STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

Report No. 2020-005
July 2019

FLORIDA INTERNATIONAL UNIVERSITY

Sherrill F. Norman, CPA
Auditor General

Board of Trustees and President

During the period January 2017 through December 2017, Dr. Mark B. Rosenberg served as President of Florida International University and the following individuals served as Members of the Board of Trustees:

Claudia Puig, Chair
Jorge L. Arrizurieta, Vice Chair
Cesar L. Alvarez J.D.
Dr. Jose J. Armas M.D.
Leonard Boord
Alian Collazo through 5-14-17 [a]
Dean C. Colson from 3-30-17
Gerald C. Grant Jr.
Michael G. Joseph
Natasha Lowell
Albert Maury through 3-29-17
Justo L. Pozo
Marc D. Sarnoff
Krista M. Schmidt from 5-15-17 [a]
Dr. Kathleen L. Wilson [b]

[a] Student Body President.
[b] Faculty Senate Chair.

The team leader was Elias I. Jaime, CPA, and the audit was supervised by Hector J. Quevedo, CPA.

Please address inquiries regarding this report to Jaime N. Hoelscher, CPA, Audit Manager, by e-mail at jaimehoelscher@aud.state.fl.us or by telephone at (850) 412-2868.

This report and other reports prepared by the Auditor General are available at:

FLAuditor.gov

Printed copies of our reports may be requested by contacting us at:

State of Florida Auditor General
Claude Pepper Building, Suite G74 · 111 West Madison Street · Tallahassee, FL 32399-1450 · (850) 412-2722

FLORIDA INTERNATIONAL UNIVERSITY

SUMMARY

This operational audit of Florida International University (University) focused on selected University processes and administrative activities and included a follow-up on findings noted in our report No. 2016-187. Our operational audit disclosed the following:

Finding 1: University textbook affordability procedures continue to need improvement.

Finding 2: The University over allocated $8.2 million net investment income to the Auxiliary Enterprises Fund and under allocated that same amount to other funds, which increased the risk that income from restricted resources will not be used consistent with the restrictions governing those resources.

Finding 3: University procedures need improvement to ensure that investment information required by State law is presented to the Board and investment account reconciliations are performed timely.

Finding 4: The University made severance payments that exceeded the limits established in State law. A similar finding was noted in our report No. 2016-187.

Finding 5: University rules and records supporting University property, facilities, and personal services used by the University direct-support organizations (DSOs) could be improved. In addition, absent legal authority, the University should discontinue the transfer of royalty and licensing fees to DSOs.

Finding 6: The University intercollegiate athletic programs were not self-supporting and continued to experience fund deficits.

Finding 7: The University did not always timely cancel purchasing card privileges when a cardholder separated from University employment.

Finding 8: Certain University information technology (IT) access controls over finance applications need improvement.

Finding 9: Some unnecessary IT user access privileges existed that increase the risk that unauthorized disclosure of sensitive personal information of students may occur.

BACKGROUND

The Florida International University (University) is part of the State university system of public universities, which is under the general direction and control of the Florida Board of Governors (BOG). The University is directly governed by a Board of Trustees (Trustees) consisting of 13 members. The Governor appoints 6 citizen members and the BOG appoints 5 citizen members. These members are confirmed by the Florida Senate and serve staggered 5-year terms. The Faculty Senate Chair and Student Body President also are members.

The BOG establishes the powers and duties of the Trustees. The Trustees are responsible for setting University policies, which provide governance in accordance with State law and BOG Regulations. The University President is selected by the Trustees and confirmed by the BOG. The University President

serves as the Executive Officer and the Corporate Secretary of the Trustees and is responsible for administering the policies prescribed by the Trustees for the University.

FINDINGS AND RECOMMENDATIONS

Finding 1: Textbook Affordability

State law[1] requires each university to post prominently in the course registration system and on its Web site, as early as feasible, but at least 45 days before the first day of class for each term, a hyperlink to lists of required and recommended textbooks and instructional materials for at least 95 percent of all courses and course sections offered at the university during the upcoming term. In addition, State law[2] requires universities to report to the Chancellor of the State University System (SUS) no later than September 30, 2017, the number of courses and course sections that were not able to meet the textbook and instructional materials posting deadline for the previous fiscal year.

According to University personnel, course instructors submit a list of required and recommended textbooks and instructional materials to the Bookstore Vendor to determine whether the items are available for purchase. If immediately available, the textbooks and instructional materials are posted on the University Web site and in the student registration system. University guidelines[3] also require course instructors to confirm to the Bookstore Vendor the courses and course sections that will require no textbooks or instructional materials.

Our examination of University records supporting textbooks and instructional materials for the Spring, Summer, and Fall 2017 Semesters and discussions with University personnel disclosed that:

- The University contracted with the Bookstore Vendor to manage and operate the bookstore, as well as compile and post adopted textbooks and instructional materials in the course registration system and on the University Bookstore Web site. Table 1 shows, for the Spring, Summer, and Fall 2017 Semesters, the posted status of course sections and the percentage of course sections timely posted.

Table 1
Textbook and Instructional Materials Postings

Posted Status	Spring 2017 Course Sections	Summer 2017 Course Sections	Fall 2017 Course Sections
Timely	6,996	3,355	7,619
Late	499	196	738
Not Posted	281	145	317
Totals	**7,776**	**3,696**	**8,674**
Percent Timely	**90%**	**91%**	**88%**

Source: University records.

[1] Section 1004.085(6), Florida Statutes.
[2] Section 1004.085(8), Florida Statutes.
[3] University Textbook Adoption Process.

As the University only timely posted the textbooks and instructional materials for 90, 91, and 88 percent of the course sections during the Spring, Summer, and Fall 2017 Semesters, respectively, the University did not comply with State law requiring such information be timely posted for at least 95 percent of the course sections. In response to our inquiries, University personnel indicated that delays occurred because, for several course sections, the instructors revised the textbook and instructional material information that would be used in their respective courses after the 45-day deadlines. The timely posting of required and recommended textbook and instructional material information in the course registration system and on the University Bookstore Web site is necessary for students to understand course textbook requirements, have sufficient time to consider textbook purchase options, and limit their textbook costs.

- The University Report to the Chancellor of the SUS for the Spring and Fall 2017 Semesters indicated that textbook and instructional materials information for 5 percent of the course sections did not meet the posting deadline and, therefore, the University represented that 95 percent of course sections met the posting deadline for each semester. In response to our inquiries regarding the differences for the 95 percent represented for both semesters and the 90 and 88 percent of textbooks and instructional materials timely posted for those semesters, respectively, University personnel indicated that the University report was based on the course section information available at the posting deadlines and, therefore, did not include changes to course sections after the posting deadline. Accurate information reported to the SUS Chancellor is required by State law and helps the Chancellor summarize and report the information by institution to the Board of Governors.

A similar finding was noted in our report No. 2016-187.

Recommendation: To promote compliance with State law and help ensure that University textbooks and instructional materials of acceptable quality are available to students at the lowest prices, the University should:

- **At least 45 days before the first day of classes, prominently post in the course registration system and on its Web site, a hyperlink to lists of required and recommended textbooks and instructional materials for at least 95 percent of all courses and course sections offered at the University during the upcoming term.**
- **Include changes to course sections made after the posting deadlines when reporting to the SUS Chancellor.**

Finding 2: Net Investment Income Allocations

Board of Governor (BOG) regulations[4] require that interest earnings resulting from the investment of current-year education and general (E&G) State appropriations be considered of the same nature and subject to the same expenditure regulations as the original appropriations. Similarly, BOG regulations provide that interest earnings resulting from invested carry forward funds be considered additions to the University's carry forward balance. As a good business practice, when restricted funds are commingled with other funds for investment purposes, it is important for records to demonstrate the equitable allocation of the generated investment income to the respective funding source to ensure that restricted income is used for purposes consistent with applicable funding restrictions.

Our examination of University records and discussions with University personnel disclosed that, for the 2017-18 fiscal year, the University maintained an average monthly investment balance of $371.9 million

[4] BOG Regulation 9.007(5), *State University Operating Budgets*.

for all University funds, including $364.6 million or 98 percent that represented various resources accounted for in the Auxiliary Enterprises[5] Fund. Table 2 details the sources of the $364.6 million that were maintained in the Auxiliary Enterprises Fund for that period, including auxiliary enterprises resources, E&G Funds resources,[6] and other resources.[7] According to University records, investment income was allocated to the respective contributing funds based on each fund's cash balance and contribution to the Auxiliary Enterprises Fund investments, and either the State of Florida Special Purpose Investment Account (SPIA) interest rate or the 30-day United States Treasury Bill (US T-Bill) interest rate, depending on the restrictive nature of each fund's resources.

Table 2
Auxiliary Enterprises Fund
Monthly Average Investment Balances

2017-18 Fiscal Year
(Amounts in Millions)

Source of Investments	Amount	Percentage
Auxiliary Enterprises Fund	$152.7	42%
E&G Funds	103.5	28%
Other Funds	108.4	30%
Total Investment Balance	**$364.6**	**100%**

Source: University records.

Table 3 details the $16.1 million in University net investment income generated by investments maintained in the Auxiliary Enterprises Fund during the 2017-18 fiscal year, including $14.9 million retained in the Auxiliary Enterprises Fund, $0.5 million allocated to E&G Funds, and $0.7 million allocated to other funds.

[5] Section 1011.47(1), Florida Statutes, defines auxiliary enterprises as activities that directly or indirectly provide a product or service, or both, to a university or its students, faculty, or staff and for which a charge is made. These auxiliary enterprises are business activities of a university which require no support from the General Revenue Fund, and include activities such as food services, bookstores, and intercollegiate athletic programs.

[6] E&G State appropriations, such as the General Revenue Fund, Educational Enhancement Fund, and College of Medicine (COM) Fund, are designated for specified operational purposes and, therefore, may not be used for major capital acquisitions.

[7] Other resources were from funds that supported housing, parking, and Federal and State grant activities.

Table 3
Investment Income and Expenses
For Investments in the Auxiliary Enterprises Fund

2017-18 Fiscal Year
(Amounts in Millions)

	All Funds		Auxiliary Enterprises Fund		E&G Funds		Other Funds	
Investment Income/Expense	**Amount**	**Percentage**	**Amount**	**Percentage**	**Amount**	**Percentage**	**Amount**	**Percentage**
Interest and Dividend Income	**$6.1**	**100%**	$4.9	80%	$0.5	8%	$0.7	12%
Realized Gains on Sale of Investments	**25.2**	**100%**	25.2	100%	-	-	-	-
Unrealized Losses on Investments	**(14.1)**	**100%**	(14.1)	100%	-	-	-	-
Investment Expenses	**(1.1)**	**100%**	(1.1)	100%	-	-	-	-
Total Net Investment Income	**$16.1**	**100%**	**$14.9**	**93%**	**$0.5**	**3%**	**$0.7**	**4%**

Source: University records.

Based on the information compiled in Tables 2 and 3, we estimated that, as shown in Table 4, the University over allocated net investment income to the Auxiliary Enterprises Fund by $8.2 million and under allocated net investment income to other funding sources by that same amount.

Table 4
Estimated Net Investment Income Over (Under) Allocated

2017-18 Fiscal Year
(Amounts in Millions)

	Total Net Investment Income of $16.1 Million Multiplied By	Estimated Net Investment Income Over (Under) Allocated
Auxiliary Enterprises Fund	51% [a]	$ 8.2
E&G Funds	(25)% [b]	$(4.0)
Other Funds	(26)% [c]	$(4.2)

[a] Table 3: 93% minus Table 2: 42%.
[b] Table 3: 3% minus Table 2: 28%.
[c] Table 3: 4% minus Table 2: 30%.

The University over and under allocated these amounts because net investment income was commingled and not equitably allocated to the respective funding sources based on the investment balances attributable to each funding source. In response to our inquiries regarding the University's investment income allocation process, University personnel responded that:

- The allocation method allowed for those resources accumulated in the Auxiliary Enterprises Fund to be used to subsidize student scholarships. For example, during the 2017-18 fiscal year, the University used $5.9 million of the investment income retained in the Auxiliary Enterprises Fund to subsidize student scholarships provided through the Current Unrestricted Scholarship Fund.

- Participating funds with net negative cash balances were not allocated any investment earnings and funds with positive cash balances were allocated investment income based on the SPIA interest rate or the 30-day US T-Bill interest rate.
- The allocation process was implemented to guarantee investment income to participating funds, regardless of the actual performance of the underlying investments, and to protect participating funds, including E&G Funds, from proportionally sharing significant investment losses during periods when investments experience losses.

Notwithstanding these responses, while unrestricted investment income accumulated in the Auxiliary Enterprises Fund may be used to subsidize student scholarships, because the resources accumulated in that Fund also include earnings on restricted investment balances, the University's investment income allocation process increases the risk that income earned on restricted funds will be used to fund scholarships which is not consistent with the restrictions governing those funds. In addition, as disclosed in Table 4, certain restricted funds with positive cash balances, such as E&G Funds, were not equitably allocated investment income and, as the University investments were mainly in mutual funds (i.e., not invested exclusively in SPIA and US T-Bills), the rates used by the University to allocate investment income to funds with positive cash balances were not the actual rates of return generated by the investments.

Recommendation: The University should establish and adhere to an appropriate methodology for equitably allocating and recording investment income to the respective resources that generated the income. In addition, the University should maintain, by fund, records that adequately and accurately account for the restricted resource investments and related income. The University should also restore the appropriate amount (e.g., $8.2 million) from the Auxiliary Enterprises Fund to the respective funds that generated the investment income or document the reasonableness and equity of the investment income allocations for the 2017-18 fiscal year.

Finding 3: Investment Reporting and Reconciliations

State law[8] requires University investment policy to provide for appropriate annual or more frequent reporting of investment activities and, to that end, University officials are to prepare for the University Trustees periodic reports that include securities in the portfolio by class or type, book value, income earned, and market value as of the report date. University policies[9] established the Investment Committee, which is to meet quarterly to review the performance of University investment portfolios, determine whether investment objectives are being met and University guidelines are being followed, and provide the Trustees with regular performance reports on the investment portfolios. In addition, good business practices require that investment accounts be periodically reconciled to accounting records and that the University establish procedures to periodically reconcile investment accounts (e.g., 30 to 45 days after the end of each quarter).

During the 2017 calendar year, the Investment Committee presented to the Trustees quarterly reports consisting of a general overview of the University's liquidity position, the composition of investments (including asset allocation), performance benchmarks by asset class, and outstanding debt. While the reports presented to the Trustees had many positive features, the reports did not include, as prescribed

[8] Section 218.415(15), Florida Statutes.

[9] University Policy 1160.010 - *Investment Policy*.

by State law, securities in the portfolio by book value and income earned. In response to our inquiries, University personnel indicated that the investment reports lacked this information because State law only suggested, instead of required, that this information be presented to the Trustees. University personnel also indicated that, in December 2018, the University began including the book value and income earned for the securities in the investment portfolios presented to the Trustees.

As part of our audit, we reviewed the four quarterly investment reconciliations performed by the University during the 2017 calendar year. Our examination disclosed that the University did not always timely reconcile the investment accounts as the accounts were reconciled 87 to 309 days, or an average of 202 days, after the end of each quarter. In response to our inquiries, University personnel indicated that the untimeliness of the reconciliations was due to the untimely receipt of documentation from the investment managers, malware, and changes in the shared drive used by University personnel.

Without complete investment report presentations to the Board and timely investment account reconciliations, there is an increased risk that the Board may not be informed and understand the performance of University investments, increasing the risk that errors or fraud could occur without prompt detection and resolution.

Recommendation: The University should ensure that the investment information presented to the Board includes all the information required by State law and that investment reconciliations are timely performed.

Finding 4: Severance Pay

State law[10] provides that a unit of government that enters into a contract or employment agreement, or renewal or renegotiation of an existing contract or employment agreement, that contains a provision for severance pay must also include a provision in the contract or employment agreement that precludes severance pay from exceeding 20 weeks of compensation and prohibits the pay in instances of misconduct. State law defines severance pay as salary, benefits, or perquisites for employment services yet to be rendered that are provided to an employee who has recently been or is about to be terminated.

Contrary to State law, University policies and procedures[11] provide that upon termination without cause, non-bargaining unit employees with 10 years of consecutive service as of June 30, 2005, are to be paid 6 months of severance pay. According to University records, 56 employees received severance payments totaling $1.3 million during the period December 2016 through December 2017. As part of our audit, we examined University records supporting payments totaling $1.2 million made to 22 selected employees and noted that 4 employees received amounts in excess of those established in State law. Specifically:

- As noted in our report No. 2016-187, the University entered into a multi-year agreement with an athletic coach on January 4, 2013, and the University subsequently amended the agreement on September 5, 2014, to provide for a salary increase. The amended agreement provided that, upon termination without cause, the coach would be paid the lesser of 2 contract years' annual base salary or the base salary payable during the remaining term of the agreement. The athletic coach was terminated without cause by the University in September 2016 and, subsequently, the

[10] Section 215.425(4), Florida Statutes.

[11] University Policy 1710.280 – *Separations of Employment* and *Separation of Employment Payout* Chart.

University made severance payments totaling $646,193 to the former athletic coach. The severance payments were equivalent to 60 weeks of the former athletic coach's weekly salary and resulted in severance payments that exceeded the amount allowed by State law by a total of $431,698. In response to our inquiries, University personnel indicated that the payments made to the coach represented liquidated damages and that the University was contractually obligated to make the payments.

- The University made 3 severance payments totaling $110,787 to 3 employees for 26 weeks of severance pay, which resulted in severance payments that exceeded the amount allowed by State law by a total of $26,262. In response to our inquiries, University personnel indicated that the payments were made pursuant to University policies and procedures that provide, in part, that certain University employees may receive up to 26 weeks of severance pay.

These payment amounts represented compensation for employment services not yet rendered and were provided to employees whose employment had recently been terminated. Therefore, as the payments exceeded the statutory severance pay limits, the payments appear contrary to State law. A similar finding was noted in our report No. 2016-187.

Recommendation: The University should ensure that the severance pay provisions in University employment agreements are consistent with State law and that severance payments do not exceed the amounts established in State law.

Finding 5: Direct-Support Organizations

To promote accountability over University property, facility, and personal services use, it is important that public records prescribe the conditions for such use, document appropriate approval before the use occurs, and demonstrate appropriate use. Such records help document authorization for the use, demonstrate the reasonableness of the value associated with that use, and enhance government transparency.

State law[12] provides that a direct-support organization (DSO) is organized and operated exclusively to receive, hold, invest, and administer property and to make expenditures to, or for the benefit of the University. Additionally, State law[13] authorizes the Trustees to permit the use of University property, facilities, and personal services by a DSO, and requires the Trustees to prescribe by regulation any condition with which a DSO must comply for such use.

The Trustees approved the Florida International University Foundation, Inc. (Foundation), the FIU Athletics Finance Corporation (AFC), the Florida International University Academic Health Center Health Care Network Faculty Group Practice, Inc. (HCN), and the Florida International Research Foundation, Inc. (Research Foundation) as DSOs that routinely receive and use charitable contributions for the benefit of the University. University regulations[14] require that, upon approval by the Trustees, a DSO shall be certified and authorized to use University property, facilities, and personal services to the extent permissible by applicable law and the conditions prescribed by University regulations.

[12] Section 1004.28(1)(a)2., Florida Statutes.

[13] Section 1004.28(2)(b), Florida Statutes.

[14] FIU Regulation 1502 – *Direct Support Organizations*.

DSO-Use of University Property or Facilities and Personal Services

According to University personnel, during the 2017 calendar year, the Foundation received personal services and used University property and facilities. The Foundation received University personal services totaling $11.4 million provided by 127 University employees and reimbursed the University $3.2 million related to these costs. The 127 employees included 125 who were compensated $8.1 million and devoted 100 percent of their time and effort to the Foundation and 2 who were compensated $100,000 and provided a portion of their time and effort to the Foundation.

While the University-approved employee job descriptions and position summaries included the percentages of allocated time expected to be provided to the Foundation for personal services, University records did not document the 2 employees' actual time and effort spent on services for the University and on services for the Foundation. In response to our request for University records to support the basis for the reimbursement of $3.2 million, University personnel provided a March 2010 memorandum of understanding between the Foundation and the University that was approved by the University President. However, the Trustees did not approve the memorandum and the memorandum did not specify the amount the Foundation would reimburse to the University for personal services. In addition, in response to our request, the University provided a list of the University facilities used by the Foundation during the 2017 calendar year. However, although we requested, University records were not provided to document the value of such use.

In response to our request for records supporting the approval of the personal services and the Foundation's use of University property and facilities, University personnel indicated that the 2016-17 and 2017-18 fiscal year budgets, which included the expected personnel cost contribution and allowed for Foundation use of University property and facilities, were presented to the Trustees and subsequently approved. According to University personnel, the budget approval represented an acknowledgment and approval of the Foundation-related costs by the Trustees. Notwithstanding, without Trustees-approved agreements, there is an increased risk of misunderstanding between the University Trustees and a DSO and for over and under reimbursements to occur.

Although University regulations establish procedures with conditions for DSO use of University property, facilities, and personal services, University records associated with such use could be improved by obtaining:

- The Trustees' approval of anticipated DSO use and the estimated value of the associated University resources before the use occurs.
- Confirmations and other documentation from DSO management affirming that University resources were used only for purposes approved by the Trustees.

Approvals by the Board of Trustees and documentation affirming the actual use of University resources would provide additional assurance that DSO use of University resources is consistent with the Trustees' intent and enhance transparency for such use. Subsequent to our review, in June 2018 the University separately itemized and submitted to the Trustees for approval the expected personnel costs and use of University property and facilities by the Foundation for the 2018-19 fiscal year.

Cash Transfers to DSOs

Our review of University records disclosed that during the 2017 calendar year, the University transferred $43,775 received for technology and merchandise licensing and royalty fees to its DSOs. In response to our inquiry, University personnel indicated that, by approving the DSO budgets, which disclosed that projected revenues would be generated from royalty income, the Trustees had approved the payments of the royalty fees to the DSOs. However, University records did not document the Trustees' authority for transferring University royalty fees to the DSOs.

Recommendation: We recommend that:

- **The University document University employee actual time and effort provided to DSOs to support the purpose for and value of such services and the distribution of applicable personal services costs among specific University and DSO activities.**
- **The Trustees enter into agreements with DSOs to establish the basis for DSO reimbursements.**
- **The University document the Trustees' consideration and approval of DSO anticipated use of University resources, at least on an annual basis, before the use occurs. To enhance government transparency, Trustee approval documentation should identify the positions of the employees who will provide the personal services, the square footage of the office space and related buildings that will be used by the respective DSOs, and the value of such use.**
- **The University obtain confirmations and other documentation from DSO management affirming that University resources were used only for purposes approved by the Trustees.**
- **In the absence of specific authority, the University discontinue the transfer of royalty and licensing fees to its DSOs.**

Finding 6: Intercollegiate Athletic Programs – Deficit Fund Balances

Auxiliary enterprises are operated by the University or contracted to vendors to provide goods and services to faculty, staff, students, and others. State law[15] provides that auxiliary enterprises include, for example, bookstore, food service, housing, and intercollegiate athletic activities. BOG regulations[16] provide that each university may determine whether its auxiliary services will be self-supporting on an individual or collective basis, except for intercollegiate athletics, which must be a self-supporting entity.

The University elected to account for its intercollegiate athletic programs in a separate auxiliary enterprise fund. Our examination of University records supporting the financial results of University auxiliary enterprises for the past 9 fiscal years disclosed that the intercollegiate athletic programs did not produce sufficient resources to be self-supporting. Specifically, for each of the past 9 fiscal years, the auxiliary enterprise fund intercollegiate athletic programs had a deficit fund balance. Table 5 shows the deficit fund balances reported for the intercollegiate athletic programs for the fiscal years ended June 30, 2010, through June 30, 2018.

[15] Section 1011.47(1), Florida Statutes.

[16] BOG Regulation 9.013 – *Auxiliary Operations*.

Table 5
Auxiliary Enterprise Fund
Intercollegiate Athletic Programs

Fiscal Year Ended June 30	Deficit Fund Balances
2010	$ (1,170,953)
2011	(1,887,676)
2012	(4,654,342)
2013	(1,688,004)
2014	(1,502,367)
2015	(3,932,824)
2016	(3,172,191)
2017	(5,616,165)
2018	(11,761,454)

Source: University records.

While the deficit fund balances do not represent University bank account cash deficits, the balances require the use of cash resources from other auxiliary enterprises to finance expenses of intercollegiate athletic programs. On May 3, 2010, an interdepartmental loan agreement was entered into between the intercollegiate athletic programs and other auxiliary enterprises funds to loan over the next 4 fiscal years $5 million to fund budget deficits for the intercollegiate athletic programs and on June 4, 2010, the Trustees approved the agreement. The loan agreement provided for the repayment of principal plus 2 percent interest beginning June 15, 2019, and ending June 15, 2035. The accrued interest was to be capitalized and added to the principal amount. On June 26, 2015, a one-time principal pre-payment of $631,000 was made, which reduced the principal amount.

On January 18, 2018, another interdepartmental loan agreement for $4.4 million to fund the construction of athletic practice fields was entered into between the intercollegiate athletic programs and other auxiliary enterprises funds (e.g., food service and bookstore concessions). The construction of the athletic practice fields and the funding of the project with an interdepartmental loan were approved by the Trustees on December 9, 2015. The agreement for this loan also provided for the repayment of principal plus 2 percent interest beginning June 15, 2020, and ending June 15, 2043. The accrued interest for this loan was also to be capitalized and added to the principal amount. From June 15, 2019, through June 15, 2043, principal and interest payments of the loaned amounts will range from $125,000 to $600,000. After consideration of the loans, at June 30, 2018, the intercollegiate athletic programs reported total deficit fund balances of $11,761,454 and a due to (loan from) other auxiliary enterprises of $9,444,455.

In response to our inquiries, University personnel indicated that the fund deficits were the result of planned expansion projects supporting various athletic programs beginning in 2011 and the interdepartmental loan was issued to provide needed working capital to the intercollegiate athletics program fund. Additionally, University personnel indicated that the deficit fund balances resulted from non-recurring capital expenditures and that if those capital expenditures had not occurred, the fund

balances would not be negative. A similar finding was noted by the University's Office of Internal Audit in report No. 17/18-01.

Although the intercollegiate athletic programs are part of the approved budget for auxiliary enterprises, the intercollegiate athletic programs' continued use of financial resources generated by other auxiliary enterprises decreases the resources available for the other auxiliary enterprises.

Recommendation: The Trustees should continue to monitor the financial condition of the intercollegiate athletic programs and take appropriate actions to ensure that intercollegiate athletic programs are self-supporting pursuant to BOG regulations.

Finding 7: Purchasing Cards

The University administers a purchasing card (P-card) program, which gives employees the convenience of purchasing items without using the standard purchase order process. P-cards are designed to provide a cost-effective, convenient, and decentralized method for individuals to make certain purchases on behalf of the University. The bank that administers the P-card program requires charge disputes to be made within 5 days of the billing close date.

The University has adopted P-Card guidelines and procedures and established a P-card administrative team that had responsibilities for issuing P-cards, monitoring P-card transactions, providing P-card training, and canceling P-cards. The departments of cardholders are required to e-mail the administrative team to cancel P-cards, including those assigned to employees who separated from University employment, immediately prior to submitting the card cancellation form, which includes the cardholder name, identification number, copy of the card cut in half, and cardholder and supervisor signatures. Additionally, department supervisors are to conduct exit interviews; collect all university property, including the P-card cut in half and affixed to a card cancellation form; and providing the card cancellation form to the P-card administrative team.

The University had 825 active P-cards as of December 31, 2017, and, during the 2017 calendar year, 77 cardholders separated from University employment or transferred to another department. We examined University records supporting 23 of the cardholders who separated from University employment and found that the University did not cancel the P-cards assigned to 4 of the 23 cardholders until 9 to 108 days, or an average of 41 days, after the cardholders' employment separation dates. According to University personnel, the untimely cancellations of the P-cards were primarily caused by departments not following established policies and procedures.

Our examination of University records supporting P-card activity of the 4 former employees did not disclose any inappropriate charges; however, our procedures cannot substitute for the University's responsibility to implement adequate internal controls over P-card cancellations. The untimely cancellation of P-card privileges increases the risk that such privileges could be misused by former employees or others and may limit the University's ability to satisfactorily resolve disputed charges.

Recommendation: The University should continue efforts to ensure that P-card privileges are timely canceled upon a cardholder's separation from University employment.

Finding 8: Information Technology User Access Privileges – Enterprise Resource Planning System

Access controls are intended to protect University data and information technology (IT) resources from unauthorized disclosure, modification, or destruction. Effective access controls provide employees access to IT resources based on a demonstrated need to view, change, or delete data and restrict employees from performing incompatible functions or functions inconsistent with their assigned responsibilities. Periodic evaluations of assigned IT access privileges are necessary to ensure that employee access remains necessary and appropriate.

Our examination of University records and discussions with University personnel disclosed that 8,654 employees had access privileges to critical transactions within the finance and human resource (HR) applications. The privileges were for 8,558 employees with update access to the finance application, 86 employees with update access to the HR application, and 10 employees (including 3 student account clerks) who were financial superusers (SF Superusers). The SF Superusers had full access to the Student Financial module in the University finance application, which allowed update access to student charges, payments, loans, and other information. According to University personnel, the University performed annual documented evaluations of assigned IT access privileges for most employees. However, the University did not have procedures to periodically document evaluations of assigned IT access privileges to the University Enterprise Resource Planning (ERP) system applications to ensure that the SF Superusers could access only those IT resources that were necessary to perform their assigned job responsibilities and that assigned access privileges enforced an appropriate separation of incompatible responsibilities.

As part of our audit procedures, we examined University records supporting the access privileges of 35 selected employees to the ERP system finance and HR applications and identified 5 employees with access privileges to the finance application that appeared unnecessary for their assigned job duties and a former employee who retained unnecessary access privileges. Specifically:

- 3 student account clerks required access to one specific function in the University finance application to perform their job duties. However, the clerks were given the SF Superuser roles that granted full access to the Student Financial module and allowed the clerks to make changes to student charges, payments, loans, and other information. Since such access requires extreme care, SF Superuser roles are usually granted only to University personnel in high level supervisory positions. In response to our inquiries, University personnel indicated that the 3 clerks were provided the SF Superuser roles because the specific function in the University finance application needed by the clerks to perform their job duties was only available through the SF Superuser role.
- 2 custodial workers had inquiry and update access to various functions in the finance application such as update access to procurement and view access to financial transactions, which was unnecessary for their respective job positions and responsibilities. In response to our inquiries, University personnel indicated that the employees had access to basic functions and that additional roles and security levels were needed for the employees to make procurement transactions. In addition, University personnel also indicated that any transactions created by these workers using their access would be subject to multiple levels of approval. University personnel also confirmed that one of the custodial workers did not create any financial transactions and was unable to confirm whether the other custodial worker used the access.

- A former Controller retained SF Superuser access to the finance application after employment separation from the University in February 2017. Subsequent to our requests in April 2018, University personnel removed the SF Superuser access for the former Controller. University personnel indicated that the former Controller access was not removed timely due to oversight.

While our examination of University records supporting selected transactions did not disclose any fraud or errors as a result of the unnecessary access privileges, our procedures do not substitute for management's responsibility to implement adequate controls. Unnecessary or inappropriate access privileges and the lack of a review of IT user access privileges assigned to the ERP system applications increase the risk that unauthorized disclosure, modification, or destruction of University data or IT resources may occur.

Recommendation: The University should continue efforts to perform documented periodic evaluations of IT user access privileges to the ERP system applications based on a demonstrated need for such access and remove any inappropriate or unnecessary access privileges detected.

Finding 9: Information Technology User Access Privileges – Student Information

The Legislature has recognized in State law[17] that social security numbers (SSNs) can be used to acquire sensitive personal information, the release of which could result in fraud against individuals or cause other financial or personal harm. Therefore, public entities are required to provide extra care in maintaining the confidential status of such information. Effective controls restrict employees from accessing information unnecessary for their assigned job responsibilities and provide for documented, periodic evaluations of access privileges to help prevent individuals from accessing sensitive personal information inconsistent with their responsibilities.

The University collects and uses SSNs for various purposes, such as to register newly enrolled students, comply with Federal tax reporting requirements and other Federal and State requirements related to financial and academic assistance, and perform other University responsibilities. According to University personnel and records, the University established a unique identifier, other than the student's SSN, to identify each student and maintained student information, including SSNs, in the University's ERP system.

As of June 2018, the University ERP system contained the sensitive personal information of 985,940 students, including 78,631 current, 384,958 former, and 522,351 prospective students, and 397 employees had access to that information. To protect the sensitive personal information from unauthorized disclosure, modification, or destruction, the University requires employee supervisors and department administrators to approve IT user access privileges based on a demonstrated need for such access. According to University personnel, the University documented monthly evaluations of IT user access privileges in the ERP system to monitor certain access privileges, including evaluations of access privileges to the sensitive personal information of students.

As part of our audit, we examined the access privileges in the ERP system for 137 selected employees. We found that 96 employees in positions such as program assistant, lead ERP technician analyst, and student clerk positions, did not require access to the sensitive personal information of students to perform

[17] Section 119.071(5)(a), Florida Statutes.

their job assignments. In response to our inquiries, University personnel agreed with our conclusions and, in September 2018, removed the access privileges for 28 of the 96 employees.

University personnel indicated that the other 68 employees only needed access to the last four digits of the student SSNs to perform their job assignments and, in October 2018, University personnel were awaiting updated justifications from the respective employee supervisors before modifying the access privileges for these 68 employees. Subsequent to our inquiries, as of December 2018 University personnel had reduced the number of employees with access to the sensitive personal information of students in the ERP system to 245 employees.

We also noted that, since the University ERP system did not differentiate employee access privileges to the sensitive personal information of current students from access privileges to former and prospective students, the remaining 245 employees retained continuous access to the information of all 985,940 students. According to University personnel, the 245 employees needed access to former student SSNs in the ERP system, for example, to assist former students who may return to the University for additional classes or may request administrative action on their records. Although we requested, University records were not provided to demonstrate the public purpose served by maintaining the sensitive personal information of individuals who applied but had not enrolled in the University.

The existence of unnecessary access privileges increases the risk of unauthorized disclosure of sensitive personal information of students and the possibility that the information may be used to commit a fraud against University students or others.

Recommendation: To ensure access to the sensitive personal information of students is properly safeguarded, the University should:

- **Document the public purpose served for maintaining that information for individuals who do not enroll in the University. Absent such, the University should discontinue the practice of indefinitely maintaining the sensitive personal information of prospective students who do not enroll.**
- **Upgrade the University IT system to differentiate IT user access privileges to current student information from access privileges to former and prospective student information.**
- **Continue efforts to ensure that only those employees who have a demonstrated need to access the sensitive student information have such access. If an employee only requires occasional access, access privileges should be granted only for the time needed.**

PRIOR AUDIT FOLLOW-UP

The University had taken corrective actions for findings included in our report No. 2016-187, except as noted in Findings 1 and 4.

OBJECTIVES, SCOPE, AND METHODOLOGY

The Auditor General conducts operational audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

We conducted this operational audit from March 2018 to April 2019 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of this operational audit were to:

- Evaluate management's performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse, and in administering assigned responsibilities in accordance with applicable laws, rules, regulations, contracts, grant agreements, and other guidelines.
- Examine internal controls designed and placed in operation to promote and encourage the achievement of management's control objectives in the categories of compliance, economic and efficient operations, reliability of records and reports, and safeguarding of assets, and identify weaknesses in those controls.
- Determine whether management had taken corrective actions for findings included in our report No. 2016-187.
- Identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

This audit was designed to identify, for those programs, activities, or functions included within the scope of the audit, weaknesses in management's internal controls; instances of noncompliance with applicable laws, rules, regulations, contracts, grant agreements, and other guidelines; and instances of inefficient or ineffective operational policies, procedures, or practices. The focus of this audit was to identify problems so that they may be corrected in such a way as to improve government accountability and efficiency and the stewardship of management. Professional judgment has been used in determining significance and audit risk and in selecting the particular transactions, legal compliance matters, records, and controls considered.

As described in more detail below, for those programs, activities, and functions included within the scope of our audit, our audit work included, but was not limited to, communicating to management and those charged with governance the scope, objectives, timing, overall methodology, and reporting of our audit; obtaining an understanding of the program, activity, or function; exercising professional judgment in considering significance and audit risk in the design and execution of the research, interviews, tests, analyses, and other procedures included in the audit methodology; obtaining reasonable assurance of the overall sufficiency and appropriateness of the evidence gathered in support of our audit findings and conclusions; and reporting on the results of the audit as required by governing laws and auditing standards.

Our audit included transactions, as well as events and conditions, occurring during the audit period of January 2017 through December 2017, and selected University actions taken prior and subsequent thereto. Unless otherwise indicated in this report, these records and transactions were not selected with the intent of statistically projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

An audit by its nature does not include a review of all records and actions of management, staff, and vendors and, as a consequence, cannot be relied upon to identify all instances of noncompliance, fraud, waste, abuse, or inefficiency.

In conducting our audit, we:

- Reviewed University information technology (IT) policies and procedures to determine whether the policies and procedures addressed certain important IT control functions, such as security, systems development and maintenance, and disaster recovery.
- Evaluated University procedures for maintaining and reviewing employee access to IT data and resources. We examined access privileges to the database and finance and human resources applications during the audit period for 35 of the 8,654 employees to determine the appropriateness and necessity of the access based on the selected employees' job duties and user account functions and whether the access prevented the performance of incompatible duties. We also examined the administrator account access privileges granted and procedures for oversight of administrator accounts for the network, operating system, database, and application to determine whether these accounts had been appropriately assigned, managed, and monitored.
- Evaluated University procedures for protecting the sensitive personal information of students, including student social security numbers. From the population of 397 employees who had access to the sensitive personal information of students during the audit period, we examined University records supporting the access privileges granted to 137 employees to determine the appropriateness of and necessity for the access privileges based on the employees' assigned job responsibilities.
- Evaluated Trustees security policies and University procedures for the audit period governing the classification, management, and protection of sensitive and confidential information.
- Evaluated the appropriateness of the University's comprehensive IT disaster recovery plan effective during the audit period and determined whether it had been recently tested.
- Reviewed operating system, database, network, and application security settings to determine whether authentication controls were configured and enforced in accordance with IT best practices.
- Examined Trustees, committee, and advisory board meeting minutes to determine whether Trustee approval was obtained for the University policies and procedures in effect during the audit period and for evidence of compliance with Sunshine Law requirements (i.e., proper notice of meetings, meetings readily accessible to the public, and properly maintained meeting minutes).
- Examined University records for the audit period to determine whether the University informed students and employees at orientation and on its Web site of the existence of the Florida Department of Law Enforcement sexual predator and sexual offender registry Web site and the toll-free telephone number that gives access to sexual predator and sexual offender public information as required by Section 1006.695, Florida Statutes.
- Reviewed the internal audit function to determine whether the University followed professional requirements and provided for peer review of reports issued. For internal audits, we determined whether audit reports were properly completed and submitted to the Trustees.
- Examined University records to determine whether the University had developed an anti-fraud policy for the audit period to provide guidance to employees for communicating known or suspected fraud to appropriate individuals. Also, we examined University records to determine whether the University had implemented appropriate and sufficient procedures to comply with its anti-fraud policy.

- Evaluated University investment policies and procedures during the audit period to determine whether the policies and procedures complied with Section 218.415, Florida Statutes, adhered to good business practices, and whether University investments were in accordance with those policies and procedures.
- Examined University records to determine if investment accounts maintained during the audit period were timely reconciled to financial institution records and if statutorily required investment information was presented timely to the Trustees.
- From the population of payments and transfers totaling $12 million made during the audit period from the University to its direct-support organizations (DSOs), examined University records supporting payments and transfers totaling $6.4 million to determine whether the transactions were as described by Section 1004.28(1)(a)2. and (2), Florida Statutes.
- Examined University records to determine whether the Trustees had prescribed by rule, pursuant to Section 1004.28(2)(b), Florida Statutes, the conditions with which the DSOs must comply in order to use University property, facilities, and personal services and whether the Trustees documented consideration and approval of anticipated property, facilities, and personal services provided to the DSOs and the related costs.
- Examined University records to determine whether student receivables were properly authorized, adequately documented and properly recorded. Specifically, from the population of 13,947 student accounts receivable totaling $33.9 million as of December 31, 2017, we examined documentation relating to 31 selected student accounts receivable totaling $638,156 to determine the adequacy of University collection efforts and whether restrictions on student records and holds on transcripts and diplomas were appropriate and enforced for students with delinquent accounts in accordance with Trustees regulations established pursuant to Section 1010.03(4), Florida Statutes.
- Examined University records to determine whether uncollectible accounts totaling $1.3 million written off during the audit period were properly approved.
- Examined tangible personal property records to determine whether the records contained information necessary to account for and identify property items. We also examined University records supporting 60 selected property items to determine whether University property records accurately described the property items.
- Examined University records to determine if acquired facilities were in accordance with contractual obligations and the mission of the University.
- Analyzed payments from tuition differential fees collected during the audit period to determine whether the University assessed and used tuition differential fees in compliance with Section 1009.24(16)(a), Florida Statutes.
- From the population of 62,512 students enrolled as Florida residents during the Spring 2017, Summer 2017, and Fall 2017 Semesters, examined University records for 30 selected students to determine whether the University documented Florida residency and whether student status and residency determinations complied with Section 1009.21, Florida Statutes, and Board of Governor (BOG) Regulation 7.007.
- Reviewed University procedures to determine whether distance learning fees totaling $7.6 million for the audit period were assessed, collected, and separately accounted for in accordance with Section 1009.24(17), Florida Statutes.
- From the population of 30 decentralized locations with collections totaling $39.1 million, selected 6 locations with collections totaling $8.6 million during the audit period, and examined University records supporting collections totaling $2.4 million from the 6 locations to determine the effectiveness of University collection procedures.

- From the population of 40 contracts for auxiliary operations, which generated revenue totaling $6.6 million for the audit period, examined University records supporting 17 selected contracts, which generated revenues totaling $4.8 million, to determine whether the University properly monitored compliance with the contract terms for fees, insurance, and other provisions. Also, we performed analytical procedures to determine whether University auxiliary services were self-supporting.
- Examined University records supporting textbook adoptions for 20,146 course sections offered during the audit period to determine whether the University textbook affordability procedures complied with Section 1004.085, Florida Statutes.
- From the population of compensation payments totaling $484.1 million made to 14,119 employees during the audit period, selected 30 payments totaling $263,141 and examined related payroll and personnel records to determine the accuracy of the rate of pay, whether supervisory personnel reviewed and approved employee reports of time worked, the validity of employment contracts, whether the employees met the required qualifications, whether performance evaluations were completed, and the accuracy of leave records.
- Evaluated University policies and procedures for payments of accumulated annual and sick leave (terminal leave pay) to determine whether the policies and procedures promoted compliance with State law and University policies. Specifically, from the population of 331 employees who separated from University employment during the audit period and were paid $1.8 million for terminal leave, we selected 15 employees with terminal payments totaling $451,101 and examined the supporting records to determine compliance with Section 110.122, Florida Statutes, and Trustees Regulation No. 320.045.
- Examined severance pay provisions in 4 employee contracts to determine whether the provisions complied with Section 215.425(4)(a), Florida Statutes. From the population of 56 employees who received severance pay totaling $1.3 million during the period December 2016 through December 2017, we examined University records for 22 selected employees paid severance pay totaling $1.2 million to determine whether the severance payments complied with State laws and University policies.
- Examined University records for 29 administrative employees, including the President, who received compensation totaling $11.5 million during the audit period to determine whether the amounts paid did not exceed the limits established in Sections 1012.975(3) and 1012.976(2), Florida Statutes.
- Evaluated University policies and procedures to ensure health and life insurance was provided only to eligible employees and dependents and that such insurance was timely canceled upon employee termination. Also, we determined whether the University has procedures for reconciling health insurance costs to employee and Trustees-approved contributions.
- Examined University records to determine whether selected expenses were reasonable, correctly recorded, adequately documented, for a valid University purpose, properly authorized and approved, and in compliance with applicable laws, rules, contract terms, and Trustees policies. Specifically, from the population of expenses totaling $983.2 million for the audit period, we examined University records supporting:
    - 33 selected payments for general expenses totaling $111.8 million.
    - 30 selected payments for contractual services totaling $432,338.
- From the population of 1,934 vendors paid $42.5 million for the audit period, examined University records for 30 vendors paid $432,338 to determine whether the vendors were properly selected, as applicable; carried adequate insurance; and were paid in accordance with contract terms. In

addition, we determined whether the payments were for a valid purpose, properly authorized and approved, and in compliance with applicable laws, rules, contract terms, and Trustee policies.

- From the population of 91,466 purchasing card (P-card) transactions totaling $30 million during the audit period, examined University records supporting 30 selected P-card transactions totaling $414,670 to determine whether the P-card program was administered in accordance with Trustee policies and University procedures and transactions were not of a personal nature.
- From the population of P-Card transactions to 39 vendors, with cumulative transactions over $75,000 during the audit period, totaling $11.2 million, examined solicitation documentation for 20 vendors totaling $5.2 million to determine whether the P-cards were administered in accordance with University policy and procedures and BOG regulations for competitive solicitation.
- Examined P-card records for 23 cardholders who separated from University employment selected from the 77 cardholders who separated from University employment or transferred to other departments during the audit period to determine whether the University timely canceled the cardholders' P-cards.
- From the population of President and Trustees travel expenses totaling $41,267 during the audit period, examined 26 selected travel reimbursements totaling $30,834 to determine whether the travel expenses were reasonable, adequately supported, for valid University purposes, and limited to amounts allowed by Section 112.061, Florida Statutes.
- From the population of 78 payments totaling $75,370 during the audit period to employees for other than travel and compensation, examined 24 selected payments totaling $56,615 to determine whether such payments were reasonable, adequately supported, for valid University purposes, and whether such payments were related to employees doing business with the University, contrary to Section 112.313(3), Florida Statutes.
- Reviewed Trustees policies and University procedures related to identifying potential conflicts of interest. We also reviewed Department of State, Division of Corporations, records; statements of financial interest; and University records for 22 selected University officials to identify any potential relationships that represented a conflict of interest with vendors used by the University.
- From the population of 6 major construction projects in progress during the audit period with expenditures totaling $49.3 million, selected 30 payments totaling $3.4 million related to 3 major construction projects with expenditures totaling $8.2 million and examined University records to determine whether the payments were made in accordance with contract terms and conditions, University policies and procedures, and provisions of applicable State laws and rules.
- Reviewed documentation related to 4 major construction projects with total construction costs of $13.6 million during the audit period to determine whether the University process for selecting design professionals and construction managers was in accordance with State law; the selection process of subcontractors was adequately monitored; the Trustees had adopted a policy establishing minimum insurance coverage requirements for design professionals; and design professionals provided evidence of required insurance.
- From the population of University minor projects in progress with cumulative expenditures totaling $165.5 million as of December 31, 2017, examined supporting documentation for 34 projects totaling $26.3 million to determine if the projects were in accordance with Trustees policies and procedures, provisions of State laws and rules, and BOG regulations.
- Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.

- Prepared and submitted for management response the findings and recommendations that are included in this report and which describe the matters requiring corrective actions. Management's response is included in this report under the heading ***MANAGEMENT'S RESPONSE***.

AUTHORITY

Section 11.45, Florida Statutes, requires that the Auditor General conduct an operational audit of each University on a periodic basis. Pursuant to the provisions of Section 11.45, Florida Statutes, I have directed that this report be prepared to present the results of our operational audit.

Sherrill F. Norman, CPA
Auditor General

FLORIDA INTERNATIONAL UNIVERSITY

OFFICE OF FINANCE & ADMINISTRATION

July 18, 2019

Sherrill F. Norman, CPA
Auditor General
State of Florida
Claude Denson Pepper Building G74
111 West Madison Street
Tallahassee, Fl 32399-1450

Dear Ms. Norman,

Enclosed are Florida International University's responses to the preliminary and tentative findings and recommendations for the Operational Audit of Florida International University for the calendar year ended December 31, 2017. The University will implement the recommendations identified during the audit in accordance with the enclosed schedule of responses.

We appreciate the thoroughness and professionalism of your staff in completing the operational audit. The resulting recommendations will assist FIU in improving our operations and safeguarding our resources.

If you have any questions or need additional information, please do not hesitate to contact me at kjessell@fiu.edu or 305-348-2101 at your convenience.

Sincerely,

Kenneth A. Jessell, Ph.D.
Chief Financial Officer and Senior Vice President for Finance and Administration

cc: Mark B. Rosenberg, Ph.D., President
Kenneth G. Furton, Ph.D., University Provost and Executive Vice President

MODESTO MAIDIQUE CAMPUS, PC 523, MIAMI, FLORIDA 33199 • (305) 348-2101 • FAX: (305) 348-3678

FLORIDA INTERNATIONAL UNIVERSITY
Responses to Preliminary and Tentative Findings
Operational Audit – Calendar Year 2017

Finding 1: University textbook affordability procedures continue to need improvement.

Recommendation: To promote compliance with State law and help ensure that University textbooks and instructional materials of acceptable quality are available to students at the lowest prices, the University should:

- ***At least 45 days before the first day of classes, prominently post in the course registration system and on its Web site, a hyperlink to lists of required and recommended textbooks and instructional materials for at least 95 percent of all courses and course sections offered at the University during the upcoming term.***

- ***Include changes to course sections made after the posting deadlines when reporting to the SUS Chancellor.***

The University concurs with this recommendation. In response to the prior operational audit recommendation included in report No. 2016-187, Florida International University (FIU) has been consistently enhancing textbook adoption practices and monitoring procedures for timely textbook adoptions in accordance with State law as follows:

- Revised and expanded the Textbook and Instructional Materials Affordability Step-by-Step Guide and FAQ and regularly distributed this along with adoption deadline reminders to all instructors and chairs for process guidance throughout the adoption cycles.
- Appointed textbook affordability liaisons throughout all colleges to support instructors with timely adoptions beginning 2017.
- Instituted a standard procedure for Textbook Adoptions for Other Course Types than Lectures and Labs effective 2017.
- Created an internal methodology to synchronize the Barnes & Noble (B&N) FacultyEnlight adoption data with FIU class schedule/assignment data and standardize the monitoring process as of 2018-2019.
- Initiated discussions with B&N corporate officials for enhancements of FacultyEnlight, FIU's platform for textbook and course material adoptions, to standardize the process of timely adoptions and monitoring thereof in accordance with BOG requirements, with pilot phase anticipated to commence in Fall 2019.

FIU had met the 95 percent threshold of timely posted required and recommended textbooks and instructional materials in each semester as of the 45-day pre-semester deadline. Our reported compliance rates of 95.1%, 96.2% and 95.3% for Spring, Summer, and Fall 2017, respectively, present a point in time snapshot based on the course section information available at the posting deadline. The methodology of assessing compliance at the forty-five (45) day deadline was based on Board of Governors Regulation 8.003, section 1 (h), which states: "The designated university official shall determine compliance with this requirement no later than forty-five (45) days prior to the first day of classes for each term." For example, for the Fall 2017 semester, at the forty-five (45) day deadline, there were a total of 8,674 courses of which 430 were not compliant and 8,244 were compliant as of the cut-off date, leading to a 95% compliance rate. Due to changes in textbooks and instructional materials for some courses after the 45 days prior to the first day of class, the 95 percent threshold was reduced, as reflected in the finding. The University will adjust the methodology when reporting to the Chancellor course sections that were able to meet the textbook and instructional materials posting deadline for the academic year, which will now capture changes after the 45 days prior to the first day of class.

FIU will adjust the reporting methodology to include changes to adoption data made after the posting deadline for the academic year. To date, FIU consistently reported adoption rates based on the forty-five (45) day pre-semester deadline. Moving forward, FIU will review all adoptions following the forty-five (45) day semester deadline each semester to ensure accurate and complete reporting for the academic year. Additionally, B&N is developing a second generation of their FacultyEnlight textbook adoption platform. FIU is scheduled to be a part of their first pilot, anticipated to commence in Fall 2019. FIU has worked with B&N Information Technology staff and the system is expected to address the necessary enhancements to make reporting to the SUS Chancellor more automated.

Finding 2: The University over allocated $8.2 million net investment income to the Auxiliary Enterprises Fund and under allocated that same amount to other funds, which increased the risk that income from restricted resources will not be used consistent with the restrictions governing those resources.

***Recommendation:** The University should establish and adhere to an appropriate methodology for equitably allocating and recording investment income to the respective resources that generated the income. In addition, the University should maintain, by fund, records that adequately account for the restricted resource investments and related income. The University should also restore the appropriate amount (e.g., $8.2 million) from the Auxiliary Enterprises Fund to the respective funds that generated the investment*

2

income or document the reasonableness and equity of the investment income allocations for the 2017-18 fiscal year.

The University recognizes the importance of equitably allocating and recording investment income to the respective funding sources and to ensure that restricted income is used for purposes consistent with applicable funding restrictions. The University also recognizes that funding sources have different levels of risk tolerance and that restricted funding sources should not incur investment losses. The University's Investment Program is designed to ensure that restricted funding sources do not bear the risk of loss.

FIU's Investment Program pools university funds and invests them at an overall risk level that is comparable to the State of Florida's Special Purpose Investment Account (SPIA) fund. The University places funds from the funding sources into one of two risk classifications: Low Risk tolerance and Zero Risk tolerance. As the finding correctly states, the Investment Program pays a guaranteed rate of return to each of the funding sources equivalent to SPIA or United States Treasury Bill (T-Bill) rates. No investment losses are allocated to the restricted funding sources. The Low Risk funds receives a rate of return equal to the State's Net SPIA rate less investment (Treasury) expenses. The No Risk funds receive a rate of return equal to the 1-Month T-Bill Rate. Both the SPIA and T-Bill rates are market oriented and reflect a risk-adjusted return that the funding sources would have achieved if they were invested independent of the University's Investment Program. In other words, the process is designed to ensure that these funds receive the same return as if they were invested in SPIA or T-Bills. The University Investment Program pools funds from the funding sources, invests the funds, and pays a guaranteed rate of return. This approach provides the funding sources a secured source of risk-adjusted investment income independent of the actual return (gain or loss) of the Investment Program.

The Information in Table 3 of the finding assumes that the distribution of funds is based on the overall returns of the Investment Program, in this case approximately 4.4 percent (Total Net Investment Income of $16.1 million/Total Investment Balance of $364.6 million). The Investment Program distributes funds based on the net SPIA rate (1.7 percent) less Investment (Treasury) expenses and the 1-month T-Bill rate (1.4 percent). These guaranteed rates prevent investment losses from being allocated to the restricted funding sources.

To illustrate the reasonableness and equity of FIU's investment income allocation process, as an example, if the overall returns of the Investment Program would have been negative 4.4 percent, the Educational and General funds would have been <u>over</u> allocated by approximately $5 million and the Other Funds would have been <u>over</u> allocated by approximately $5.5 million based on the methodology in the finding since the distribution policy would have provided the identical distribution of $500,000 and $700,000 to E&G funds and Other Funds, respectively, instead of proportional losses of $4.5 million and $4.8 million, respectively. Additionally, utilizing actual Fiscal Year 2019

Year-to-Date December Investment Program returns of negative 0.1 percent, the University would have had to reverse all of the Fiscal Year-to-Date distributions and re-allocate losses to the restricted funding sources. Instead, as the distribution is based on guaranteed rates, the restricted funding sources received approximately $2.0 Million in earnings distribution in spite of the Investment Program loss. Also, it is important to note that Table 3 excludes the fourth quarter 2018 distribution of $0.7M that was recorded in FY 2019.

As noted in the finding, the Investment Program distributed an additional $5.9 Million to fund scholarships that would otherwise be funded from E&G funds, resulting in a total equivalent distribution of $6.5 million ($5.9 million + $0.6 million). This total distribution represents a net return of 7.7 percent for the E&G funding source. This rate of distribution was significantly higher than the overall 4.4 percent return of the investment portfolio in Fiscal Year 2018.

The University believes that the investment income allocation process is reasonable and equitable and has provided sufficient documentation to support this position. It is a fair, defensible, and objective way to efficiently allocate earnings to the funding sources while protecting these funds from investment losses. Nevertheless, the university recognizes the importance of the investment income allocations and will carefully review and, as appropriate, update the allocation methodology. The university will review the restricted investments to ensure that the use of earnings is not inconsistent with the restrictions governing those funds. The university will also maintain, by fund, records that adequately and accurately account for the restricted resource investments and related income. As part of the review of the allocation methodology, FIU will make the necessary adjustments to restore the appropriate amount of allocations to the E&G and other funds.

Finding 3: University procedures need improvement to ensure that investment information required by State law is presented to the Board and investment account reconciliations are performed timely.

Recommendation: The University should ensure that the investment information presented to the Board includes all the information required by State law and the investment reconciliations are timely performed.

The University concurs with this recommendation. As reflected in the finding, the University already began, proactively, reporting securities by asset class in the portfolio by market value, book value and income earned as of the December 5, 2018 Board of Trustees Meeting.

The University has procedures in place to ensure the accuracy and completeness of investment transactions. In addition, FIU has always maintained segregation of duties between the Controller's and Treasury Offices as an internal control to prevent fraud.

As noted in the finding, there were several factors which occurred within a couple of months of each other that caused the unusual and unexpected delays in the investment reconciliation process in the period audited. These factors include:

- The investment custodian changed their reporting platform, causing errors on the statements which required additional time to receive corrected statements.

- The University was closed for Hurricane Irma for one week. Hurricane related matters required priority attention which affected and contributed to delays in normal reconciliation processes.

- Immediately after Hurricane Irma our computer system was infected with Malware which required restoration of files to a new shared drive. The restoration process took approximately two months to complete.

While inevitably unforeseen circumstances may cause unusual delays, the University has implemented additional procedures to periodically reconcile investment accounts, including the development of a basis schedule to identify errors on investment manager statements and to assist with review of the entries to increase accuracy. This basis schedule is linked to trial balances and provides an informal reconciliation to ensure the investment balances are correct. There are some timing issues relative to the obtainability and accuracy of investment statements. Some investment statements are typically not received until the third week of the following month and at times require correction, one investment statement is received the last week of the month and there are two equity investment statements that are not received for three or more months after a month end. Nevertheless, the university believes 30-45 days is a reasonable time frame for quarterly reconciliations with up to 90 days for year-end reconciliations to enable recording of complete investment activity that includes the two equity investments with prolonged delays in providing investment statements.

Finding 4: The University made severance payments that exceeded the limits established in State law. A similar finding was noted in our report No. 2016-187.

Recommendation: The University should ensure that the severance pay provisions in University employment agreements are consistent with State law and that severance payments do not exceed the amounts established in State law.

5

The University concurs with this recommendation. FIU will ensure that contracts or employment agreements containing a provision for severance pay are in compliance with State law.

The audit identified three employees who were paid 26 weeks of pay upon separating from the University. These payments are "wages in lieu of notice" and not severance as defined in Florida Statute (F.S.) 215.425(4)(d). These payments are also not in violation of the extra compensation rule set forth in F.S. 215.425(1), as they are being paid pursuant to a University policy. Wages in lieu of notice and severance pay are two distinct concepts under the law. See, for example, F.S. 443.101(3)(a) and (b).

In addition, the 26 weeks of wages in lieu of notice policy reflects an arrangement determined approximately 13 years ago that is not subject to change by subsequent statutory changes. Under the University's Separation from Employment Policy, FIU Policy No. 1710.280, the majority of at-will employees are entitled to receive a maximum of 12 weeks of wages in lieu of notice upon separating from the University. A very small number of individuals, who were employed by FIU when the State universities became the employers of University employees (until this time the Board of Regents was the employer of all State University employees), are entitled, pursuant to the policy, to 26 weeks of wages in lieu of notice. At the time FIU became the employer, approximately 13 years ago, these employees (now a small number) were in a classification of employment called Administrative and Professional (A&P) and were entitled, pursuant to Rule 6C8-4.018, to receive up to 26 weeks of wages prior to terminating the employment relationship. Because of this pre-existing right, when these A&P employees transitioned from their A&P status to full at-will employment status they were eligible to receive 26 weeks of wages in lieu of notice.

The audit also identified provisions in the employment contract for one head coach that provide for termination payments which could exceed 20 weeks in pay. A very limited number of non-bargaining unit employees at the University are employed pursuant to an employment contract; almost all others receive offer letters. Coaches, head coaches in particular, are one of the key exceptions. This is because it is the custom and "market" to enter into these contracts. These contracts are beneficial to both parties and very specifically layout the rights and responsibilities of each party. The University's coaches' contracts carefully delineate grounds for termination with cause; grounds for termination for cause in this context are much more robust and easily met than in a typical at-will employment context.

Actions that would not entitle termination for cause in a typical at-will employment context may often result in grounds for termination for cause in coaches' contracts. Additionally, the custom and "market" for some coach positions is to provide for each party to pay liquidated damages on account of the contract termination. In order to be competitive in the hiring and retention of head coaches, the University is able to meet the

6

market by agreeing to a liquidated damages clause that provides both the University and the coach a remedy in the event either party terminates without cause. This is not a severance payment.

Unlike typical at-will employees, coaches may have stronger interests in their reputations, in goodwill and the like, and they are frequently relocating from different areas of the country to take coaching positions at the University. To mitigate the risk to each party on account of termination without cause, the contract provides each party a liquidated damages payment amount agreed upon at contract signing. In light of the legal doctrine of mutuality of remedies, the ability of the University to enforce the coaches' liquidated damages payment obligation is strengthened by the University having a similar obligation. The University has in fact collected liquidated damages under some coaches' contracts. The University believes the payments contemplated by the coaches' contracts do not constitute severance pay. Additionally, no liquidated damages have been paid under the identified contract.

Finding 5: University rules and records supporting University property, facilities, and personal services used by the University direct-support organizations (DSOs) could be improved. In addition, the University should discontinue the transfer of royalty and licensing fees to DSOs.

Recommendation: We recommend that:

- ***The University document University employee actual time and effort provided to DSOs to support the purpose for and value of such services and the distribution of applicable personal services costs among specific University and DSO activities.***

- ***The Trustees enter into agreements with DSO's to establish the basis for DSO reimbursements.***

- ***The University document the Trustees' consideration and approval of DSO anticipated use of University resources, at least on an annual basis, before the use occurs. To enhance government transparency, Trustee approval documentation should identify the positions of the employees who will provide the personal services, the square footage of the office space and related buildings that will be used by the respective DSO's, and the value of such use.***

- ***The University obtain confirmations and other documentation from DSO management affirming that University resources were only used for purposes approved by the Trustees.***

- ***In the absence of specific authority, the University discontinue the transfer of royalty and licensing fees to its DSOs.***

The University concurs with this recommendation. As accurately noted in the audit report, the University already prepares and itemizes the expected personnel costs and use of University property and facilities by the FIU Foundation for Board of Trustees approval during the annual budget process and will continue to do so.

In order to promote accountability and transparency over the use of University property, facility, and personal services resources by DSOs, the University will amend existing or execute new Memorandums of Understanding between the University Board of Trustees and DSO Board of Directors which will establish the basis for DSO reimbursements, approval for services and space utilization, and the associated processes.

The University will implement and communicate to the university community a procedure whereby the time and effort for University personnel who concurrently provide services to both the University and FIU Foundation is reflected in the personnel distribution costs among University and DSO activities. The personnel distribution cost must also be approved by the employee's supervisor in recognition of the employee's time and effort across various activities.

Additionally, the University will annually provide a list of employees along with their job code descriptions, FTE (representation of time and effort while in the position and based on personnel distributions contained in Human Resources records) and associated cost for the preceding year to FIU Foundation management for their affirmation that University resources were used only for purposes approved by the Board of Trustees.

The University and Research Foundation will enter into an agreement whereby the Research Foundation will be granted exclusive rights of certain assignments held by the University and to the income derived from the commercialization of associated intellectual property. In the event this income is insufficient to cover the services provided in support of the University's research mission and management of its intellectual property, the Research Foundation will invoice the University, which will use unrestricted funds to reimburse the Research Foundation. Beginning with the 2019-2020 fiscal year, the university's operating budget reflects BOT authorization to assign and transfer royalties revenue from the university to the Research Foundation.

The University receives royalty and licensing fee revenues associated with FIU Athletics that FIU believes are legally pledged revenues in support of the FIU Athletics Finance Corp. (AFC), a special purpose vehicle established for the financing and construction of the football stadium, and therefore the transfer is allowable under Florida Statute 1004.28. As per language reflected in the AFC Trust Indenture agreement and Assignment of

Leases, Rents, Profits and Contracts agreement, pledged revenues include concession revenue, which includes novelty concession revenue. The projected AFC operating revenues in the budget the Board of Governors approved on January 25, 2007, included net novelties revenues. By definition, a novelty is an item sold for its uniqueness, therefore without a distinctive feature, like a unique design, brand or logo, an item would not be considered a novelty. For articles such as T-shirts, Jerseys, tote bags, hats and other similar items that are sold, what makes them unique and thereby considered a novelty are the FIU logo and other brand markings which in turn generate licensing fees and royalty revenue. Consequently, we believe that licensing fees and royalty revenue are synonymous with novelty sales revenue and therefore considered part of the pledged revenues as defined in the AFC agreements. It is important to note that only one-third of the total licensing and royalty revenue received by the university is transferred to the AFC based upon sales of athletics related merchandise; the remaining two-thirds of the revenue remains with the university. Although the BOT approved budget for the AFC has included royalty and licensing fee revenues associated with FIU Athletics, FIU will also request specific BOT authorization to assign and transfer these royalty revenues from the University to the AFC and will request guidance from the BOG and the FIU Office of General Counsel.

Finding 6: The University intercollegiate athletic programs were not self-supporting and continued to experience deficit fund balances.

Recommendation: The Trustees should continue to monitor the financial condition of the intercollegiate athletic programs and take appropriate actions to ensure that intercollegiate athletic programs are self-supporting pursuant to BOG regulations.

The University concurs with this recommendation. As reflected in the finding, the deficit fund balance is the result of non-recurring capital expenditures and an approved loan repayment schedule has been established. The University, building upon Recommendation 1.1 of the Office of Internal Audit Report No. 17/18-01, "Audit of Athletics Department Operations," will continue to monitor the financial condition of the intercollegiate athletics program and develop long-range budget plans that will result in the elimination of the fund balance deficit currently being offset by intercompany loans approved by the Board of Trustees.

The Athletics Department completes, on a quarterly basis, an updated financial projection that is presented to the Chief Financial Officer and Athletics Director for review. In addition to financial projections, the Athletics Department prepares a quarterly variance report for the current fiscal year which is shared with the Board of Trustees. These measures result in a systematic review of financial operations and ensure Board of Trustee's approved loan repayment schedules are adhered to.

Lastly, as part of the long-term financial planning for the Athletics Department, appropriate actions are being taken to review and reduce operating costs for the intercollegiate athletics programs, where appropriate, and to expand opportunities to generate incremental revenue from both new and existing sources.

Finding 7: The University did not always timely cancel purchasing card privileges when a cardholder separated from University employment.

Recommendation: The University should continue efforts to ensure that P-card privileges are timely cancelled upon a cardholder's separation from University employment.

The University concurs with this recommendation. FIU will continue its efforts to ensure that PCard privileges are timely cancelled upon a cardholder's separation from University employment.

Effective immediately, the Credit Card Solutions Team (CCST) has further strengthened internal procedures to ensure the timely cancellation of university issued credit cards and reduce gaps in our internal protocols specifically adding additional logic for internal transfers.

The CCST has implemented measures to improve procedure awareness for timely card cancellation to the university community. We will ensure that a biannual reminder is published in the Panther Post Newsletter alerting units to the correct card cancellation procedure. Additionally, an annual reminder will be sent via the dedicated program listserv to alert cardholders and approvers as well.

Finding 8: Certain University information technology (IT) access controls over finance applications need improvement.

Recommendation: The University should continue efforts to perform documented periodic evaluations of IT user access privileges to the ERP system applications based on a demonstrated need for such access and remove any inappropriate or unnecessary access privileges detected.

The University concurs with this recommendation. FIU will ensure that there is a process to review the ERP system access privileges on an annual basis. FIU understands the risk of employees having unnecessary access to any of the ERP modules (Finance, HR, and

Student Financials) and the University will create a process to ensure that a review of all individuals with access will be conducted annually.

Finding 9: Some unnecessary IT user access privileges existed that increase the risk that unauthorized disclosure of sensitive personal information of students may occur.

Recommendation: To ensure access to the sensitive personnel information of students is property safeguarded, the University should:

- ***Document the public purpose served for maintaining that information for individuals who do not enroll in the University. Absent such, the University should discontinue the practice of indefinitely maintaining the sensitive personal information of prospective students who do not enroll.***
- ***Upgrade the University IT system to differentiate IT user access privileges to current student information from access privileges to former and prospective student information.***
- ***Continue efforts to ensure that only those employees who have a demonstrated need to access the sensitive student information have such access. If an employee only requires occasional access, access privileges should be granted only for the time needed.***

The University concurs with this recommendation. FIU has an automated process that deletes sensitive personal information of prospective students who do not enroll after one year of being imported into the system. In addition, FIU is enhancing this automated process to ensure that any sensitive information that is no longer needed or serves a public purpose is removed from the student system. FIU has also documented the purpose for storing such information for operational requirements.

The information of current, former and prospective students is stored in the same database tables and is accessible through the same system pages. Currently, our vendor, Oracle, does not provide a mechanism to differentiate this information based on current, former and prospective statuses. FIU has implemented a mechanism that masks all sensitive information by default, allowing it to be viewed partially or fully by individuals, as appropriate, based upon demonstrated and justifiable need to see such information.

Access to systems and data is automatically reviewed and removed when employees are terminated or transfer departments within the university. While FIU does not currently have a way to expire access at a predetermined date, a project is underway to provide this functionality. This project is expected to be completed before the end of 2019.