being compensated for time not worked and/or failure to properly record leave.

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. For faculty members, approval for extra compensation must be secured from the employee's supervisor, prior to contracting for services, including instructional and non-instructional activities. For twelve-month administrative employees who have been approved for extra compensation conducted during normal working hours, the individual must use accrued vacation leave for these hours."

An electronic request for additional compensation (eRAC) must be created for approval of additional compensation. The eRAC includes a form with information the employee must enter for primary and additional compensation, which is then forwarded for approval to the appropriate personnel. The Office of the Provost implemented a policy that eliminated the eRAC for faculty instructional overloads as long as the College provided and followed a College instructional overload policy. The College implemented a policy for faculty overload compensation, which eliminated the use of the eRAC by the College and provided for the following:

- No faculty member may teach more than four 3-credit courses as overload per academic year, unless approved by the Dean.

- No overloads will be granted in the summer, except when approved by the Dean for purposes of meeting student or programmatic need.

During fiscal year 2017-2018, approximately $1.9 million, representing 16% of the School's total payroll expenditures were related to overload compensation. We examined the top 10 earners with 69 overload contracts, totaling $654,353, representing 34% of overload compensation, and found the following exceptions:

- Five (5) employees (50% of employees tested) received $6,823 in total overpayments on overload contracts. We found this by reconciling the faculty's contract(s) to the amounts paid during the contract period. We contacted the Payroll Division of Human Resources who determined that the overpayment is the result of an error in programmatic logic when an employee has overlapping overload contracts with different ending dates within the same pay period the contracts are ending. Payroll senior management has been working to identify the population and period(s) affected. Upon notification by this Office of the error, according to senior management, Payroll immediately implemented a stopgap measure to prevent it from happening going forward and is re-programming the system to address the discovered issue. At this time, Payroll senior management continues to perform an impact analyses to determine how far back the issue has been present. Our analysis determined that the error was not precipitated by the actions of the School or College.

- Two (2) employees (20% of employees tested) with overload compensation totaling $136,492 taught more than four 3-credit courses during 2017-2018 with no documentation of the Dean's approval. We were told that the Dean had provided verbal approval. We brought this to management's attention and since Fall 2018 management has implemented the use of a form that faculty must complete in order to obtain the Dean's written approval for overload compensation exceptions.

- 28 of the overload contracts (41%) totaling $193,374 were entered into the system after the start date of the secondary employment, ranging from two (2) to 156 days after the secondary employment had already begun.

Notwithstanding the University systemic overpayments issue noted above, since our previous audit, we noted an improvement in the overload compensation process. The College has since established an overload compensation policy, which provides rates that apply to FIU faculty members for overload compensation. Additionally, we found no instances in which extra compensation was assigned for duties that were included in employee's normal job duties, as had been the case in the previous audit.

Employee Separation

All employees separating from FIU or transferring between departments are required to complete a *Separation from Employment/Transfer Clearance Form* ("Form"). The Form needs to be completed by both the employee and their supervisor. The employee is required to return all University property issued during his/her tenure and to settle all outstanding accounts with the University prior to his/her last day.

On the last day of employment, the supervisor must collect all University property including, but not limited to:

- Panther ID Card
- Uniforms
- Equipment (such as laptops, materials, etc.)
- Pro-Card
- Keys (returned directly to Key Bank and obtain original receipt for departmental records)

We reviewed all six employees who separated from the School during the audit period, ensured completion of the Form, and found that the Form had been timely completed for all six employees.

Recommendations

The Chapman Graduate School should:	
3.1	Ensure that managers/supervisors timely approve the biweekly payroll for their direct reports. If a proxy is self-approving his/her time, the proxy should obtain written approval from his/her supervisor, prior to time submission.
3.2	Ensure Dean's written approval is obtained for faculty members teaching over four 3-credit courses and approval for extra compensation appointments prior to commencement of secondary employment.

The Payroll Division should:	
3.3	Ensure that the stopgap logic is programmed into the PantherSoft HR production database and continue its impact analyses to identify all overpayments and underpayments to active and terminated employees to enable University senior management to take the appropriate actions.

Management Response/Action Plan:

3.1 FIU COB Human Resources will send email reminders to approve the biweekly payroll and monitor if a proxy has the ability to self-approve his/her time. If a proxy will self-approve their time, FIU COB Human Resources will request written authorization from their manager/supervisor.

Implementation date: September 30, 2019

3.2 The COB Finance and Administration Office will complete the "Overload Exception Form" for every faculty exceeding the overload requirement. The Associate Director of Administration will send an email three weeks prior to the start of a semester to the Department Chairs with the faculty that have exceeded the overload requirement. The Chair will need to provide justification and sign the form for the Dean's approval. The COB Finance and Administration Office will send a reminder weekly until the forms have either been approved or denied by the Dean. In addition, contracts must be entered into DataPro at least four (4) weeks prior to the start of the semester by the departments or programs. The COB Finance and Administration Office in conjunction with COB Human Resources will approve and enter the contracts in PantherSoft HR. For all contracts that have not been entered, weekly reminders will be sent to the appropriate party. In addition, COB Finance and Administration created a calendar reminder prior to the start of a semester reminding the appropriate party to create contracts.

Implementation date: Immediately

3.3 After several rounds of testing, the fix has been applied to the production environment. We have identified the affected population and we are working with the Office of General Counsel to determine how to proceed based on Florida Statutes and BOG regulations.

Implementation date: Immediately

4. <u>Expenditure Controls</u>

In fiscal year 2017-2018, the School incurred non-payroll related expenditures totaling $27 million, representing 70% of its total expenditures. We tested 250 disbursements totaling $12.3 million, representing 46% of non-payroll related expenditures for compliance with University policies and procedures and applicable laws, rules, and regulations. These disbursements included scholarships, travel, credit card, other expenditures, University fees, and transfers out. The results of our testing are as follows:

Scholarships

We reviewed 10 scholarship expenditures totaling $2 million, representing 67% of the $3 million in scholarship expenditures, and found the following exceptions:

- Three (3) disbursements totaling $88,150 in which the scholarship provided for the MS in Marketing program did not have a review committee. The scholarship is provided at the sole discretion of the Program Director. Additionally, no criteria such as GPA, test scores, or work experience requirements were established and documented for scholarship eligibility. Scholarship amounts provided to the students ranged from $500 to $2,750, and the students' GPA ranged from 2.8 to 3.9, averaging 3.4.

- The MSMIS program required students to have a 3.75 GPA to be scholarship eligible. The students submitted their scholarship applications with self-reported GPA, test scores, and a brief statement about themselves. Upon receipt of the applications, the Program Coordinator or Recruiter reviewed the submission and then a final meeting was held with the department Director to determine scholarship recipients. We found that seven (7) of the students who received scholarships totaling $8,625 for Fall 2017 did not have the required 3.75 GPA and their GPA ranged from 3.0 to 3.6. We learned that the department Director trusted that the Program Coordinator was verifying the self-reported GPAs and test scores against official records prior to their meeting and did not verify if the information was accurate, whereas no such verification was performed. As such, the department relied on the student self-reported GPA to determine eligibility for the scholarship.

Not having a documented process in place for scholarships provided by each program increases the risk that scholarship and related amounts could be awarded to individuals not based on merit. Additionally, not reviewing the scholarship requirements increases the risk of scholarships being awarded to students who do not meet the eligibility requirements.

Travel Related Expenditures

We selected 153 travel-related transactions for testing contained within eight (8) Expense Reports (ER) totaling $98,353, which represented 29% of the $339,075 in travel-related expenditures. Our test disclosed only one inconsequential matter pertaining to the number of days allowed to submit the ER. Otherwise, there were no significant exceptions.

Credit Card Purchases

We reviewed 13 credit card expenditures totaling $97,003, representing 9% of the $1 million in credit card expenditures. Each of the remaining 91% of the expenditures was below $5,000. We found the following exceptions:

- Three (3) instances where deposits for contractual services totaling $43,554 were paid. Furthermore, these payments were not approved in advance. Contractual services and advance deposits are not allowed per *University Departmental Card Guidelines and Procedures*, unless approved in advance.

Other Expenditures

We reviewed 68 other expenditures, totaling $1.2 million, representing 30% of the $4.1 million in other related expenditures, and found the following exception:

- One instance (1) totaling $9,474 where the Brickell monthly parking for the PMBA program was being charged to the Corporate MBA program. We further reviewed all monthly parking payments for the 2017-2018 audit period and noted that a total of $84,170 had been charged to the Corporate MBA program, rather than the PMBA program.

- Two (2) graduation dinners where seven faculty members brought guests. Per College guidelines, only one guest per student is allowed and faculty are not allowed to bring guests.

- Additionally, we also found six graduation dinners where the cost per student exceeded the rate allowed by the College's established guidelines. However, when based on total attendees, the cost of the dinner was within the $120 unit cost established. Otherwise, there were no other significant exceptions.

Academic Affairs and University College Fees

Auxiliary and Enterprise Development (AED) calculates, manages, and assesses the Shared Services Fee collected from auxiliaries to support the central administrative costs associated with carrying out auxiliary enterprises. The Shared Services Fee is considered an operating cost, as it is collected to reimburse administrative areas for common business type expenses a typical enterprise would incur if not for operating as an auxiliary at FIU.

Currently, the Shared Services Fee is collected monthly by assessing a set percentage of operating expenses.

- Academic, Parking, Housing, and Other Auxiliaries are assessed at 7% of operating expenses, excluding certain expenses like Purchases for Resale and Other Capital Outlay (OCO).

- Student Fee driven auxiliaries are assessed at 5.5% of operating expenses, excluding certain expenses like Purchases for Resale and OCO.

Additionally, market rate programs incur administrative overhead fees on its program gross revenues. These are charged by Academic Affairs and Continuing Education at approximately 10% and 1%, respectively. We reviewed all service and administrative overhead fees totaling $3,187,152, and noted that fees were properly assessed.

Transfers Out

Approximately $15.3 million was transferred to other academic and non-academic units within the College and an additional $1.6 was transferred within the School. We reviewed six transfers totaling $5.6 million, representing 33% of the transfers out and determined that the transfers were allowable.

Recommendations

The Chapman Graduate School should ensure:	
4.1	A documented process is in place for all scholarships awarded and the awarding units complete appropriate review of eligibility.
4.2	Compliance with the *University's Departmental Card* guidelines and procedures.
4.3	Program expenditures are charged to the appropriate program.
4.4	Program guidelines for graduation dinners are clarified and followed.

Management Response/Action Plan:

4.1 FIU Business will meet with the different programs to determine guidelines and criteria to award scholarships. Then the guidelines and criteria will be reviewed by the University's Office of Scholarships.

Implementation date: December 31, 2019

4.2 FIU Business Finance and Administration Office will conduct guidelines and procedures training with the holders of the University's Departmental Card within the College.

Implementation date: September 30, 2019

4.3 FIU Business will monitor the expenditures more frequently to find any possible errors earlier.

Implementation date: September 30, 2019

4.4 The new guidelines were created and clarified for FY2019-2020 graduations.

Implementation date: July 31, 2019

5. Asset Management

According to the University's Asset Management system, as of January 15, 2019, the School had three capital assets with a total cost of $44,362. All of the School's controlled capital assets with individual cost of $5,000 or greater were accounted for during the audit period without exception.

Beginning Fall 2018 the College began updating its new system and retagging its attractive property items to improve its records and ensure completeness of attractive property. As of March 2019, the College was still in the process of obtaining its complete population of attractive property and updating the attractive property records.

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; these might include such things as laptops, iPads, or video recorders. The 'attractiveness' of an item might depend upon the security of the property location, its size and portability, and its potential resale value if stolen. These items should be tagged as University property and cataloged by the user department.

During the prior audit, the College did not maintain records to track attractive property it purchased or distributed to the staff. During the current audit, we noted an improvement in that the tracking of attractive property was now a centralized process within the College's Information Technology (IT) department. However, we noted opportunities for further improvement related to the proper accounting and safeguarding of "attractive property."

We selected 69 items from the attractive property listing to validate their existence and noted the following:

- Two (2) of the items were not located:
  - A student had taken a loaner Mac laptop to use in the classroom for personal classroom use from the Marketing and Communications department. However, during our observation the student sent a picture of the laptop to the Program Director to verify that the item existed.
  - A flashpoint light was not located or found for the Marketing and Communication department.

- 22 of the items' location on the listing did not match the location where the item was found.

Additionally, we selected 32 items from the School to trace back to the attractive property listing for completeness and noted:

- 15 of the items found with tags were not included in the attractive property listing. As such, items were tagged and not effectively recorded in the system.

In addition, the School purchased $32,298 in computer equipment under $5,000 during the audit period. We selected 11 purchases totaling $22,968 to trace back to the listing and found:

- Three (3) of the items totaling $2,516 were not included in the attractive property listing. We brought this to management's attention and the items were located and included as part of the attractive property listing.

Recommendations

The Chapman Graduate School should:	
5.1	Establish a process to keep track of all loaner laptops checked in/out to faculty, staff, and students.
5.2	Ensure that all attractive property costing less than $5,000 is maintained and timely updated on the attractive property listing.

Management Response/Action Plan:

5.1 FIU Business Information Technology will create a process/policy and keep track of all loaner laptops.

Implementation date: July 31, 2019

5.2 FIU Business Information Technology purchased an application to track attractive property in FY2018-2019. Most of the inventory has been tagged and added to the database.

Implementation date: September 30, 2019

6. Control Environment

The *International Standards for the Professional Practice of Internal Auditing (Standards)* Glossary defines the control environment as, "The attitude and actions of the board and management regarding the significance of control within the organization. The control environment provides discipline and structure for the achievement of the primary objectives of the system of internal control." The control environment includes the following: integrity and ethical values, management philosophy and operating style, organizational structure, assignment of authority and responsibility, human resource policies and practices, and competence of personnel.

During the preliminary phase of the audit, we sent out 29 internal control questionnaires primarily to managers and executive level employees who worked for the School or the College, and received 27 responses. Based on the responses received, we identified sufficient degree of concern with the soundness of the control environment, specifically in dealing with ethical issues.

- **Employees' familiarity with the Florida Code of Ethics for Public Officers and Employees (Title X Chapter 112)**. We found that 14 (52%) of the respondents stated they were not sufficiently familiar with the Code of Ethics. Additionally, seven (7) employees stated that if a member from his/her department came to them with an ethical concern, they would not feel comfortable in being able to respond appropriately and/or assist their co-worker to remediate the issue.

- **Management communication of ethical values through words and actions**. We found that nine (33%) of the respondents felt that "Management rarely communicates its view about ethical behavior and needs to do more on this area."

Although we found no evidence of unethical behavior, the lack of familiarity with the Florida Code of Ethics and the apparent lack of communication of ethical values could potentially: (a) impact employee performance; (b) affect employee relations; (c) cause damage to institutional credibility; and (d) prevent unethical behavior.

Recommendation

The Chapman Graduate School should:	
6.1	Leverage the appropriate University resources, such as the Offices of the General Counsel and Compliance to provide awareness training on the Florida Code of Ethics and ethical values of the University.

Management Response/Action Plan:

6.1 FIU Business accepts the auditor's recommendation and will require employees to go through training offered by the Office of General Counsel and Compliance to familiarize themselves with the Florida Code of Ethics for Public Officers and Employees. With the help of our internal marketing team, a communication plan will be in place to convey management's emphasis on ethical behavior.

Implementation date: December 31, 2019

Definition of Internal Auditing

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.