

Report No. 2016-187
April 2016

STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

FLORIDA INTERNATIONAL UNIVERSITY



Sherrill F. Norman, CPA
Auditor General

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Notes: ^a Vice-Chair position remained vacant from 3-19-15, through 3-25-15.

^b Student body president.

^c Faculty Senate Chair.

The team leader was Allen Jova, CPA, and the audit was supervised by Hector J. Quevedo, CPA.

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

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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. 2014-060. Our operational audit disclosed the following:

Finding 1: The University needs to enhance procedures for classifying international students as Florida residents or nonresidents for tuition purposes in accordance with State law.

Finding 2: The University did not always perform background screenings for individuals in positions of special trust and responsibility.

Finding 3: Contrary to State law, certain employment agreements provided for severance pay that exceeded 20 weeks of compensation.

Finding 4: The University exceeded the State law remuneration limits for certain administrative employees paid from appropriated State funds.

Finding 5: The University needs to enhance its textbook affordability monitoring procedures to ensure that textbooks are timely posted on its Web site in accordance with State law.

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 terms of 5 years. 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.

This operational audit focused on selected University processes and administrative activities and included a follow-up on findings noted in our report No. 2014-060. The results of our financial audit of the University for the fiscal year ended June 30, 2015, are presented in our report No. 2016-182.

FINDINGS AND RECOMMENDATIONS

Finding 1: Florida Residency

State law¹ provides that, for tuition assessment purposes, universities classify students as Florida residents or nonresidents. The University established procedures to comply with this law and to verify and timely update, as necessary, the residency status of international students.

During the 2014-15 fiscal year, the University collected \$403.8 million in tuition and fees. Selected tuition and fees rates for residents and nonresidents are shown in Table 1.

Table 1
Tuition and Fees for Residents and Nonresidents
For the 2014-15 Fiscal Year

Tuition and Fees Category	Rate for	
	Residents	Nonresidents
Undergraduate	\$203.59 semester hour	\$616.89 semester hour
Graduate	\$453.66 semester hour	\$999.71 semester hour

Source: University records

As part of our audit, we examined University records documenting the residency status for 30 students classified as Florida residents, including 15 students classified as international students. We found that the University misclassified 4 of the international students as Florida residents for tuition purposes. In response to our inquiry, University personnel indicated that 2 of the students were initially residents but, because of immigration status changes, they should have been reclassified to nonresidents and that the other 2 student misclassifications occurred due to document processing errors. Subsequent to our inquiry, the University corrected the 4 students' residency status as nonresident in the student records system.

As a result of the misclassification of these 4 students as Florida residents for tuition purposes, the University collected \$30,967 less student tuition fee revenue than it would have if the students had been properly classified as nonresidents for tuition purposes. Without appropriate monitoring procedures to verify and timely update international students' residency status, there is an increased risk that the University may not properly assess and collect tuition fees to which it is entitled.

Recommendation: The University should enhance monitoring procedures to ensure that the residency status of international students is properly classified for tuition assessment purposes.

¹ Section 1009.21, Florida Statutes.

Finding 2: Background Screenings

Although not specific to universities, State law² provides for background screenings for employees in positions of special trust or responsibility. For example, a level 2 background screening³ is required for owners, operators, employees, and volunteers working in summer camps providing care for children; personnel hired to fill positions requiring direct contact with students in any district school system or university lab school; and certain State employment positions.

University policy⁴ requires that level 2 background screenings be conducted for employees in special trust positions, including information technology employees, employees with unrestricted access to master keys, employees in The Children's Creative Learning Center (providing services for persons under age 18), and other employees in similar areas of special trust. Individuals who apply for a special trust position must consent to a level 2 background screening when completing an employment application or responding to a conditional employment offer. The University contracted with a vendor to perform the level 2 background screening using the vendor's equipment. After the screening is performed, the results are transmitted to the vendor and the vendor provides the results to the Division of Human Resources (HR) for further processing.

To determine whether employees in special trust positions had undergone required background screenings, we requested records for 77 selected employees from the population of 1,402 special trust employees as of June 30, 2015. Although we requested, University personnel could not provide records to evidence background screenings for 27 employees, including 12 information technology employees, 7 employees with unrestricted access to master keys, and 8 other special trust employees.

Additionally, in an audit report dated January 2015, the University's Office of Internal Audits (internal auditors) noted that the University had not required all employees who are responsible for minors (persons under age 18) to comply with applicable Federal and State laws, such as laws that require background screenings. The report further noted that several employees working in camps and programs offered to minors had not undergone level 2 screenings prior to the start of the program. As part of our audit, we requested a listing of all University employees assigned to camps and programs offered to persons under age 18 during the 2014-15 fiscal year. University personnel provided a listing of 142 employees and from this listing we requested evidence of level 2 background screenings for 8 selected camp employees. However, University personnel only provided evidence of the required background screenings for 5 of the 8 camp employees.

In response to our inquiry, University personnel indicated that level 2 background screenings were not performed due to oversights by HR personnel during the implementation of the University's policy. When individuals employed in positions of special trust and responsibility are not required to have background screenings, there is an increased risk that the individuals may have backgrounds that are not suitable for such employment.

² Sections 110.1127, 409.175, and 1012.32(2)(a), Florida Statutes.

³ A level 2 background screening includes fingerprinting for Statewide criminal history records checks through the Florida Department of Law Enforcement, national criminal history records checks through the Federal Bureau of Investigation, and may include local criminal records checks through local law enforcement agencies.

⁴ University Policy 1710.257, *Pre-Employment Requirements*.

Recommendation: The University should enhance procedures to ensure that background screenings, including fingerprinting, are performed for individuals in positions of special trust or responsibility, including positions that have direct contact with persons under age 18.

Finding 3: Severance Pay

State law⁵ provides that a unit of government entering into a contract or employment agreement, or renewal or renegotiation of an existing contract or employment agreement containing a provision for severance pay, must include a provision in the contract or employment agreement which precludes severance pay from exceeding 20 weeks of compensation. Our review of University severance pay contract provisions and related payments and discussions with University personnel disclosed that the University's severance pay process needs improvement. Specifically, we noted that:

- The University entered into multi-year employment agreements, on or after July 1, 2014, with two athletic coaches. The amended employment agreements for these two coaches provided that, if the coaches were terminated without cause, they would be paid their base salary for the remaining terms of their employment agreements. The University also entered into a multi-year employment agreement for another coach on January 4, 2013, and the University subsequently amended this agreement on September 5, 2014, to provide for a salary increase. The amended agreement also provided that, if the coach is terminated without cause, the coach would be paid an amount equal to the lesser of 2 contract years' annual base salary or the base salary payable during the remaining term of the agreement as of the effective date of termination. However, each of these amended agreements potentially violate the 20 weeks of compensation statutory threshold.

In response to our inquiry, University personnel indicated that they initially believed that the agreements were in compliance with State law. However, the amended agreement provisions allow for these employees to receive severance pay in excess of 20 weeks of compensation, contrary to State law.

- From the population of 105 former employees paid \$1.1 million for severance pay during the 2014-15 fiscal year, we examined University records supporting severance payments totaling \$373,148 made to 24 selected employees to determine whether the severance payments were consistent with State law. We found that 2 non-bargaining employees were paid a total of \$55,367 for 26 weeks of severance pay, which resulted in severance payments that exceeded the amount allowed by State law by a total of \$12,777.

In response to our inquiry, University personnel indicated that the HR established a separation of employment payouts chart, which provides that non-bargaining employees be paid up to 26 weeks of severance pay and the University paid these employees in accordance with the chart. However, the chart does not comply with State law as it allows for severance pay in excess of 20 weeks of compensation.

Recommendation: The University should enhance procedures to ensure that severance payments do not exceed the limits established by State law.

Follow-up to Management's Response

The University indicates in the written response that the provisions in the coaches' contracts for payments after termination reflect the market reality for intercollegiate athletics and provide for pre-negotiated liquidated damages rather than severance pay. Notwithstanding the University's response, these

⁵ Section 215.425(4) Florida Statutes.

provisions provide for payments to employees, contingent on their employment termination, for services yet to be rendered. Therefore, such payments would constitute severance pay.

The University's response further contends that wages paid in lieu of notice are distinct from payments regarded as severance pay under State law. State law, however, makes no such distinction and expansively defines the term "severance pay" as compensation for services yet to be rendered which is provided to an employee who has recently been or is about to be terminated. The University also contends that some employees were entitled to severance pay in excess of the 20-week limitation as those employees started employment under a different employment policy allowing up to 26 weeks' compensation for severance. The preexisting policy, however, created no legal entitlement of the employees as the University could legally modify this policy to comply with State law. Consequently, the finding and related recommendation stand as presented.

Finding 4: Remuneration of Administrative Employees

State law⁶ provides that a State university administrative employee may not receive more than \$200,000 in annual remuneration⁷ from appropriated State funds. State law also provides that this limit does not apply to university teaching faculty or medical school faculty or staff.

During the 2014-15 fiscal year, the University made remuneration payments totaling \$5.3 million from appropriated State funds and other funding sources. As part of our audit, we examined University records supporting remuneration payments totaling \$2.9 million made from appropriated State funds to 17 selected administrative employees. We found that, contrary to State law, the University paid 6 of these employees, including 4 Vice-Presidents and 2 Senior Vice-Presidents, amounts ranging from \$827 to \$3,756 and totaling \$8,639 in excess of the \$200,000 limitation. Subsequent to our inquiry, University management indicated that the University used other University resources to reimburse the \$8,639 to the appropriated State funds. A similar finding was noted in our report No. 2014-060.

Recommendation: The University should ensure that the salary of each employee working in an administrative position is paid within the limits established by State law.

Finding 5: Textbook Affordability

State law⁸ requires universities to post on their Web sites, as early as feasible, but not less than 30 days prior to the first day of class for each term, a list of each textbook required for each course offered at the institution during the upcoming term. Additionally, Board of Governors' (BOG) Regulations⁹ require universities to adopt a regulation that establishes textbook adoption procedures to minimize the costs of textbooks for students while maintaining the quality of education and academic freedom. The regulation should establish procedures to document the intent of the course instructors to use all items ordered; determine the extent to which a new textbook edition differs significantly and substantively from earlier versions and the value of changing to a new edition; and post, no later than 30 days prior to the first day

⁶ Section 1012.976(2), Florida Statutes.

⁷ Remuneration means salary, bonuses, and cash-equivalent compensation paid to a State administrative employee for work performed, excluding health insurance and retirement benefits.

⁸ Section 1004.085(3), Florida Statutes.

⁹ BOG Regulation No. 8.003, *Textbook Adoption*.

of classes on the University's Web site, a list of each required textbook for each course offering for the upcoming term. The posted list must include the International Standard Book Number (ISBN) for each required textbook or other identifying information, which must include, at a minimum, the title, all authors listed, publishers, edition number, copyright date, published date, and other relevant information necessary to identify the specific textbook or textbooks required for each course.

The University established the BOG-required textbook adoption regulation and procedures and contracted with a vendor to manage and operate the University's bookstore, as well as to compile and post adopted textbooks on the University's Web site. According to University personnel, the University publishes textbook information on the University's Web site on the day the adopted textbooks are recorded in the vendor's system. However, the University had not established monitoring procedures to ensure that textbook information was posted on the University's Web site at least 30 days before the first day of class.

As part of our audit, we examined University records for 28 textbooks selected from the population of 7,301 textbooks used during the 2014-15 fiscal year and found that the University had not posted textbook information for 8 textbooks (29 percent) on the University's Web site at least 30 days prior to the first day of class. For 5 of the 8 textbooks, the University posted the textbook information 6 to 51 days late and information for the remaining 3 textbooks was not posted on the University's Web site. In response to our inquiry, University personnel indicated that these deficiencies occurred because of information technology errors and instances in which faculty members submitted informal textbook adoptions by verbal and e-mail communications, instead of using the University's central adoption system. University personnel further indicated that, as of October 2015, the textbook system administrator stopped accepting informal adoptions and that a communication campaign was developed to ensure that all faculty members are aware of the BOG requirements.

Effective monitoring procedures would help ensure that textbooks are listed on the University's Web site in accordance with State law and BOG Regulations. Without timely posted textbook information, students may misunderstand course textbook requirements and not have sufficient time to consider textbook purchase options to limit their textbook costs.

Recommendation: The University should enhance its monitoring procedures to ensure that textbooks are timely posted on its Web site in accordance with State law.

PRIOR AUDIT FOLLOW-UP

The University had taken corrective actions for findings included in our report No. 2014-060, except as noted in Finding 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 February 2015 to February 2016 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. 2014-060.
- 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 the selection and examination of records and transactions. 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 the University's written information technology (IT) policies and procedures for the 2014-15 fiscal year to determine whether the policies and procedures addressed certain important IT control functions, such as security, systems development and maintenance, and disaster recovery.
- Reviewed University procedures for maintaining and reviewing access to IT resources for the 2014-15 fiscal year. We also reviewed selected access privileges for 35 of 1,298 employees who had access to the database, finance, and human resources applications to determine the appropriateness and necessity of the access privileges based on employees' job duties and user account functions and whether the access privileges prevented the performance of incompatible duties.
- Examined administrator account access privileges granted for the 2014-15 fiscal year and procedures for oversight of administrator accounts for the network, operating system, database, and applications to determine whether these accounts had been appropriately assigned and managed.
- Reviewed procedures to prohibit former employees' access to electronic data files. We also reviewed access privileges for former employees during the 2014-15 fiscal year to determine whether their access privileges had been timely deactivated.
- Evaluated the University's written security policies and procedures for the 2014-15 fiscal year governing the classification, management, and protection of sensitive and confidential information.
- Determined whether a comprehensive IT disaster recovery plan for the 2014-15 fiscal year was in place and had been recently tested.
- Reviewed operating system, database, network, and application security settings for the 2014-15 fiscal year to determine whether authentication controls were configured and enforced in accordance with IT best practices.
- Determined whether a written, comprehensive IT risk assessment had been developed for the 2014-15 fiscal year to document the University's risk management, assessment processes and security controls intended to protect the confidentiality, integrity, and availability of data and IT resources.
- Determined whether a comprehensive IT security awareness and training program was in place for the 2014-15 fiscal year.
- Examined Board, committee, and advisory board meeting minutes to determine whether Board approval was obtained for policies and procedures in effect during the 2014-15 fiscal year 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 to determine whether the University informed students and employees at orientation during the 2014-15 academic year 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 Board.
- Examined University records to determine whether the University had developed an anti-fraud policy and procedures for the 2014-15 fiscal year to provide guidance to employees for communicating known or suspected fraud to appropriate individuals. Also, we determined whether the University had implemented appropriate and sufficient procedures to comply with its anti-fraud policy.
- Analyzed the unencumbered available balance in the education and general fund of the Board-approved operating budget to determine whether the balance was below 5 percent of the total available fund balance at June 30, 2015. We also performed analytical procedures to determine whether financial transactions in other funds may require resources from other unrestricted funds that would cause a significant reduction in available unencumbered balance in the education and general fund.
- Examined Board investment policies and procedures to determine compliance with Section 218.415, Florida Statutes, and to determine whether investments during the 2014-15 fiscal year were in accordance with those policies and procedures.
- Examined University records for the property and building lease agreement with annual payments totaling \$250,212 during the 2014-15 fiscal year to determine compliance with applicable laws, regulations, and University's policies and procedures.
- Examined the eight payments totaling \$82,464 made during the 2014-15 fiscal year from the University for licensing or royalty agreements to its direct-support organizations to determine the legal authority for such payments.
- From the population of 22,065 student accounts receivable totaling \$274 million at June 30, 2015, examined documentation supporting 30 selected student receivables totaling \$114,300 to determine whether University collection efforts were adequate and restrictions on student records and holds on transcripts and diplomas were appropriate and enforced for students with delinquent receivable accounts.
- Examined University records to determine whether uncollectible accounts written-off during the 2014-15 fiscal year totaling \$7.5 million were properly approved.
- Reviewed payments from tuition differential fees collected during the 2014-15 fiscal year to determine whether the University assessed and used tuition differential fees in compliance with Section 1009.24(16)(a), Florida Statutes.
- To determine whether student fees assessed, totaling \$403.8 million during the 2014-15 fiscal year, were properly authorized, accurately calculated, and correctly recorded in accordance with University Board policies and Board of Governors regulations, examined:
 - University fee records for 30 selected students.
 - University records to determine whether student status and residency determinations complied with Section 1009.21, Florida Statutes. Additionally, we determined whether the University had procedures to record deferred fees as a receivable and cancel the registration of students who did not timely pay fees.
- From the population of 1,811 distance learning courses, which generated fee revenues totaling \$15.2 million during the 2014-15 fiscal year, examined University records for 30 selected distance learning courses to determine whether distance learning fees were assessed, collected, separately accounted for, and retained in accordance with Section 1009.24(17), Florida Statutes.
- From the population of 22 contracts for auxiliary operations totaling \$7.9 million during the 2014-15 fiscal year, examined University records supporting 15 selected contracts totaling

\$4.7 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 the University's auxiliary operations were self-supporting.

- From the population of 7,301 textbooks added during the 2014-15 fiscal year, examined supporting documentation for 28 selected textbooks to determine whether the University's policies and procedures regarding textbook affordability were in accordance with Section 1004.085, Florida Statutes.
- Examined University policies, procedures, and related records for supervisory review and approval of time worked and leave used by noninstructional and administrative employees during the 2014-15 fiscal year to determine whether compensation payments were appropriate and leave balances were accurate.
- Reviewed University policies and procedures for terminal pay to ensure consistency with State law. From the population of 694 former employees paid \$1.9 million for terminal pay during the 2014-15 fiscal year, we examined documentation supporting 11 selected former employees who were paid a total of \$385,814 in terminal pay to determine whether the terminal pay was calculated in compliance with Section 110.122, Florida Statutes, and Board Regulation Nos. 1710.295 and 1710.330.
- Reviewed severance pay provisions in 4 employee contracts to determine whether the provisions complied with Section 215.425(4), Florida Statutes. From the population of 105 severance payments totaling \$1.1 million during the 2014-15 fiscal year, we examined documentation supporting payments totaling \$373,148 made to 24 selected former employees to determine whether the severance payments complied with State law and Board regulations.
- Identified 17 administrative employees paid in excess of \$200,000, including the University President, and examined records supporting the total remuneration of \$2.9 million paid to the employees during the 2014-15 fiscal year to determine whether the amounts paid were within the limits established in Sections 1012.97(3) and 1012.976(2), Florida Statutes.
- Determined whether employee bonus plans and related payments were paid in accordance with Section 215.425(3), Florida Statutes.
- Evaluated University policies and procedures for obtaining personnel background screenings, and determined whether individuals in positions of special trust or responsibility, such as positions involving direct contact with persons under age 18, had undergone the appropriate background screenings.
- Reviewed the University's vendor selection process and, when applicable, determined whether selected vendors carried adequate insurance. Additionally, we examined University expenditure documentation to determine whether expenditures 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 Board policies. Specifically, from the population of expenditures totaling \$504.2 million for the period July 1, 2014, through March 31, 2015, we selected and examined:
 - Documentation relating to 30 agreements for contractual services totaling \$14.6 million.
 - Documentation relating to the competitive selection of 30 vendors to which payments totaling \$2.5 million were made.
- Examined documentation supporting 37 of 100,585 purchasing card (P-card) transactions during the 2014-15 fiscal year, to determine whether the P-card program was administered in accordance with University policies and procedures and transactions tested were not of a personal nature.

- Examined P-card records for 21 of the 91 former cardholders during the 2014-15 fiscal year to determine whether P-cards were timely canceled upon the cardholders' separation of employment.
- From the population of \$43.5 million in total travel expenditures during the 2014-15 fiscal year, examined 30 selected travel reimbursements totaling \$43,409 to determine whether the travel expenditures were reasonable, adequately supported, for valid University purposes, and limited to amounts allowed by Section 112.061, Florida Statutes.
- From the population of 1,143 payments to employees for other than travel and compensation, totaling \$204,138 during the period July 1, 2014, through May 31, 2015, examined 30 selected payments totaling \$53,553 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, Florida Statutes.
- Evaluated University policies and procedures related to identifying potential conflicts of interest during the 2014-15 fiscal year. Also, we reviewed Department of State, Division of Corporation, records; statements of financial interests; and University records to identify any potential relationship that represented a potential conflict of interest with vendors used by the University.
- From the population of 55 construction contracts totaling \$21.9 million for projects that were in progress during the 2014-15 fiscal year, examined supporting documentation for 21 selected payments totaling \$2.8 million relating to 5 construction contracts totaling \$4.4 million to determine whether the payments were in accordance with contract terms and conditions, University policies and procedures, and State laws and rules.
- From the population of Public Education Capital Outlay (PECO) and other restricted capital outlay payments totaling \$76.8 million during the 2014-15 fiscal year, examined records supporting 10 selected payments totaling \$516,880 to determine whether these funds were expended in compliance with the restrictions imposed on the use of these resources.
- Determined if, during the 2014-15 fiscal year, PECO funds were properly encumbered by the required reversion date or returned as required by Section 216.301(2)(a) and (c), Florida Statutes.
- From the population of 3,965 electronic funds transfers (EFTs) and payments totaling \$46.5 million during the 2014-15 fiscal year, examined 30 selected EFTs and payments totaling \$1 million to determine whether the EFTs and payments were adequately supported and properly authorized.
- For the 945 active credit card accounts as of May 31, 2015, examined changes related to credit card limits to evaluate the reasonableness of assigned credit limits. We also compared the University's list of active cardholders to the credit card service provider list of authorized credit cards to determine whether all credit cards issued were authorized. Additionally, we determined whether the University conducted periodic reviews to ascertain the need for the credit cards issued and the spending limits authorized.
- From the population of 476 e-payable payments totaling \$4 million during the 2014-15 fiscal year, examined records supporting 30 selected payments totaling \$180,982 to determine whether the University complied with the contract provisions, documented the process used to pay vendors, and evaluated the related internal controls.
- 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

MANAGEMENT'S RESPONSE



OFFICE OF FINANCE & ADMINISTRATION

April 8, 2016

Sherrill F. Norman, CPA
Auditor General
State of Florida
G74 Claude Pepper Building
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 fiscal year ended June 30, 2015. 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 us 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,

A handwritten signature in blue ink that reads "K Jessell". The signature is stylized and includes a large, sweeping flourish at the end.

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

Cc: Mark B. Rosenberg, Ph.D., President
Kenneth Furton, Ph.D., Provost, Executive VP & COO, Academic Affairs

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FLORIDA INTERNATIONAL UNIVERSITY
Responses to Preliminary and Tentative Findings
Operational Audit—Fiscal Year Ended June 30, 2015

Finding 1: The University needs to enhance procedures for classifying international students as Florida residents or nonresidents for tuition purposes in accordance with State law

The University concurs with this finding and recommendation. As reflected in the Audit Finding, FIU's practices for assigning and updating Florida residency status for international students did not take full advantage of our existing administrative software capabilities. As part of the audit process, FIU uncovered the reasons that contributed to erroneous residency assignments and the corrective actions that needed to be taken. Historically, FIU relied heavily on manual processes, paper forms, and person-to-person emails to manage Florida residency status for international students. Specifically, when an international student's visa status changed from a status that qualified for Florida Residency to F-1, a staff member from the Office of International Student and Scholars Services (ISSS) would notify the Associate Registrar for Records via email. Based on this email, the Associate Registrar or member of the record's team would re-evaluate the student's residency documentation and, where appropriate, update the student's residency classification. Due to the manual nature of this process, any miscommunication between the two offices could lead to erroneous residency classifications of international students.

On December 29, 2015, specific modifications to our procedures were initiated and these modifications will eliminate these sources of error. The Office of the Registrar began running an internal audit query that identifies all active students who are classified as Florida residents for tuition purposes and have F-1 visa statuses. This query is scheduled to run automatically once per week. This internal audit query eliminates the need for ISSS staff members to provide the Office of the Registrar with notifications concerning visa status changes and this automated process will eliminate a primary source of error in our efforts to manage residency statuses for international students.

Through this enhanced review process, the Manager of Academic Records will engage in the following activities:

1. Review the query results and identifies students who have visa statuses with effective dates that are equal to or greater than the date of the last scheduled query run;
2. Review all residency documentation included in each of the identified students' records; if no documentation exists for a student in *Image Now*, then the Manager contacts the staff member who assigned the original residency classification to confirm that no updated residency documentation exists. In cases where new residency documentation is identified, the Manager reviews this documentation and includes it in the student's *Image Now* record;

3. Notify students via email when the Manager of Academic Records updates the student's residency status and saves the email in the student's record.

In addition to retaining records of residency status changes in each student's *Image Now* record, the University will retain the results of weekly queries in our secured network server.

Finding 2: The University did not always perform background screenings for individuals in positions of special trust and responsibility

The University concurs with the finding and the recommendation. As reflected in the audit, Sections 110.1127, 409.175, and 1012.32(2)(a), Florida Statutes, are not specific to universities and therefore Florida International University established Policy 1710.257--*Pre-Employment Requirements* for all prospective employees. While University policy establishes minimum background checks for all prospective employees, it provides for in-depth criminal background checks (Level II background screens), including fingerprinting, through the Florida Department of Law Enforcement for specific positions including but not limited to: law enforcement personnel; individuals handling cash or managing cash transactions; financial services positions; individuals who will have unrestricted access to master keys; information technology positions; individuals who work in the Children's Creative Learning Center; individuals who work in residence halls; and employees of the Athletics Department who travel with students to events.

The audit reflects 27 employees without records to evidence the required background screenings. The University maintains that for 13 of these employees, the required background screenings were completed by one of two outside vendors under contract to complete the Level II background checks on prospective employees, but these vendors did not provide the requested documentation due to contractual issues. For the remaining employees, the screenings were not completed due to oversight, the inclusion of one employee hired as an analyst not required to undergo Level II screening, and employees who were hired prior to the implementation of the policy in March 2009 and therefore not required to undergo Level II screening. Additionally, the audit reflects three camp employees having contact with persons under age 18 for which Level II background screenings were not documented. Subsequent University analysis revealed that one was an independent contractor and two were students who failed to complete sign-on paperwork.

As a result of the findings, the University will enhance procedures to ensure that background screenings, including fingerprinting, are performed according to University policy, including positions that have direct contact with persons under age 18. The University will change its procedures to require that a copy of the background check be maintained in the employee's recruitment file. Additionally, the University will amend its policy to ensure that required background screenings are completed for employees hired prior to the policy effective date whenever they move to positions requiring Level II background screenings.

Finding 3: Contrary to State law, certain employment agreements provided for severance pay that exceeded 20 weeks of compensation

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

The audit identified two 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 F.S. 215.425(4)(d). These payments are also not violative 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 10 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 10 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 two head coaches’ contracts which 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 to this rule. 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 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, these two contracts provide 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 contracts.

Finding 4: The University exceeded the State law remuneration limits for certain administrative employees paid from appropriated State funds

The University concurs with the finding and the recommendation and will ensure that the salary of each employee working in an administrative position is paid within the limits established by State law. The amount of overpayment for the six administrative employees totaled \$8,639 and was the result of a retroactive component of a salary increase. As reflected in the operational audit, the University has reimbursed the full amount of the overpayment to the appropriated educational and general fund.

In order to prevent the overpayment from occurring again, the University has instituted a new procedure. The Division of Human Resources will run a report of year-to-date remuneration by employee each quarter during the first three quarters of the fiscal year and then monthly starting the last three months of the fiscal year to ensure that the salary limit is not exceeded. If needed, the Division of Human Resources will perform payroll transfers to correct funding source allocations to ensure the limit is not exceeded. As an additional check, the Office of Financial Planning will also review the year-to-date remuneration report before the fiscal year-end and advise the Division of Human Resources of any corrections that need to be made.

In addition, the new procedure described above, the University follows three additional procedures. First, on a biweekly basis, the Office of Employee Records runs a report to determine if anyone covered by this statute is allocated to be paid over the limit and the employee's salary allocation is changed before the payroll runs to ensure the salary does not exceed the limit. Second, during the budget process, the Office of Financial Planning reviews the Position Tool where salaries are budgeted and ensures there are no salary allocations exceeding the \$200,000 limit. Finally, the Office of Financial Planning ensures that no

department with statute-covered employees will receive a budgetary increase that would carry the employee over the \$200,000 limit.

Finding 5: The University needs to enhance its textbook affordability monitoring procedures to ensure that textbooks are timely posted on its Web site in accordance with State Law

The University concurs with the finding and recommendation and will enhance its monitoring procedures to ensure that textbooks are timely posted on the University's website in accordance with State law. As part of a recent reorganization within the Office of the Provost, Textbook Affordability compliance now falls under the purview of the newly established Office of Faculty and Global Affairs and the Textbook Affordability Task Force is now being led by the Office Director. This reorganization will enhance central monitoring of textbook submissions, processes, communications and compliance.

In preparation for the spring 2016 semester, the Textbook Affordability Task Force coordinated a communications campaign during October and November 2015 to all faculty and staff to increase awareness of Textbook Adoptions requirements and procedures. This campaign included:

- Multiple reminders via e-mail to faculty that triggered direct communications with 36 individual faculty and staff members who needed assistance or clarifications on the process.
- [Faculty Fellow Blog](#) discussing the importance of timely submission of required course materials.
- An explanation to faculty and staff on what the textbook adoption requirements are and how/where to make the submissions.
- Verbal discussions and reminders during the Chairs Advisory Council and Deans Advisory Council meetings.

Additionally, Barnes and Noble University bookstore staff have been instructed to no longer accept informal (verbal, email or phone) textbook adoptions in order to reduce the burden of manual entry by the staff and avoid submission delays.

The Textbook Affordability Task Force as well as University leadership remain fully committed to improving textbook adoptions rates to the benefit of our students.