

STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

Report No. 2018-214
June 2018

FLORIDA POLYTECHNIC UNIVERSITY



Sherrill F. Norman, CPA
Auditor General

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^b Trustee positions vacant 1-1-16 through 3-23-16.

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FLORIDA POLYTECHNIC UNIVERSITY

SUMMARY

This operational audit of Florida Polytechnic University (University) focused on selected University processes and administrative activities and included a follow-up on findings noted in our report No. 2016-067. Our operational audit disclosed the following:

Finding 1: University textbook affordability procedures need enhancement to promote compliance with State law. A similar finding was noted in our report No. 2016-067.

Finding 2: University personnel did not always document timely preparation and supervisory approval of bank account reconciliations.

Finding 3: University personnel did not verify the accuracy of auxiliary operation commission revenue totaling \$370,000 for food service sales.

Finding 4: The University needs to enhance procedures to ensure supervisory review and approval of employee time worked is documented.

Finding 5: University records did not always evidence cardholder and supervisory approval of expense card charges.

Finding 6: University personnel did not document their verification that subcontractors were appropriately licensed before they commenced work on the University Wellness Center Expansion and Recreation Building Projects.

Finding 7: The University was appropriated and allocated \$3 million to provide an anti-hazing course for all State University System incoming freshmen for the 2015-16 and 2016-17 school years. The University contracted with a service provider for the course; however, University records did not demonstrate that the University made substantive efforts to obtain the necessary institution and freshmen participation in the course or that the course provider services were received at the lowest cost consistent with desired quality. In addition, the University contract for these services did not specify a minimum number of participating institutions or anticipated freshmen participants or provide for legal remedies should the services not extend to a sufficient number of institutions and students, and University records did not document the reasonableness of the contracted amount or the \$500,000 retained by the University for administrative costs related to the course.

Finding 8: University policies and records supporting University personal services provided to the University's direct-support organization could be improved.

Finding 9: University records did not always evidence that employees were informed of their responsibilities regarding access to University information technology resources.

BACKGROUND

The Florida Polytechnic University (University) is part of the State university system of public universities, which is under the general direction and control of the Florida Board of Governors (BOG). The University

is directly governed by a Board of Trustees (Trustees) consisting of 13 members. The Governor appoints 6 citizen members and the BOG appoints 5 citizen members. These members are confirmed by the Florida Senate and serve staggered 5-year terms. The Faculty Senate Chair and Student Body President also are members.

The BOG establishes the powers and duties of the Trustees. The Trustees are responsible for setting University policies, which provide governance in accordance with State law and BOG Regulations. The University President is selected by the Trustees and confirmed by the BOG. The University President serves as the executive officer and the corporate secretary of the Trustees and is responsible for administering the policies prescribed by the Trustees for the University.

This operational audit focused on selected University processes and administrative activities and included a follow-up on findings noted in our report No. 2016-067. The results of our financial audit of the University for the fiscal year ended June 30, 2017, will be presented in a separate report. In addition, the Federal awards administered by the University are included within the scope of our Statewide audit of Federal awards administered by the State of Florida and the results of that audit, for the fiscal year ended June 30, 2017, will be presented in a separate report.

FINDINGS AND RECOMMENDATIONS

Finding 1: Textbook Affordability

State law¹ requires each university to post prominently in the course registration system and on its Web site, as early as feasible, but at least 45 days before the first day of class for each term, a hyperlink to lists of required and recommended textbooks and instructional materials for at least 95 percent of all courses and course sections offered at the university during the upcoming term. The University contracted with a vendor to manage and operate the University Bookstore, as well as to compile and post lists of adopted textbooks on the University Web site. According to University personnel, textbook and instructional material information was simultaneously updated in the course registration system and on the Bookstore Web site.

As part of our audit, we reviewed the dates the vendor posted textbook information for the 311 course sections offered during the Fall 2016 Term. We identified 100 course sections that had textbook information posting dates that were not at least 45 days before the first day of class. Specifically, the posting dates for the 100 course sections ranged from 33 days before the first day of classes to 37 days after the first day of classes. As the University only timely posted the textbook information for 211 (68 percent) of the course sections, the University did not comply with the State law requiring such information be timely posted for at least 95 percent of the course sections.

In response to our inquiries, University personnel indicated that textbook information was not always posted timely because the University was new and the faculty was unfamiliar with State law applicable to textbook and instructional materials affordability. University personnel also indicated that University management was working with the faculty to help determine the textbooks that would be used each term

¹ Section 1004.085(6), Florida Statutes, effective July 1, 2016.

and provide for timelier postings. Without textbook information timely posted in the course registration system and on the Bookstore Web site, the University cannot demonstrate compliance with State law and students may misunderstand course textbook requirements and not have sufficient time to consider textbook purchase options to limit their textbook costs. A similar finding was noted in our report No. 2016-067.

Recommendation: The University should ensure compliance with State law by prominently posting in the course registration system and on its Web site, as early as feasible, but at least 45 days before the first day of class for each term, a hyperlink to lists of required and recommended textbooks and instructional materials for at least 95 percent of all courses and course sections offered at the University during the upcoming term.

Finding 2: Bank Account Reconciliations

Effective internal controls require that reconciliations of bank account balances to general ledger control accounts be performed on a timely, routine basis and reviewed by supervisory personnel. Such reconciliations are necessary to provide reasonable assurance that cash assets agree with recorded amounts, permit prompt detection and correction of unrecorded and improperly recorded cash transactions or bank errors, and provide for the efficient and economic management of cash resources.

At June 30, 2017, the University's general ledger cash balance totaled \$199,887. During the 2016-17 fiscal year, the University maintained four bank accounts for accounts payable disbursements, incoming cash, Federal Pell Grant Program funds,² and a clearing account. Business Office personnel were responsible for preparing monthly bank account reconciliations, which supervisory personnel were to review and approve. According to University personnel, bank account reconciliations are typically prepared within 7 to 10 days after the bank statement dates.

As part of our audit, we examined the bank account reconciliations for the accounts payable disbursements and the incoming cash bank accounts for the period January 2016 through March 2017 and noted that the 18 reconciliations for the January 2016 through September 2016 bank statements were timely prepared and approved. However, the 12 reconciliations for the October 2016 through March 2017 bank statements were not prepared and approved until 110 to 261 or an average of 185 days after the bank statement dates. In response to our inquiries, University personnel indicated that the bank account reconciliations and related approvals during that 6-month period were delayed because University personnel were learning a newly implemented accounting system.

Although the reconciliations did not identify any significant unreconciled items, untimely bank account reconciliations increase the risk that any cash transaction errors or misappropriations that may occur will not be timely detected and resolved.

Recommendation: University personnel should document timely preparation of reconciliations of bank account balances to general ledger control accounts and supervisory review and approval of the reconciliations.

² The Federal Pell Grant Program (Catalog of Federal Domestic Assistance Number 84.063) provides need-based grants to low-income undergraduate and certain postbaccalaureate students to promote access to postsecondary education.

Finding 3: Auxiliary Enterprise Contracts

Auxiliary enterprises are established primarily to provide non-instructional services for sale to students, faculty, and staff, and are intended to be self-supporting. The University contracted for auxiliary enterprise services with a food service vendor and a bookstore vendor and commission revenue from these vendors for the 2016-17 fiscal year totaled \$400,000, including \$370,000 from food services and \$30,000 from bookstore sales.

The University contracts required the vendors to timely submit commission revenue and related reports for University personnel to review and verify the accuracy of the revenue. University records evidenced that the bookstore commission revenue agreed to the terms of the bookstore vendor contract. However, neither the monthly sales reports and the manually prepared spreadsheets used by the Auxiliary Services Department to monitor food service sales, nor other University records, identified commission revenue based on different meal categories to demonstrate that the food service commission revenue agreed to the terms of the food service vendor contract.

According to University personnel, in July 2017 the Budget and Finance Office began documenting verifications that food service commission revenue was properly received based on food service collections and the related vendor contract. Without documented commission revenue verifications, University records do not demonstrate that food service commission revenue earned is properly received.

Recommendation: The University should continue efforts to verify that food service commission revenue earned is received in accordance with the food service vendor contract.

Finding 4: Payroll Processing – Time Records

Effective internal controls require that time records document the time worked and leave used by employees and also require supervisory approval of such time to ensure that compensation payments are appropriate and leave balances are accurate. The University pays exempt employees (e.g., full-time faculty and administrative personnel) on a payroll-by-exception basis whereby employees are paid a fixed authorized amount for each payroll cycle unless the amount is altered. A payroll-by-exception methodology assumes, absent any payroll action to the contrary, that an employee worked or used available accumulated leave for the required number of hours in the pay period. In addition, the University pays non-exempt employees (e.g., lab technicians, clerks, and student workers) on an hourly basis.

Prior to the implementation of the University information technology (IT) system in October 2016, supervisory personnel were required to approve leave request forms for exempt employees but were not required to review and approve exempt employee time worked. According to University personnel, in October 2016 the supervisors began certifying on time reports the review and approval of time recorded as worked by all employees.

During the 2016 calendar year, the University reported salary costs of \$15 million for 396 non-exempt and exempt employees (excluding the President). As part of our audit, we requested for examination certain 2-week time reports for 15 (5 non-exempt and 10 exempt) selected employees during the period October 2016 through March 2017. We found that supervisory approval was not documented on the time reports for 9 employees and that the administrative assistants for supervisory personnel documented

approval of the time worked for 3 of the 9 employees. In response to our inquiry, University personnel indicated that, because of oversights, supervisors did not always certify time reports, requiring the Payroll Department to override the approval function to process the payroll. According to University personnel, another reason supervisors did not certify the reports was because University management authorized administrative assistants to approve time reports. Notwithstanding these responses, supervisory personnel with direct responsibility for subordinate work activities would be in the best position to approve subordinate time reports and hold subordinates accountable for the time recorded as worked.

Without documented supervisory approval of subordinate time reports, there is an increased risk that employees may be incorrectly compensated, employee leave balances may not be accurate, and there is limited assurance that employee services were provided consistent with the Trustees' expectations. In addition, without such records, there is an increased risk that employee disputes regarding compensation payments or leave balances may not be timely resolved. A similar finding was noted in our report No. 2016-067.

Recommendation: The University should ensure that, prior to processing payroll payments, documented supervisory approval of subordinate time reports is obtained. If extenuating circumstances prevent documented supervisory approval prior to payroll processing, supervisory approval should be obtained as soon as practical thereafter.

Finding 5: Expense Cards

The University administers an expense card (E-card) program, which gives employees the convenience of purchasing items without using the standard purchase order process. E-cards are designed to provide a cost-effective, convenient, and decentralized method for individuals to make certain purchases on behalf of the University, and are subject to the same rules and regulations that apply to regular University purchases.

In October 2016, the University implemented the *Expense Card Manual (E-Card Manual)* that established responsibilities of the E-card administrator, supervisors or managers, and cardholders for the issuance, use, and cancellation of E-cards. For example, the *E-Card Manual* requires cardholders to create an expense report in the University IT system, approve their E-card charges in the system, and submit E-card expense receipts to designated employees for approval. Within 10 working days of posting to the IT system, the designated employees must review and approve the E-card charges to ensure the propriety of the charges. The *E-Card Manual* also suggests that the cardholder's supervisor review the expense reports periodically to consider the appropriateness of purchases, especially when said supervisor is not acting as the cost center manager who approves the expense in the IT system. Before October 2016, the University followed guidance provided in the University of Florida (UF) *P-Card Manual*³ that required, for example, cardholders to sign P-card receipts to accept responsibility for their purchases.

During the period January 2016 through March 2017, the University had E-card expenses totaling \$508,747 and, as of March 31, 2017, 53 E-cards were in use. To evaluate the effectiveness of controls over E-card purchases and to determine whether University personnel complied with the *E-Card Manual*

³ After the Florida Polytechnic University was created in 2012, the Board entered into an agreement for UF to provide various administrative services and the University decided to implement the UF *P-Card Manual*.

or the UF *P-Card Manual*, as applicable, we examined University records for 40 selected expenses totaling \$75,568 and found that University records did not evidence:

- Cardholder approval for 6 expenses totaling \$13,056, which included airfare, lodging, and participation in a payroll certification program. According to University personnel, 5 expenses totaling \$8,670 were for purchases made by University research employees who were not required to approve purchases until the University IT system was implemented in October 2016. However, contrary to the applicable UF *P-Card Manual* requirements, the research employees did not sign the expense receipts. Absent documented cardholder approval, responsibility for the expense is not established and the risk for unauthorized purchases without timely detection is increased.
- Supervisory review and approval for an expense of \$2,495 for a recruiting trip. An administrative assistant documented approval of the expense and, according to University personnel, the assistant was officially authorized to approve expenses on behalf of her supervisor. However, supervisory personnel with direct responsibility for and knowledge of subordinate work activities would be in the best position to approve expenses and hold subordinates accountable for such expenses.

A similar finding was noted in our report No. 2016-067.

Recommendation: University procedures should be enhanced to ensure that cardholders and supervisors document approval of E-card expenses. Additionally, the *E-Card Manual* should be revised to require both cardholders and their immediate supervisors to approve all E-card expenses.

Finding 6: Subcontractor Licenses

State law⁴ provides that a CME must consist of, or contract with, licensed or registered professionals for the specific fields or areas of construction to be performed. State law⁵ also establishes certain certification requirements for persons engaged in construction contracting, including licensing requirements for specialty contractors such as electrical, air conditioning, plumbing, and roofing contractors.

University personnel indicated that they verified the licenses of the subcontractors before the subcontractors commenced work on University facilities; however, University personnel did not always maintain documentation of that verification. From the population of 34 subcontractors who provided services for the Wellness Center Expansion Project totaling \$1.55 million and the Recreation Building Project totaling \$2.4 million, we requested for examination University records supporting verification of the licensure of 7 subcontractors. Subsequent to our inquiry, and because University records did not evidence that the licenses had been verified, University personnel contacted the CMEs and obtained copies of the 7 subcontractors' licenses.

Timely documented verification that subcontractors are appropriately licensed provides the University additional assurance that the subcontractors who will be working on University facilities meet the qualifications to perform the work for which they are engaged.

⁴ Section 1013.45(1)(c), Florida Statutes.

⁵ Chapter 489, Florida Statutes.

Recommendation: The University should enhance procedures to verify and document that subcontractors are appropriately licensed before the subcontractors commence work on University facilities. Such procedures could include documented verification through online licensing searches or appropriate evidence of the CME's confirmation of licensure.

Finding 7: Anti-Hazing Course

In 2014, the Legislature appropriated funds⁶ to the University of Central Florida (UCF) to procure access to an online, expertly developed and evidence-based, anti-hazing course on behalf of State University System (SUS) students. Such course was to be made available in advance of the 2014 Fall semester. In August 2014, UCF contracted with a service provider for the anti-hazing course for a total of \$970,600 for the period August 2014 through July 2017.⁷ According to UCF records for the period January 2015 through April 2018, the vendor provided the online anti-hazing course to all 12 SUS universities, a total of 68,671 SUS students enrolled in the course, and 65,527 students completed the course.

In 2015, the Legislature appropriated⁸ \$1.5 million to Florida Polytechnic University (University) to procure access to a developed, online, academically researched and evidence-based, anti-hazing course for all SUS incoming freshman students for the 2015 Fall Semester. For the period July 2016 through August 2017, the BOG allocation summary⁹ showed another \$1.5 million allocated to the University for the anti-hazing course. In total, the University was appropriated and allocated \$3 million to procure the anti-hazing course.

Since the University was provided \$3 million for procurement of the course, University records should evidence the University's due diligence in accomplishing the Legislative intents for this funding. For example, University records for successful administration of the course could have included documentation of substantive efforts to obtain necessary SUS institution and incoming freshmen participation in the course and to select the most qualified service provider based on the anticipated participation level. An effective contracting process, including appropriate documented consideration of the expected service benefits in relation to the service costs, reduces the appearance and opportunity for favoritism and inspires public confidence that contracts are awarded equitably and economically. Documentation of the procurement process and effective monitoring mechanisms are important means of curbing any improprieties and establishing public confidence in the process by which contracted services are procured.

The contract with the selected provider should embody all the applicable provisions and conditions of the procurement of the services, including quantifiable, measurable, and verifiable units of deliverables that must be received and accepted in writing before payment. Each deliverable should be directly related to the scope of work and specify a performance measure, such as the required minimum acceptable level of service to be performed, and criteria for evaluating the successful completion of each deliverable. For

⁶ Chapter 2014-51, Laws of Florida, Specific Appropriation 143.

⁷ The \$970,600 included \$463,500 for the period August 2014 through July 2015; \$253,550 for the period August 2015 through July 2016; and \$253,550 for the period August 2016 through July 2017.

⁸ Chapter 2015-232, Laws of Florida, Specific Appropriation 138.

⁹ The 2016-17 fiscal year BOG allocation summary provided budgetary detail for each State university.

example, a contract for SUS student services should specify the minimum number of participating institutions and anticipated number of incoming freshmen participants, provide criteria for evaluating the attainment of those numbers, specify a final date by which all criteria must be met, and provide for legal remedies should the specified number of participating institutions and freshmen participants not be met.

Our examination of University records and discussions with University personnel regarding University anti-hazing policies and the procurement and administration of the anti-hazing course disclosed that:

- In April 2015, the University adopted policies¹⁰ requiring students to complete any anti-hazing training or courses required by the University; however, at that time, no anti-hazing training or courses were required by the University.
- In August 2015, the University entered into a \$1 million contract with a service provider for an online 1.5-hour anti-hazing course for SUS freshmen during the period of September 2015 through May 2016. According to University personnel, three service providers were considered before the University contracted with the selected provider and the provider selected had the best customer support for SUS universities and student participants. University personnel also indicated that, because BOG regulations¹¹ exempted training and education service procurements from the competitive solicitation process, the contract was not subjected to that process.

Absent the University's use of a competitive solicitation process, we requested University records to evidence other considerations when selecting the service provider, including evidence that the selection and purchase of the contracted services were based on documented considerations of the service costs in relation to the anticipated service benefits. However, such records were not provided and, therefore, the University did not demonstrate that the services were received at the lowest cost consistent with desired quality. In addition, the service provider contract did not specify a minimum number of participating institutions or the anticipated number of incoming freshmen participants or provide for legal remedies should the services not extend to a sufficient number of participating institutions and freshmen participants.

- According to correspondence from the service provider,¹² 13 University freshmen and 14 other SUS freshmen participated in the course during the 2015-16 academic year. Although we requested, University records did not evidence substantive efforts to help obtain the necessary institution and incoming freshmen participation in the course. Such efforts could have been supplemented through financial incentives to other university and freshmen participants; appropriate documented discussions with other university administrators and involvement with the BOG; or other endeavors to ensure the successful administration of, and participation in, the course. For example, to secure BOG involvement and help obtain the necessary institution and freshmen participation in such courses, efforts could include identification of the courses in University-prepared work plans¹³ submitted to the BOG and documented consideration of whether

¹⁰ FPU-3.0062P - *Anti-Hazing*.

¹¹ BOG Regulation 18.001(6)(d)(10) - *Procurement*.

¹² The service provider listed the number of participating students in a letter dated January 2017 to the University.

¹³ BOG Regulation 2.002 – *University Work Plans and Annual Reports* requires each board of trustees to prepare a work plan. The work plan is to outline the university's top priorities, strategic directions, and specific actions and financial plans for achieving those priorities, as well as performance expectations and outcomes on institutional and System-wide goals. The work plan is to include, for example, unique opportunities that have presented themselves to the university but that have not been included in prior plans.

to establish an academic infrastructure and support (AIS) organization¹⁴ for this course. In response to our inquiries, University personnel indicated that the anti-hazing course was not included in University work plans nor did the University make efforts to establish an AIS organization to help administer the course. Notwithstanding, University personnel indicated that the anti-hazing course was discussed during meetings of the BOG Academic and Student Affairs Committee; however, although we requested, documentation of these discussions was not provided.

- In August 2016, the University entered into another \$1 million contract with the same service provider to deliver a 1-hour anti-hazing course for the period September 2016 through May 2017. Similar to the previous contract, neither a minimum number of participating institutions nor the anticipated number of freshmen participants were specified in the contract and the contract did not provide for legal remedies should the services not extend to a sufficient number of participating institutions and freshmen participants. In addition, like the previous course, University records did not evidence substantive efforts by the University to obtain the necessary institution and freshmen participation in the course.
- In a report provided to the University in March 2017, the service provider indicated that 157 students participated in the course during the 2016-17 academic year. According to University personnel, all 157 participating freshmen were University students and no other SUS freshmen participated. Although the service provider submitted quarterly reports to the University notating communications with all the SUS institutions, the reports indicated that only 5 of the other 11 universities had made the course available to students.
- In April 2017, University personnel deemed the course unsuccessful and canceled the service provider contract. As of that date, the University had paid the service provider a total of \$1.7 million and had retained \$500,000 for administrative costs. According to University personnel, the \$500,000 was retained for administrative costs including compensation for University personnel to evaluate the course's first year and develop suggestions for improving the course, prepare the contract document, promote the course to and collaborate with other SUS universities, and encourage students to enroll in the course. University personnel also provided documentation of correspondence evidencing the University's attempts to monitor the service provider, including requests to the service provider for performance data such as data supporting the number of students served, effectiveness and quality of services, benefit to the students and the State, and outcomes learned from pre- and post-testing. In response, the service provider indicated that, due to the limited number of student participants, there was not enough data to determine outcomes and the provider recommended that the SUS universities either encourage students to take the course or make the course mandatory.

Notwithstanding University assertions of how the administrative costs were used and documentation of correspondence evidencing the University's efforts to monitor the course provider services, University records were not provided to support course-related administrative costs totaling \$500,000 or to demonstrate the reasonableness of those costs, which represented a third of the amount provided for the 2015-16 fiscal year. Absent such records, University records did not demonstrate the public purpose served for the \$500,000 retained by the University for administrative costs related to the anti-hazing course.

In August 2017, the University returned to the State Treasurer the \$800,000 remaining from the \$3 million appropriated and allocated to the University for the course. However, University records were not readily

¹⁴ BOG Regulation 10.014 – *Academic Infrastructure and Support Organizations* authorizes a host university to initiate the establishment of an academic infrastructure and support organization to provide underlying resources for academic programs. If the organization is recommended for establishment by the SUS Council of Academic Vice Presidents, the Chancellor shall transmit the Memorandum of Understanding to all participating institutions for ratification by the presidents and the chairs of the boards of trustees.

available to demonstrate the reasonableness of the costs totaling \$2.2 million for the anti-hazing course provided to a total of 184 participating freshmen at an average cost of \$11,957 per student. The lack of the course's success was largely attributable to the SUS institutions' satisfaction with the similar anti-hazing course first offered by UCF in 2014.

Without documentation to evidence that the University exercised due diligence in obtaining the necessary institution and incoming freshmen participation in the anti-hazing course, selecting the most qualified service provider for the course, and ensuring that the provider contracts contained essential elements to hold the provider accountable for providing services to all SUS incoming freshmen, it is not apparent that the University's process achieved the Legislative intents for the funding and the University may have overpaid for these services.

Recommendation: The University should:

- **Ensure that, for future contracts for student services, University records evidence substantive efforts to obtain the necessary SUS institution and student participation. Such efforts may include appropriate financial incentives to applicable university and student participants; appropriate documented discussions with other university administrators and involvement with the BOG; or other endeavors to ensure the success administration of, and participation in, such services.**
- **Ensure that, for future contracts for student services, considerations of the service costs in relation to the anticipated service benefits are documented to demonstrate that the services will be received at the lowest cost consistent with desired quality.**
- **Ensure that future contracts for student services contain all applicable provisions and conditions of the procurement of student services, including quantifiable, measurable, and verifiable units of deliverables directly related to the scope of work with specified performance measures and legal remedies should the deliverables not meet the performance measures.**
- **Provide documentation to the BOG supporting the reasonableness of course-related administrative costs totaling \$500,000. The University should return to the State Treasurer any portion of the \$500,000 that is not supported as reasonable course-related administrative costs.**

Finding 8: Direct-Support Organization

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

State law¹⁵ provides that a direct-support organization (DSO) is organized and operated exclusively to receive, hold, invest, and administer property and to make expenditures to, or for the benefit of the University. State law¹⁶ also requires the Board of Trustees (Trustees) to prescribe by rule conditions with which a university DSO must comply in order to use property, facilities, or personal services and such

¹⁵ Section 1004.28(1)(a)(2), Florida Statutes.

¹⁶ Section 1004.28(2)(b), Florida Statutes (2017).

rules must provide for budget and audit review and oversight by the Trustees. The Trustees approved the Florida Polytechnic University Foundation, Inc. (Foundation) as a DSO, and the Foundation routinely receives and uses charitable contributions for the benefit of the University.

University rules¹⁷ require that, upon approval by the Trustees, a DSO shall be certified and authorized to use University property, facilities, and personal services to the extent permissible by applicable law and the conditions prescribed by University regulations and internal management memoranda. The conditions require each DSO to submit annual DSO:

- Governing Board-approved operating budgets that the President presents to the Trustees for review and approval.
- Financial audit, along with DSO Federal Internal Revenue Service Return of Organization Exempt from Income Tax Form (IRS Form) 990s to the University President and Trustees for review and approval.

Our examination of University records disclosed that the Trustees annually receive the DSO financial statement audit reports for approval and the IRS Form 990 of University personal service cost contributions. While the University identified certain conditions, such as approval of the audit reports and IRS Form 990s, DSOs are already obligated by State law to comply with these requirements. As such, the conditions did not identify additional measures that a University DSO must meet for such use. Such conditions could restrict the DSO use of University property, facilities, and personal services to Trustee-approved public purposes consistent with the mission, vision, and values of the University and require DSO certifications that University resources will only be used for such purposes and certifications after the resource use to validate that the resources were only used for those purposes.

As part of our audit, we interviewed University personnel and requested for examination University records related to the Foundation. According to University personnel, the Foundation did not use any University facilities during the 2016-17 fiscal year. University records indicated that, during the 2016-17 fiscal year, University employees provided certain personal services totaling \$199,350 to the Foundation. University personnel indicated that these costs were based on the services of 14 University employees who provided 25 percent of their time and effort on Foundation activities. However, although we requested, University records were not provided to document the employees' actual time and effort spent on Foundation activities. As such, University records did not demonstrate that personal services were appropriately distributed among the specific University and Foundation activities.

University records could be enhanced by obtaining the Trustees' approval of anticipated Foundation use of University resources and the value of such use before the use occurs; documenting when the Foundation used University resources and the purpose for and value of such use; and documenting University employee actual time and effort provided to the Foundation to support the purpose for and value of those services. Such records would document authorization, demonstrate the reasonableness of the value, and enhance transparency for the University resources provided for Foundation use.

¹⁷ University Rule 6C13-10.002, Florida Administrative Code, *University Direct Support Organizations*.

Recommendation: We recommend that:

- **The Trustees prescribe by rule any condition with which a DSO must comply in order to use University property, facilities, and personal services and the University monitor and document DSO compliance with such conditions.**
- **The University document the Trustees' consideration and approval of DSO anticipated use of University resources, at least on an annual basis, before the use occurs. To enhance government transparency, the Trustees' approval documentation should identify the positions of the employees who will provide the personal services that will be used by the DSO and the value of such use.**
- **The University document University employee actual time and effort provided to the DSO to support the purpose for and value of those services and the distribution of applicable personal service costs among specific University and DSO activities for employees who work on more than one activity.**

Finding 9: Information Technology Security Awareness

University policies¹⁸ require all employees to undertake online information security awareness training annually and to comply with all University policies regarding information technology (IT). Employees are required to certify an online IT policy acknowledgement form to document the employee's agreement with these policies.

We requested for examination the IT policy acknowledgement forms for 19 of the 397 University employees; however, the forms were not provided for 7 employees and the forms for 9 other employees¹⁹ were not timely signed. In response to our inquiries, University personnel indicated that, because the University was new and had recently hired many employees, the University did not always document compliance with the IT security awareness policy. Written acknowledgement of University policies and security awareness training help ensure that employees are properly informed of IT policies and protect the confidentiality, integrity, and availability of University data and IT resources.

Recommendation: University management should strengthen procedures to obtain signed IT policy acknowledgement forms before employees are provided access to the University IT resources.

PRIOR AUDIT FOLLOW-UP

Except as noted in Findings 1, 4, and 5, the University had taken corrective actions for the findings included in our report No. 2016-067.

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

¹⁸ FPU Policy No. FPU-11.0011P, *Mandatory Information Security Training – Employees*, approved on March 18, 2016.

¹⁹ The 9 employees included 8 employees hired before the IT security awareness policy implementation date (March 18, 2016) who signed the forms 73 to 206 days after that date and 1 employee hired after that date who signed the form 83 days after hire.

information for use in promoting government accountability and stewardship and improving government operations.

We conducted this operational audit from February 2017 through September 2017 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of this operational audit were to:

- Evaluate management's performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse, and in administering assigned responsibilities in accordance with applicable laws, rules, regulations, contracts, grant agreements, and other guidelines.
- Examine internal controls designed and placed in operation to promote and encourage the achievement of management's control objectives in the categories of compliance, economic and efficient operations, reliability of records and reports, and safeguarding of assets, and identify weaknesses in those controls.
- Determine whether management had taken corrective actions for findings included in our report No. 2016-067.
- Identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

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

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

Our audit included transactions, as well as events and conditions, occurring during the audit period of January 2016 through March 2017, and selected University actions taken prior and subsequent thereto. Unless otherwise indicated in this report, these records and transactions were not selected with the intent of statistically projecting the results, although we have presented for perspective, where practicable,

information concerning relevant population value or size and quantifications relative to the items selected for examination.

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

In conducting our audit, we:

- Determined whether a comprehensive IT security awareness and training program was in place for the audit period.
- Evaluated University procedures for protecting student social security numbers (SSNs). Specifically, we examined University records supporting the access privileges of all 18 employees who had access to SSNs during the audit period to determine the appropriateness and necessity of the access privileges based on the employees' assigned job responsibilities.
- Examined Board of Trustees and related committee board meeting minutes to determine whether the Trustees' approval was obtained for the policies and procedures in effect during the audit period and for evidence of compliance with Sunshine Law requirements (i.e., proper notice of meetings, meetings readily accessible to the public, and properly maintained meeting minutes).
- Examined University records to determine whether the Board had prescribed by rule the conditions with which the Foundation must comply in order to use University property, facilities, and personal services and the Board documented consideration and approval of anticipated property, facilities, and personal services provided to the Foundation and the related costs.
- Reviewed the 30 bank account reconciliations for the January 2016 through March 2017 bank statements to determine whether the reconciliations were accurate, timely, and evidenced supervisory approval.
- Evaluated the banking services agreement in effect for the audit period to determine whether recorded check signer and account administrator information was up-to-date.
- Examined University records for the audit period to determine whether the University informed students and employees at orientation and on its Web site of the existence of the Florida Department of Law Enforcement sexual predator and sexual offender registry Web site and the toll-free telephone number that gives access to sexual predator and sexual offender public information as required by Section 1006.695, Florida Statutes.
- Examined University records to determine whether the University had developed an anti-fraud policy to provide guidance to employees for communicating known or suspected fraud to appropriate individuals. Also, we examined University records to determine whether the University had implemented appropriate and sufficient procedures to comply with the anti-fraud policy.
- Examined Board of Trustees' meeting minutes and payment schedules for pledges of scholarship funds made by the University Foundation to determine the reasonableness of the pledges and likelihood that the University would receive the pledged amounts.
- From the population of 1,436 students enrolled as Florida residents during the Spring 2016, Summer 2016, Fall 2016, and Spring 2017 Semesters, examined University records for 30 selected students to determine whether the University documented Florida residency and correctly assessed tuition in compliance with Sections 1009.21 and 1009.22, Florida Statutes, and State Board of Education Rule 6A-10.044, Florida Administrative Code.

- Examined University records supporting auxiliary operations to determine whether the University properly monitored compliance with contract terms for commission revenues and insurance provisions.
- Examined documentation to determine whether University policies and procedures for textbook affordability complied with Section 1004.085, Florida Statutes.
- From the population of payroll transactions totaling \$20.3 million and made to 397 employees during the audit period, selected 30 payroll transactions totaling \$53,163 and examined the related payroll and personnel records to determine the accuracy of the rate of pay, validity of employment contracts, completion of performance evaluations, and accuracy of leave records. In addition, we examined certain 2-week time reports for 15 (5 non-exempt and 10 exempt) selected employees during the period October 2016 through March 2017 to determine whether supervisory personnel reviewed and approved employee reports of time worked.
- Selected 26 of the 165 individuals hired during the audit period and reviewed the applicable personnel records to determine whether the records evidenced that the employees met the minimum education and experience requirements for the positions based on the University position description.
- Examined University records to evaluate the authority for hiring 8 employees who were related to other University employees to determine compliance with University policies.
- From the population of 33 employees who received overtime payments totaling \$58,919 during the audit period, examined overtime payments totaling \$26,683 made to 3 employees to determine whether University policies and procedures were adequate and supporting documentation evidenced the approval of, and necessity for, overtime payments.
- Evaluated University policies and procedures for payments of accumulated annual and sick leave (terminal leave pay) to determine whether the procedures promoted compliance with State law. Specifically, from the population of 69 employees who separated from University employment during the audit period and were paid \$79,529 for terminal leave, we selected 7 employees who received terminal payments totaling \$67,314 and determined whether the payments complied with Section 110.122, Florida Statutes, and University policies.
- Examined severance pay provisions in the one employee contract that contained such provisions during the audit period to determine whether the provisions complied with Section 215.425(4), Florida Statutes.
- Examined University records for 3 administrative employees (including the President) who received compensation totaling \$934,452 during the audit period to determine whether the amounts paid did not exceed the limits established in Sections 1012.975(3) and 1012.976(2), Florida Statutes.
- Examined University records supporting the background screenings for 31 employees selected from the population of 165 employees hired during the period January 2016 through March 2017 to determine whether appropriate background screenings were conducted.
- Examined University expense documentation to determine whether the expenses were reasonable, correctly recorded, adequately documented, for a valid University purpose, properly authorized and approved, and in compliance with applicable laws, rules, contract terms, and University policies. We also determined whether the applicable vendors were properly selected and carried adequate insurance. From the population of expense transactions totaling \$32.4 million for the audit period, we examined University documentation supporting:
 - 34 selected payments totaling \$263,465 for general expenses.
 - 30 selected payments totaling \$586,837 for contractual services.

- Examined University records supporting 40 selected purchasing card (P-card) transactions made during the audit period to determine whether the P-card program was administered in accordance with University policies and procedures and transactions were not of a personal nature. We also determined whether the University promptly canceled the P-card of the 1 cardholder who separated from University employment during the audit period.
- Examined University records supporting selected travel expenses made during the audit period, to determine whether the travel expenses were reasonable, adequately supported, for valid University purposes, and limited to amounts allowed by Section 112.061, Florida Statutes.
- Examined University records supporting selected payments made during the audit period to employees for other than travel and compensation to determine whether the 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.
- From the population of 9 construction projects with contract amounts totaling \$10.4 million and in progress during the audit period:
 - Evaluated University documentation to determine whether the University adequately monitored the process for selecting design professionals and construction managers for compliance with State law, the University adequately monitored the process for selecting subcontractors, the Trustees had adopted a policy establishing minimum insurance coverage requirements for design professionals, and design professionals provided evidence of required insurance.
 - Selected 30 payments totaling \$1.6 million related to 3 major construction projects with contract amounts totaling \$6.4 million and examined University records to determine whether the payments were made in accordance with contract terms and conditions, University policies and procedures, and provisions of applicable State laws and rules.
- Examined University motor vehicle usage and maintenance logs to evaluate compliance with University procedures.
- Evaluated University procedures for performing the annual physical tangible personal property inventory counts and disposing of surplus property.
- Evaluated whether the University exercised good business practices in selecting and contracting with a service provider for an anti-hazing course. In addition, we evaluated the adequacy of University records supporting the reasonableness of the costs associated with the anti-hazing course.
- Reviewed University records to determine if University procedures regarding the transition of administrative services responsibilities from another SUS university to the University were adequate.
- 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



FLORIDA POLYTECHNIC
UNIVERSITY

June 15, 2018

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

Dear Ms. Norman:

Pursuant to Section 11.45(4)(d), Florida Statutes, the university is required to submit a written statement of explanation concerning all findings. Please find the attached responses to the Preliminary and Tentative Findings for Florida Polytechnic University's operational audit for the period January 2016 through March 2017. Should you have any questions, please contact David Blanton at (863) 874-8441.

Sincerely,

A handwritten signature in black ink, appearing to read "Randy K. Avent".

Randy K. Avent, President
Florida Polytechnic University

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Florida Polytechnic University
Response to Operational Audit Findings

Finding 1: Textbook Affordability

Recommendation: The University should ensure compliance with State law by prominently posting in the course registration system and on its Web site, as early as feasible, but at least 45 days before the first day of class for each term, a hyperlink to lists of required and recommended textbooks and instructional materials for at least 95 percent of all courses and course sections offered at the University during the upcoming term.

Response: The University has enhanced controls to ensure compliance with applicable law over the timely posting of textbook information. Following the date of this finding, the University has been in full compliance with the law.

Finding 2: Bank Account Reconciliations

Recommendation: University personnel should document timely preparation of reconciliations of bank account balances to general ledger control accounts and supervisory review and approval of the reconciliations.

Response: As noted in the finding, this deficiency occurred during a short period of time in which the University was implementing a new accounting system that includes an automated bank reconciliation feature. Some delays occurred during the implementation, but bank accounts have always been properly reconciled. The system and related controls have been properly implemented to ensure that reconciliations and approvals are now made timely.

Finding 3: Auxiliary Enterprise Contracts

Recommendation: The University should continue efforts to verify that food service commission revenue earned is received in accordance with the food service vendor contract.

Response: Verification controls have been enhanced to better document verifications that food service commission revenue is accurate and properly received. No revenue shortages occurred.

Finding 4: Payroll Processing – Time Records

Recommendation: The University should ensure that, prior to processing payroll payments, documented supervisory approval of subordinate time reports is obtained. If extenuating circumstances prevent documented supervisory approval prior to payroll processing, supervisory approval should be obtained as soon as practical thereafter.

Response: The University has enhanced controls to provide full compliance for an appropriate level of supervisory review prior to payroll processing.

Finding 5: Expense Cards

Recommendation: University procedures should be enhanced to ensure that cardholders and supervisors document approval of E-card expenses. Additionally, the *E-Card Manual* should be revised to require both cardholders and their immediate supervisors to approve all E-card expenses.

Florida Polytechnic University
Response to Operational Audit Findings

Response: As noted in the finding, for the majority of the audit testing (January 2016 through September 2016), the University was under a shared services agreement with another University and operated under completely different control processes over expense card processing. The University's new ERP system currently provides for defined business processes to ensure an appropriate level of approval for expense card transactions. In certain circumstances, administrative assistants have access to calendars and are aware of the daily activities for certain delegations of authority. In this situation, the assistant would have an appropriate knowledge of work activities for University staff and therefore would be in an authorized position to approve expenses. This rarely occurs and typically occurs only at a very high level. In approving any expense, our defined business processes require adequate support and justification for any charge for both the initial authorization and the final approval.

Finding 6: Subcontractor Licenses

Recommendation: The University should enhance procedures to verify and document that subcontractors are appropriately licensed before the subcontractors commence work on University facilities. Such procedures could include documented verification through online licensing searches or appropriate evidence of the CME's confirmation of licensure.

Response: As noted in the finding, State law requires any contractor to contract with licensed or registered professionals. In addition, local ordinances require that contractor identify each subcontractor and the license number prior to issuance of a building permit. Such laws and local ordinances place the onus and related responsibility for verification on the contractor; however, the University will consider independently verifying subcontractor licenses in order to provide an additional level of assurance above that already established.

Finding 7: Anti-Hazing Course

Recommendation: The University should:

- Ensure that, for future contracts for student services, University records evidence substantive efforts to obtain the necessary SUS institution and student participation. Such efforts may include appropriate financial incentives to applicable university and student participants; appropriate documented discussions with other university administrators and involvement with the BOG; or other endeavors to ensure the success administration of, and participation in, such services.
- Ensure that, for future contracts for student services, considerations of the service costs in relation to the anticipated service benefits are documented to demonstrate that the services will be received at the lowest cost consistent with desired quality.
- Ensure that future contracts for student services contain all applicable provisions and conditions of the procurement of student services, including quantifiable, measurable, and verifiable units of deliverables directly related to the scope of work with specified performance measures and legal remedies should the deliverables not meet the performance measures.
- Provide documentation to the BOG supporting the reasonableness of course-related administrative costs totaling \$500,000. The University should return to the State Treasurer any portion of the \$500,000 that is not supported as reasonable course-related administrative costs.

Response: It is not expected that the University will enter into another contract for anti-hazing. However, for any future contracts, the University will take appropriate measures to ensure that the services are properly administered to achieve the most benefit from the contract; the services are received at the

Florida Polytechnic University
Response to Operational Audit Findings

lowest cost consistent with desired quality; and that contract deliverables are defined and met prior to payment. Additionally, the University will evaluate the reasonableness of the administrative costs associated with the anti-hazing contract and return to the State Treasurer any portion thereof that is not adequately supported.

Finding 8: Direct-Support Organization

Recommendation: We recommend that:

- The Trustees prescribe by rule any condition with which a DSO must comply in order to use University property, facilities, and personal services and the University monitor and document DSO compliance with such conditions.
- The University document the Trustees' consideration and approval of DSO anticipated use of University resources, at least on an annual basis, before the use occurs. To enhance government transparency, the Trustees' approval documentation should identify the positions of the employees who will provide the personal services that will be used by the DSO and the value of such use.
- The University document University employee actual time and effort provided to the DSO to support the purpose for and value of those services and the distribution of applicable personal service costs among specific University and DSO activities for employees who work on more than one activity.

Response: On May 22, 2018, the University obtained Trustee approval for the anticipated use of University resources by our Foundation. The University will revise current rules to require the Foundation to annually certify resource use was consistent with the mission, vision, and values of the University. In addition, the University will annually obtain Trustee approval of actual resources provided to the Foundation.

Finding 9: Information Technology Security Awareness

Recommendation: University management should strengthen procedures to obtain signed IT policy acknowledgement forms before employees are provided access to the University IT resources.

Response: The University has enhanced controls over its annual security awareness training. Rather than relying on an acknowledgement form, the University now utilizes an on-line training program that tracks participation and completion of the course for all university staff required to undergo training.