



Office of Internal Audit

Audit of the Division of Human Resources

Report No. 15/16-08

January 28, 2016



FLORIDA
INTERNATIONAL
UNIVERSITY

OFFICE OF INTERNAL AUDIT

MEMORANDUM

DATE: January 28, 2016

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

FROM: Allen Vann, Chief Audit Executive

A handwritten signature in blue ink, reading "Allen Vann", is written over the "FROM:" line.

SUBJECT: Audit of the Division of Human Resources, Report No. 15/16-08

Pursuant to our approved annual plan, we have completed an audit of Human Resources (HR). The primary objective of our audit was to determine whether established financial controls and procedures relating to revenues, payroll administration, procurement of goods and services, travel and property accounting were: 1) adequate and effective; 2) being adhered to; and 3) in accordance with University policies and procedures, applicable laws, rules and regulations.

HR's operating budget for the fiscal year 2014-15 totaled \$7.4 million, funded mainly from the Educational & General fund. HR also had \$115,000 and \$80,000 in Auxiliary and Financial Aid Scholarship revenues, respectively. Approximately 80% (\$5.9 million) of the HR's total expenditures were related to employees' salaries and benefits and the remaining 20% (\$1.5 million) were for other operating expenditures such as professional services and advertising.

Overall, our audit disclosed that HR's established financial controls and procedures were adequate and effective. Nevertheless, there were a few areas where internal controls need strengthening, particularly in the areas of: payroll approval, purchasing requirements, expenditure guideline, and accounting for Student Access Success program expenditures. The audit resulted in five recommendations, which management agreed to implement.

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

Attachment

C: Claudia Puig, Chair, FIU Board of Trustees
Gerald C. Grant Jr., Chair, FIU Board of Trustees Finance and Audit Committee
FIU Board of Trustees Finance & Audit Committee Members
Mark B. Rosenberg, University President
Kenneth A. Jessell, Chief Financial Officer and Senior Vice President
Javier I. Marques, Chief of Staff, Office of the President
Kristina Raattama, General Counsel

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OBJECTIVE, SCOPE AND METHODOLOGY

Pursuant to our approved annual plan, we have completed an audit of the Division of Human Resources (HR). The primary objective of our audit was to determine whether established financial controls and procedures relating to revenues, payroll administration, procurement of goods and services, travel and property accounting are:

- Adequate and effective;
- Being adhered to; and
- In accordance with University policies and procedures, applicable laws, rules and regulations.

Our audit included HR's financial transactions for the fiscal year 2014-2015. The audit was conducted in accordance with *the International Standards for the Professional Practice of Internal Auditing*, and included test of the accounting records and such other auditing procedures as we considered necessary under the circumstances. Audit fieldwork was conducted from October to November 2015.

During the audit, we:

- Reviewed University policies and procedures, applicable Florida statutes and regulations, and HR Reference Manual;
- Observed current practices and processing techniques;
- Interviewed responsible personnel; and
- Tested selected transactions.

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

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

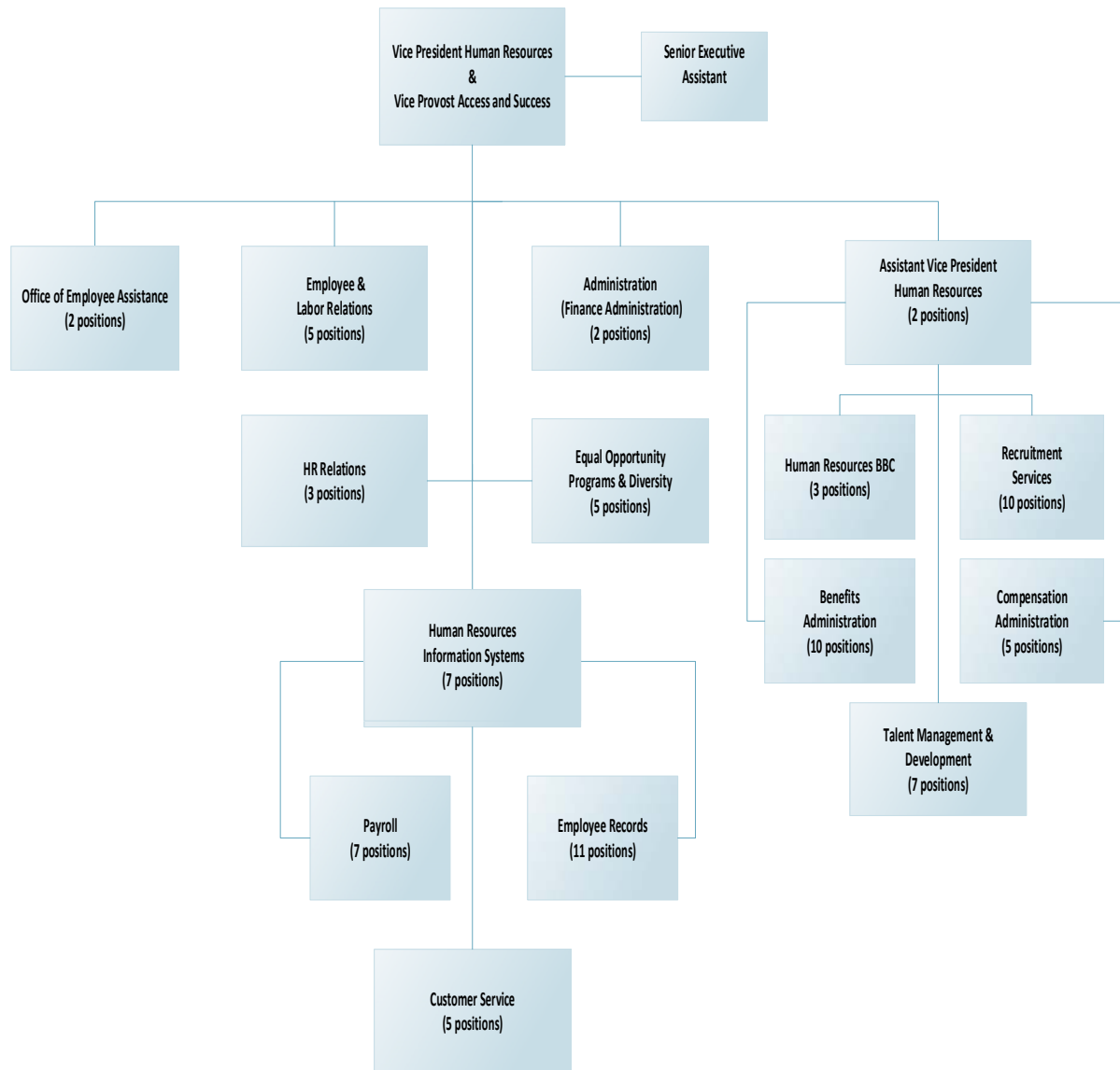
BACKGROUND

The Division of Human Resources (HR) is part of the larger Office of Finance and Administration. It undertakes and assists the University in a wide range of essential activities, including employee recruitment and screening, training and development, performance appraisals, labor relations, and managing payroll and benefit systems. Those and many other services are delegated to the following departments within HR.



Personnel

As of November 2015, HR had 86 full-time employees. The HR's organization chart is shown below.

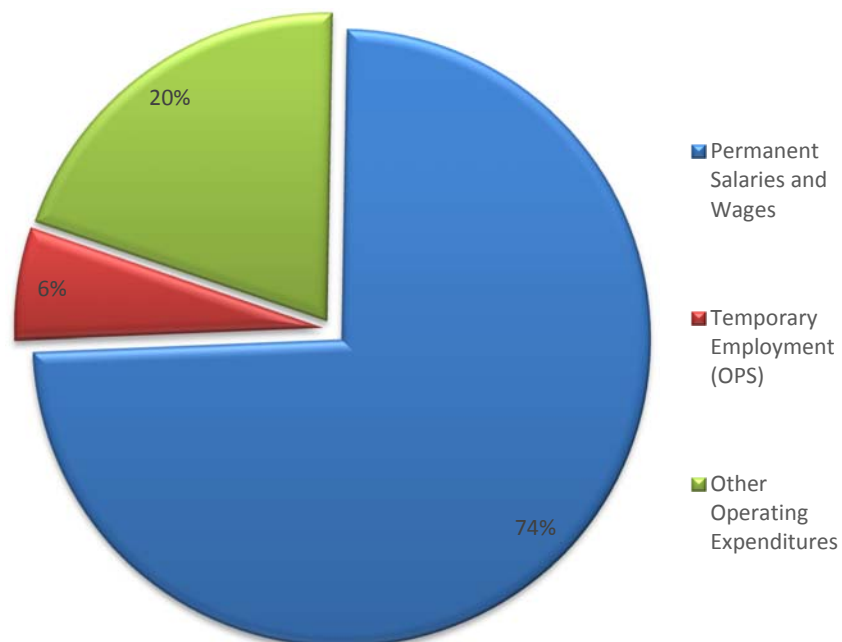


Financial Information

HR's operating budget for the fiscal year 2014-15 totaled approximately \$7.4 million, funded mainly from the Educational & General (E&G) fund. HR also had approximately \$115,000 and \$80,000 in Auxiliary and Financial Aid Scholarship revenues, respectively.

As depicted in the following chart, approximately 80% (\$5.9 million) of the HR's total expenditures were related to employees' salaries and benefits and the remaining 20% (\$1.5 million) were for other operating expenditures such as professional services and advertising.

FY 2014-15 Expenditures



FINDINGS AND RECOMMENDATIONS

Overall, our audit disclosed that HR's established financial controls and procedures were adequate and effective. Nevertheless, there were a few areas where internal controls need strengthening, particularly in the areas of: payroll approval, purchasing requirements, expenditure guideline, and accounting for Student Access Success program expenditures.

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

INTERNAL CONTROLS RATING			
CRITERIA	SATISFACTORY	FAIR	INADEQUATE
Process Controls	X		
Policy & Procedures Compliance	X		
Effect	X		
Information Risk	X		
External Risk	X		
INTERNAL CONTROLS LEGEND			
CRITERIA	SATISFACTORY	FAIR	INADEQUATE
Process Controls	Effective	Opportunities exist to improve effectiveness	Do not exist or are not reliable
Policy & Procedures Compliance	Non-compliance issues are minor	Non-compliance Issues may be systemic	Non-compliance issues are pervasive, significant, or have severe consequences
Effect	Not likely to impact operations or program outcomes	Impact on outcomes contained	Negative impact on outcomes
Information Risk	Information systems are reliable	Data systems are mostly accurate but can be improved	Systems produce incomplete or inaccurate data which may cause inappropriate financial and operational decisions
External Risk	None or low	Medium	High

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

1. Financial Management

During the audit, we observed that HR was operating in a fiscally responsible manner. The HR Vice President approved each department's budget submitted by the department heads for their annual purchases and a Departmental Administrator and Accountant within HR's Administration watch over all of HR's fiscal activities, which include budget management, analysis of revenues and expenditures, and monitoring spending. Also, all expenses were approved by the respective department heads and the Departmental Administrator.

2. Revenue Controls

HR earned approximately \$115,000 in auxiliary revenues for recruitment services provided to other University departments during the fiscal year 2014-15. The billings and collections for the services provided were made using the University's Smart Billing System.

We reviewed 24 transactions totaling \$62,400 and determined that the revenues were properly assessed, collected, recorded, and reconciled. No exceptions were noted.

3. Expenditure Controls

For the audit period, HR spent approximately \$5.9 million for payroll related expenditures and approximately \$1.5 million for non-payroll operating expenditures. The areas of expenditures were reviewed as follows:

a) Payroll Expenditures

For the fiscal year 2014-15, salaries and fringe benefits were \$5.9 million or 80% of the HR's total expenditures. We focused our review primarily on payroll approval. According to the University's payroll guidelines, managers/proxies should have first-hand knowledge of the employee's work and/or leave hours or obtain written confirmation from the employee's supervisor of the hours being reported prior to approving the payroll. In this regard, HR's payroll approval process needs to be strengthened.

We reviewed time and attendance records covering 13 pay periods from January 3, 2015 through July 3, 2015, which included 1,347 transactions. The results of our review are noted below.

- 15% or 208 transactions were not approved by the HR's managers/supervisors. As a result, they were approved by default by the University's Payroll Department who does not have direct knowledge of the employees' hours worked or leave taken.

- An employee approved one transaction (8 hours) of his own vacation leave time. Our further review showed that 15 other transactions for his annual and sick leave hours were approved by default by the payroll system. Because he was the proxy approver on behalf of his supervisor, his leave hours were approved by the system but the approval documents should have been maintained. However, he could not provide documentation for his supervisor's approval of his leave hours, as required by the payroll guidelines.

The absence of an adequate payroll approval process leaves the University vulnerable to paying employees for time not worked and maintaining inaccurate leave records, which can be costly in the long term.

b) Other Operating Expenditures

For the fiscal year 2014-15, HR incurred approximately \$1.5 million in non-payroll related expenditures. To determine if the HR's expenditures were appropriate, allowable, and in accordance with University policies and procedures, applicable laws, rules and regulations, we reviewed 106 travel related transactions totaling \$45,084 and 79 transactions totaling \$303,250. In addition, we reviewed 103 credit card transactions totaling \$46,394.

Except for some of the observations noted below, our review disclosed that the HR's non-payroll related expenditures were appropriate, allowable, and in accordance with University policies and procedures, applicable laws, rules and regulations.

1. Travel Expenses

Our test of 106 travel related transactions totaling \$45,084 disclosed that they were authorized, properly approved, and in accordance with the University's Travel Expense Policy.

2. Purchasing After-the-Fact

Our test of expenditures disclosed that a service was received for one transaction totaling \$25,800, without evidence of competitive selection (written quotations) and before issuing a purchase order or securing a contract. As a result, the invoice for this transaction was received for payments prior to issuing a purchase order or a contract. The expense was related to the University's Children's Holiday Celebration.

According to the University's Purchasing Procedures Manual, two or more written quotations must be obtained for purchases with monetary levels of \$25,000 to \$74,999. The manual also states that, "Departmental employees do not have authority to place orders with vendors or contractors for supplies or services. The authority for issuing contracts and purchase orders is with the Purchasing Services Department. Purchases made by employees without first securing a purchase order or a contract are a violation of University and state policy..."

Purchase orders or contracts being issued after-the-fact circumvent the intent and purpose of established procedures and weakens control over the procurement and budget processes.

3. Credit Card Controls

Our test of 103 credit card transactions totaling \$46,394 disclosed that all of them were related to the HR's operations and were mostly in accordance with University policies and procedures. However, we noted that six transactions totaling \$1,443 for the rental of water coolers and promotional items were charged to the HR's Educational and General (E&G) account.

The University's Expenditure Guide by Fund prohibits the purchase of promotional items and refreshments including water using E&G funds.

4. Student Access Success Program Expenditures

While testing the HR's expenditures for the fiscal year 2014-15, we noted that Student Access Success (SAS) program expenditures totaling \$11,715 were charged to the HR's accounts as follows:

- \$10,404 of credit card expenditures;
- \$1,059 in catering expenditures; and
- \$ 252 in travel expenditures.

Additionally, SAS expenditures totaling \$16,777 for the fiscal year 2015-16 were charged to the HR's accounts.

In January 2014, the HR Vice President acquired additional duties and was appointed as the Vice Provost for Access and Success, which attracts and helps retain first-generation college students and underrepresented groups, especially as it relates to low-income students. However, instead of maintaining separate SAS auxiliary and concession accounts funded by the Provost's office, they were combined with the HR's auxiliary and concession accounts.

4. Asset Management

Per the University's asset management system as of November 2015, HR had 10 capital assets with associated cost totaling \$70,794. The HR's capital asset inventory as recorded in the system is up to date. We also confirmed with the Assistant Controller for Asset Management that they did not observe any missing capital assets while taking their annual physical inventory in late 2014 and middle of 2015.

We also noted that HR kept track of its attractive/sensitive property as required by the University Property Manual. HR developed two share point databases for maintaining and tracking attractive property. For example, items such as laptops and tablets were tracked in one database and printers and scanners were tracked in another.

Recommendations

The Division of Human Resources should:	
1.1	Ensure that managers or supervisors who have direct knowledge of their employees' work and/or leave hours approve biweekly payrolls.
1.2	Maintain documentation to support approval of the proxy's leave hours prior to payroll submittal.
1.3	Follow purchasing requirements for competitive selection and securing a purchase order or a contract prior to receiving goods or services.
1.4	Ensure that all funds are spent in accordance with the University Expenditure Guide.
1.5	Establish and maintain separate auxiliary and concession accounts for the SAS program.

Management Response/Action Plan:

- 1.1 The Division of Human Resources will continue to remind managers and supervisors the importance of approving time on a biweekly basis during staff meetings and management meetings.

Implementation date: Immediately

- 1.2 We reviewed the procedures with the proxy, and will maintain supporting documentation of the request and approval of leave hours prior to payroll submittal.

Implementation date: Immediately

- 1.3 In 2014, Student Access and Success (SAS) took over the Children's Holiday Celebration. The consultant tasked with organizing the event had been doing so for over 20 years. The consultant was notified in February 2015 that we would not be needing her services for future events. Going forward, as we have in prior instances, we will follow purchasing requirements for competitive selection.

Implementation date: Immediately

- 1.4 The Division of Human Resources reviewed the University Expenditure Guide and going forward will make purchases that fully conform to its requirements.

Implementation date: Immediately

- 1.5 Shortly after Dr. Hardrick took over the Student Access and Success programs, it came to our attention that one of the programs had revenues that had not been deposited. We notified the program that the checks needed to be deposited immediately, and provided the Human Resources auxiliary activity number while a new one was requested for SAS. In June 2014, we requested a Student Access and Success auxiliary activity number that was created in August. We will submit a cash transfer to move any remaining SAS balances out of the Division of Human Resources auxiliary. Although the budget office provides funding for DHR and SAS programs in one Concession activity number, we track the expenses separately by event and department.

Implementation date: February 2016