



**Office of  
Internal Audit**

FLORIDA INTERNATIONAL UNIVERSITY

**Audit of Grant Accounting –  
FIU Foundation Funded**

**Report No. 20/21-08  
May 5, 2021**



## Office of Internal Audit

**Date:** May 5, 2021

**To:** Howard R. Lipman, Senior Vice President, University Advancement and CEO, FIU Foundation, Inc.

**From:** Trevor L. Williams, Chief Audit Executive

A handwritten signature in blue ink, reading "Trevor L. Williams", is placed over the "From:" line.

**Subject: Audit of Grant Accounting – FIU Foundation Funded  
Report No. 20/21-08**

We have completed an audit of Grant Accounting – FIU Foundation Funded for the period July 1, 2019, through June 30, 2020, and an assessment of the current practices through March 1, 2021. The primary objectives of our audit were to determine whether: (a) there are adequate and effective controls in place for the proper administration of FIU Foundation-funded research, (b) there are adequate controls in place to detect and prevent researchers from circumventing the Foundation and University grant approval processes, and (c) Foundation-funded research funds are used properly in accordance with gift requirements and University policies and procedures.

During the audit period, there were 51 active Research Projects, which incurred expenses totaling \$1,730,463. For the same period, there were seven Research Projects that were opened with contributions totaling \$745,712.

Our audit found that apart from a specific instance related to the reimbursement of expenses connected to a donor's quid pro quo contribution detailed in the report, Research Project funds were used consistent with the gift requirements and University policies and procedures. In addition, we found no instances of researchers circumventing the University's grant approval process through the Foundation or auxiliaries. Also, we noted that the Research Project administration training provided is robust but lacks a monitoring component. The audit resulted in three recommendations, which management has either already addressed or agreed to implement.

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

Attachment

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

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## **OBJECTIVES, SCOPE, AND METHODOLOGY**

Pursuant to the approved annual plan for the 2020-2021 fiscal year, we have completed an audit of Grant Accounting – FIU Foundation Funded for the period July 1, 2019, through June 30, 2020, and an assessment of current practices through March 1, 2021. The primary objective of our audit was to develop an understanding of the operating environment and determine if: (a) existing controls are adequate and effective for the proper administration of FIU Foundation-funded research activities that are not routed through or managed by the Office of Research and Economic Development (ORED); (b) the funds related to said research activities are used properly, in accordance to the gift requirements and University policies and procedures; and (c) existing controls prevent and detect researchers from circumventing the Foundation and University grant approval process.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*, promulgated by The Institute of Internal Auditors. The audit included tests of the supporting records and such other auditing procedures, as we considered necessary under the circumstances. Audit fieldwork was conducted from January 2021 through March 2021.

During the audit, we:

- Reviewed University policies and procedures, and applicable statutes, rules, and regulations (federal and state, accordingly).
- Interviewed personnel and documented the various facets of Foundation-funded research activities.
- Tested the adequacy of internal controls and processes (i.e., project opening, spending, closeout) via transactions testing for Foundation-funded research activities not managed by ORED.
- Evaluated the effectiveness of processes in place for preventing and detecting researchers who may circumvent the Foundation's/University's grant approval process.
- Applied data analysis techniques to flag potential anomalies related to Foundation-funded research activities (not managed by ORED).

Sample sizes and transactions selected for testing were determined on a judgmental basis applying a non-statistical sampling methodology.

As part of the audit, we reviewed all internal and external audit reports that had been issued during the last three years and found no reports with any applicable recommendations related to the scope and objectives of this audit, which otherwise would have required follow-up. An external audit of the Foundation's financial statements for the fiscal year ended June 30, 2020, concluded that the financial statements were presented fairly, in all material respects.

## BACKGROUND

Florida International University Foundation, Inc. (“FIU Foundation” or “Foundation”) was established in 1969 to encourage, solicit, receive, and administer gifts for scientific, educational, and charitable purposes for the advancement of Florida International University and its objectives. It is registered by the State of Florida as a charitable organization and is approved by the U.S. Internal Revenue Service as a tax exempt 501(c)(3) organization. The Foundation has also been certified as a Direct Support Organization (DSO) of Florida International University as defined in Florida Statute Chapter 1004 Section 28.

### **Project Funding: Approval and Setup**

An FIU Foundation Project (7-digit number in PantherSoft) must be created to track donations received and related expenses, as allowed per the donor’s documented intent. The respective departments request a new project to be created by submitting an electronic *New Foundation Project Request Form* along with any supporting documents to the Foundation. The form must be electronically approved by the department’s organizational approvers, followed by approval from the Foundation Business Office.

Each project is assigned a type, based on the nature of the gift. The distinct project types and their corresponding descriptions are noted below with those subject to this audit **in bold type**.

<b>Table 1: Foundation Project Type</b>	
Project Type	Description
Admin Oper Fund (ADMOP)	Administrative operating fund
Annual Fund (ANNFD)	Annual fund/capital campaign
Building (BUILD)	Building fund
Chairs (CHAIR)	To fund a chair
Faculty Development (DEVEL)	To provide funds for faculty development, support, and recognition
Discretionary (DISCR)	Discretionary funds
Fellowships (FELLO)	To fund fellowships
General Reserve (GENRS)	To fund general reserve
Investment (INVST)	Foundation Investments
Professorship Faculty (PROFS)	Professorship funds
<b>Research (RESER)</b>	<b>To fund Research Projects</b>
<b>Sponsored Research (SPRES)</b>	<b>To be used solely for projects managed by ORED</b>
Programs (PROGR)	To provide funds for the benefit of programs in a school or department
Scholarship (SCHOL)	To fund scholarships
Student Support (STDNT)	Student support
First Gen Scholarships (SCHFG)	To fund First Generation Scholarship projects

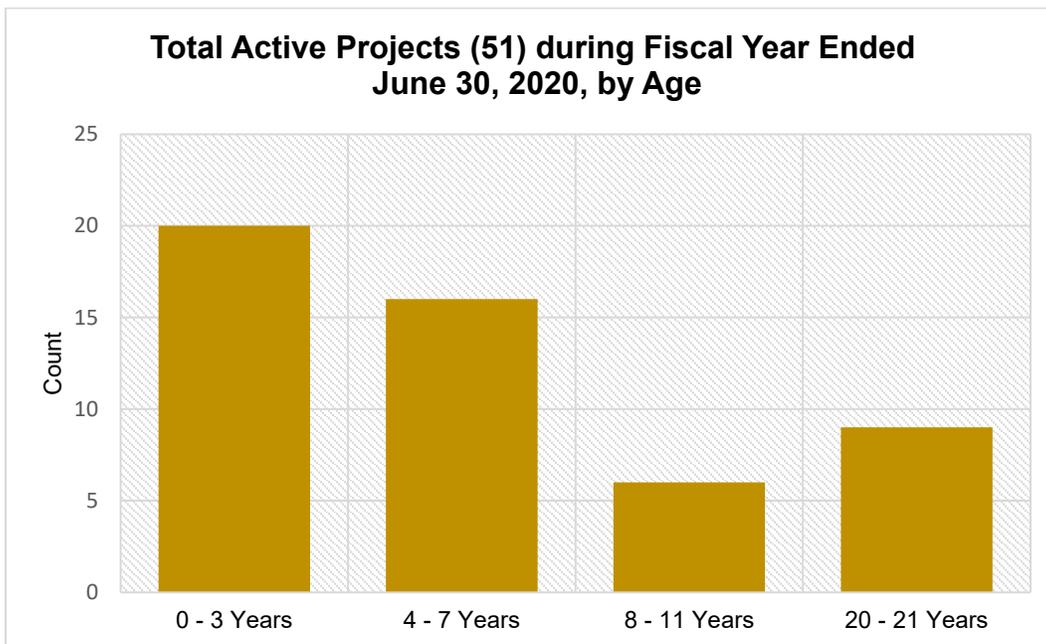
*Source: FIU Foundation's Instructions for the Foundation Project Request e-Form*

To test the objectives of our audit, we focused primarily on Research Projects, with a limited review of Sponsored Research Projects. A project should be managed by ORED (Sponsored Research) if one or more of the following criteria are present:

- Research involves human subjects.
- Research involves animal subjects.
- Research involves controlled substances.<sup>1</sup>
- Sponsor requires detailed fiscal reporting or other limits.<sup>2</sup>



There were 51 active<sup>3</sup> Research Projects with donations totaling \$2,011,369 and expenditures totaling \$1,730,463 during the fiscal year ended June 30, 2020. For the same period, there were seven Research Projects that were opened, with donations totaling \$745,712; four of which incurred expenses during the period totaling \$77,159.



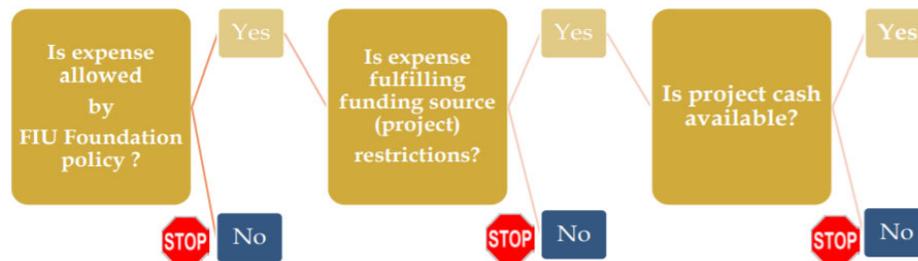
<sup>1</sup> Controlled substances are specific materials regulated by the United States Drug Enforcement Administration (DEA), and are used for research and instructional purposes at the University. These substances and their possession are regulated to ensure safety and prevent the potential for abuse.

<sup>2</sup> Includes intellectual property provisions, budget restrictions, audit provisions, publication restrictions, export controls, University personnel subject to institutional monitoring plans, or other items commonly regulated via the electronic proposal routing approval form (ePRAF).

<sup>3</sup> Defined as a project that either received funds or incurred expenses during the period July 1, 2019, to June 30, 2020.

## Project Spending

Project expenditures may either be incurred by the University (identified as business unit “FIU01” in PantherSoft) and later reimbursed by the Foundation (identified as business unit “FIU02”) or be paid directly to the supplier by the Foundation using an Electronic Invoice Form. For both instances, the following questions must be asked, prior to the expense being funded by the project:



Source: Foundation Disbursement Policy & Procedure Summary

The *FIU Foundation, Inc. Disbursement Procedure* describes the process regarding the reimbursement of expenses from Foundation funds related to business meals, travel, gifts, events, honoraria, and athletic event tickets. No funds are permitted to be advanced for any project, prior to the receipt of the donation intended to fund the expense. Moreover, if a project has insufficient funds, the expense will not be paid from the Foundation funds and the respective department will have to use a backup funding source. Electronic Invoice Forms are typically submitted within 60 days of the goods being provided or the service being rendered, unless there are extenuating circumstances which must be documented.

Salaries for Research Projects are paid by the University and posted to fund 604 (Transfer to Component Units) for reimbursement from the Foundation. Each month, after the University has closed the accounting period, the Foundation runs a query of all payroll paid by fund 604. The Foundation then reaches out to the corresponding departmental approvers to identify which project numbers should fund the reimbursement(s). Once received, the Foundation reviews, approves and then transfers the funds to the University via wire transfer.

## Project Closeout

Research Projects (not managed by ORED) are rarely closed out due to the ongoing fundraising and open-ended life of such research. These project types are closed if the project was opened in error or if the department asks that the project be closed (e.g., an annual event, such as the Global Health Consortium that has a new project opened each year). If projects are closed, the status within PantherSoft is changed to “C” or closed. This new status (“C”) prevents transactions from being posted to the project. During the audit period (July 1, 2019, through June 30, 2020), there were two Research Projects that were closed.

## **OBSERVATIONS AND RECOMMENDATIONS**

In summary, we noted that there are adequate and effective controls in place for the proper administration of FIU Foundation-funded research not managed by ORED. Apart from the specific instance related to the reimbursement of expenses connected to a donor’s quid pro quo contribution detailed later in this report, Research Project funds are used consistent with the gift requirements and University policies and procedures. In addition, we found no instances of researchers circumventing the University’s grant approval process through the Foundation or auxiliaries. Also, we noted that the Research Project administration training provided is robust but lacks a monitoring component. Our observations and recommendations pertaining to reportable conditions found are detailed on the following pages of this report. We have also included management’s response to our observations and recommendations, along with their implementation dates. Our overall assessment of internal control is presented in the table below.

CRITERIA	SATISFACTORY	OPPORTUNITIES TO IMPROVE	INADEQUATE
<b>Process Controls</b>	X		
<b>Policy &amp; Procedures Compliance</b>	X		
<b>Effect</b>	X		
<b>Information Risk</b>	X		
<b>External Risk</b>	X		
INTERNAL CONTROLS LEGEND			
CRITERIA	SATISFACTORY	OPPORTUNITIES TO IMPROVE	INADEQUATE
<b>Process Controls</b> (Activities established mainly through policies and procedures to ensure that risks are mitigated, and objectives are achieved.)	Effective	Opportunities exist to improve effectiveness	Do not exist or are not reliable
<b>Policy &amp; Procedures Compliance</b> (The degree of compliance with process controls – policies and procedures.)	Non-compliance issues are minor	Non-compliance issues may be systematic	Non-compliance issues are pervasive, significant, or have severe consequences
<b>Effect</b> (The potential negative impact to the operations- financial, reputational, social, etc.)	Not likely to impact operations or program outcomes	Impact on outcomes contained	Negative impact on outcomes
<b>Information Risk</b> (The risk that information upon which a business decision is made is inaccurate.)	Information systems are reliable	Data systems are mostly accurate but need to be improved	Systems produce incomplete or inaccurate data which may cause inappropriate financial and operational decisions
<b>External Risk</b> (Risks arising from events outside of the organization’s control; e.g., political, legal, social, cybersecurity, economic, environment, etc.)	None or low	Potential for damage	Severe risk of damage

## **Areas within the Scope of the Audit Tested without Exception:**

### **Policies and Procedures**

We conducted a walkthrough of key processes (i.e., project approval and setup, spending, and closeout) associated with Foundation-funded Research Projects. We then evaluated existing governing documents to determine if they adequately encompassed guidance for such processes. We concluded that the Foundation has established a robust set of policies and procedures which address key processes related to Research Projects.

### **Detecting Circumvention of Grant Approval Process**

ORED has developed a roadmap, as depicted in their *Gifts, Grants, & Other Externally Sponsored Activities Decision Tree*, which sets controls in place to mitigate the risk of researchers circumventing the University's grant approval process, and improperly receiving funds via an auxiliary fund.

We reviewed auxiliary revenue activity using distinct factors (i.e., general ledger account, amount, supplier) to identify potential grant/research funds that may have circumvented the Foundation or ORED and reviewed those flagged to determine where funds originated. We did not identify any funds which were wrongfully routed through an auxiliary.

Additionally, we judgmentally selected a sample of five research publications (of 2,235 such publications) from WebofKnowledge.com, which identify projects involving the University. We limited our review to five publications, due to the nature of these publications and the complexity involved with correlating a project to the related publication. We concluded that none of the five projects circumvented the University's grant approval process.

### **Project Approval and Setup**

We reviewed four of the seven Research Projects that were opened during the audit period to determine if such projects were properly approved and setup. We determined that for all projects sampled, an FIU Foundation Project Description Form was completed, approvals were obtained from the respective deans, and the contributed funds were allocated to the correct project number.

Additionally, we reviewed all seven Research Projects opened during the period to determine if ORED, rather than the Foundation, should have managed the project. We noted that none of the projects tested involved human subjects, animal subjects, or controlled substances. Moreover, projects did not require detailed fiscal reporting. Therefore, we concluded that Research Projects were properly approved and setup by the Foundation.

## **Payroll Reimbursements for Research Projects**

For the period audited, there were 20 Research Projects that had payroll reimbursements totaling \$448,859. We judgmentally selected a sample of 10 projects, with payroll-related expenditures totaling \$366,108 (444 transactions) and tested 25 transactions, totaling \$73,614.

We validated that the payroll reimbursements tested were properly supported and that wages paid adhered to the corresponding project budgets. Lastly, we verified that personnel paid was allowed, and in instances when there were personnel changes, prior approval was obtained. As a result, we concluded that payroll expenditures for the Research Projects tested were used in accordance with gift requirements, as well as University policies and procedures.

## **Cost Transfers**

A cost transfer is an after-the-fact allocation of costs associated with a transaction from one project to another. Cost transfers are identified by the terms, “reclass”, “transfer”, and/or “adjust” within the journal header description by the Foundation. We identified three cost transfers, totaling \$181,162, which were processed during the audit period. We sampled two of the cost transfers, which totaled \$100,295 and noted that the transactions were allowable, reasonable, adequately supported, and properly approved.

## **Reporting to Sponsors**

Gift agreements may require periodic reporting to Sponsors. To ensure that such terms are being met, we identified all Research Projects that incurred expenses (payroll and non-payroll) during the period. Of the 51 active projects, we judgmentally selected a sample of 20 projects, with expenditures totaling \$1,311,859 and reviewed the corresponding New Project Forms and gift agreements, to determine if the projects required reporting to the Sponsor. We noted that 10 of the 20 projects reviewed, required additional reporting. We subsequently tested five of the 10 projects and noted that reporting was prepared in accordance with the Sponsors’ requirements or extensions for reporting and were timely requested and approved.

## **Unusual Project Expenses**

We applied data analytics to identify anomalies in Research Project expenses. As part of our analyses, we were seeking to identify:

- project expenses that occurred before the project start date,
- project expenses that occurred after the project close date,
- individuals who were paid more by Research Projects than their University (FIU01) salaries,

- individuals who were paid twice within the same paycheck and for the same project,
- individuals who received salary reimbursements near the project close date,
- unusual cost transfers, and
- unusual burn rates<sup>4</sup> in the last four to six weeks before the project close date.

We noted that expenses flagged from the above analyses were proper and allowable, based upon our detailed auditing procedures applied.

### **Project Closeout**

There were two Research Projects that were closed during the audit period. Upon further review of these instances, we noted that neither project exceeded its budget. Instead, both projects had unused funds, totaling \$176,912, and we validated that approval to reallocate the funds to another project was obtained from the respective sponsors.

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<sup>4</sup> The rate at which funding is being spent.

## Areas within the Scope of the Audit Tested with Exception:

### 1. Non-Payroll Expenditures for Research Projects

For the period audited, there were 38 Research Projects that had non-payroll expenses, totaling \$1,281,603. We judgmentally selected a sample of 14 projects, with non-payroll related expenditures totaling \$1,034,216 (117 transactions) and tested 25 transactions, totaling \$771,605.

We reviewed the sampled items to determine if expenses were allowable, allocable, reasonable, and consistent. We noted one instance (of 25), in which an expense in the amount of \$43,614 did not appear to be allowable or reasonable. This expense was for a travel reimbursement for a research trip to the Bahamas related to shark conservation. The reimbursement was for lodging and fuel for the period of March 1, 2019, through March 7, 2019. Furthermore, we found that a Travel Authorization was not approved by the University until October 10, 2019. The *FIU Foundation, Inc. Disbursement Procedure* states:

*“All travel must have a valid Travel Authorization (TA) per University policies. Travel Authorizations are only valid if they are approved prior to the travel occurring.”*

As a result, a Non-Conforming Purchase form was completed and signed by the Expense Manager, the Business Unit Head, the Director of Purchasing, and the Provost, subsequent to the trip having occurred.

The travel reimbursement was based on lodging for eight travelers. However, upon a detailed review, we noted that four of the eight travelers were members of the donor’s family. This donor had gifted the Foundation \$45,000 in February 2019 for shark conservation. The *FIU Foundation, Inc. Disbursement Procedure* states:

*“All guest/spouse travel reimbursed by the Foundation must include an approved Travel Authorization Request, original receipts, and a Foundation Unencumbered Payment Form. All guest/spouse travel must be documented to the exact same standard as employee travel and will be reimbursed to the same amounts. Additionally, the form must state the business purpose served by guest or spouse’s travel. If this business justification is excluded, no reimbursement will be paid.”*

For the instance noted above, the business justification for the four guests was not documented and the expense was approved by the department’s budget approvers and submitted to the Foundation for reimbursement, which was ultimately approved and paid. Instead, the Department’s backup funding source should have been used.

Subsequent to our inquiry, the Biological Sciences Department conducted an analysis and noted that \$28,718 should not have been deposited into the Foundation account. The IRS' Publication 1771 (Rev. 3-2016), *Charitable Contributions – Substantiation and Disclosure Requirements* states:

*“Donors may only take a contribution deduction to the extent that their contributions exceed the fair market value of the goods or services the donors receive in return for the contributions; therefore, donors need to know the value of the goods or services. An organization must provide a written disclosure statement to a donor who makes a payment exceeding \$75 partly as a contribution and partly for goods and services provided by the organization. A contribution made by a donor in exchange for goods or services is known as a quid pro quo contribution.”*

The Publication goes on to state:

*“An organization must furnish a disclosure statement in connection with either the solicitation or the receipt of the quid pro quo contribution.”*

A written disclosure statement for the \$45,000 was provided to the donor in February 2019 when the gift was received. However, subsequent to the donor's receipt of goods or services, a revised written disclosure statement was not provided.

The remaining 24 transactions tested appeared to be allowable, allocable, reasonable, and consistent.

## **Recommendations**

The FIU Foundation should:	
1.1	Expand the <i>FIU Foundation, Inc. Disbursement Procedure</i> to require disclosure of the affiliation of each traveler, prior to approving the reimbursement.
1.2	Provide the donor with a written disclosure statement in accordance with the IRS rule for charitable contributions to exempt organization and 26 U.S. Code Section 6115 – <i>Disclosure related to quid pro quo contributions</i> , which notes the value of the goods and services provided.

## **Management Response/Action Plan**

- 1.1 We concur with the Auditor's recommendation. Management is currently working on updating the FIU Foundation, Inc. Disbursement Procedure to require affiliation of any traveler.

**Implementation date:** June 30, 2021

**Complexity rating:** 2 – Moderate

- 1.2 We concur with the Auditor's recommendation. On April 16, 2021, a revised written disclosure statement, which included the value of the goods and services received, was mailed to the donor.

**Implementation date:** April 16, 2021

**Complexity rating:** 1 – Routine

## 2. Monitoring of Training

Training materials for Foundation-funded Research Projects are robust and provide sufficient guidance related to the grant administration process. However, due to the way the Foundation makes training accessible to departments (e.g., via PDFs and videos), we are unable to determine if key personnel completed relevant Research Project administration training. Thus, the existing training program does not have a monitoring component. Tracking employee performance provides detailed information about how well employees are engaging with the training content, determines the overall effectiveness of the program, and documents compliance.

Failing to monitor the training program may result in employees not adhering to University policies and donor requirements.

### **Recommendation**

The FIU Foundation should:	
2.1	Work with the Division of Information Technology to explore the feasibility of incorporating the Research Project administration training programs within FIU Develop to enable the Foundation to effectively monitor employee comprehension of the project administration process and document compliance.

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

2.1 We concur with the Auditor's recommendation. Management will work on exploring the feasibility of incorporating a monitoring component to Foundation Research Project administration training.

**Implementation date:** December 31, 2021

**Complexity rating:** 3 – Complex

## APPENDIX I – COMPLEXITY RATINGS LEGEND

### Legend: Complexity of Corrective Action

1	<b>Routine:</b> Corrective action is believed to be uncomplicated, requiring modest adjustment to a process or practice.
2	<b>Moderate:</b> Corrective action is believed to be more than routine. Actions involved are more than normal and might involve the development of policies and procedures.
3	<b>Complex:</b> Corrective action is believed to be intricate. The solution might require an involved, complicated, and interconnected process stretching across multiple units and/or functions; may necessitate building new infrastructures or materially modifying existing ones.
4	<b>Exceptional:</b> Corrective action is believed to be complex, as well as having extraordinary budgetary and operational challenges.

## **APPENDIX II – OIA CONTACT AND STAFF ACKNOWLEDGMENT**

**OIA contact:**

Joan Liew 305-348-2107 or [jliew@fiu.edu](mailto:jliew@fiu.edu)

**Contributors to the report:**

In addition to the contact named above, the following staff contributed to this audit in the designated roles:

Natalie San Martin (auditor-in-charge)  
Manuel Sanchez (supervisor and reviewer)  
Vivian Gonzalez (independent reviewer)

## **Definition of Internal Auditing**

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