

BOARD OF GOVERNORS

Operational Audit



BOARD OF GOVERNORS AND CHANCELLOR

Members of the Board of Governors and Chancellor who served during the 2008-09 fiscal year are listed below:

Sheila M. McDevitt, Chair
Ava L. Parker, Vice Chair
John R. Barnes from 6-01-09 (1)
Dr. Arlen F. Chase to 7-31-08 (2)
John H. Dasburg
Ann W. Duncan
Charles B. Edwards
Dr. J. Stanley Marshall
Frank T. Martin
A. J. Meyer to 5-31-09 (1)
Margaret Lynn Pappas to 12-31-08 (3)
Hector "Tico" Perez
Carolyn K. Roberts
Dr. Eric J. Smith (4)
Dr. Judith L. Solano from 8-01-08 (2)
Gus A. Stavros
John W. Temple
Norman D. Tripp
Dr. Zachariah P. Zachariah

Dr. Mark B. Rosenberg, Chancellor
to February 13, 2009 (5)

- Notes: (1) Chair of the Florida Student Association (equivalent to Florida Student Association president referred to in Article IX, Section 7(d) of the State Constitution).
- (2) Chair of the Advisory Council of Faculty Senates.
- (3) Position remained vacant from January 1, 2009, to June 30, 2009.
- (4) Commissioner of Education.
- (5) Position remained vacant from February 14, 2009, to June 30, 2009. Subsequent to the 2008-09 fiscal year a new Chancellor, Mr. Frank T. Brogan, was appointed effective September 14, 2009.

The audit team leader was Gregory A. Hunt, CPA, and the audit was supervised by Cheryl B. Pueschel, CPA. Please address inquiries regarding this report to James R. Stultz, CPA, Audit Manager, by e-mail at jimstultz@aud.state.fl.us or by telephone at (850) 922-2263.

This report and other reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 487-9024; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

BOARD OF GOVERNORS

SUMMARY

Our operational audit disclosed the following:

Finding No. 1: Contrary to Section 1010.01(3), Florida Statutes, the Board of Governors did not adopt a regulation requiring universities to submit financial statements prepared in conformity with generally accepted accounting principles.

Finding No. 2: The Board of Governors needed to enhance its procedures to ensure compliance with Section 119.071(5)(a), Florida Statutes, regarding the collection of social security numbers.

Finding No. 3: The Board of Governors needed to improve procedures related to monitoring of grant expenditures by universities.

BACKGROUND

Pursuant to Section 7(d), Article IX of the State Constitution, the Board of Governors (BOG) has the duty to operate, regulate, control, and be fully responsible for the management of the State University System. The BOG consists of 17 members. The Governor appoints 14 citizen members subject to confirmation by the Senate and these members serve staggered terms of seven years. The Commissioner of Education; the Chair of the advisory council of faculty senates, or the equivalent; and the President of the Florida student association, or the equivalent, are also members of the BOG.

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

Status of Declaratory Judgment

In our report No. 2009-019, we noted that the BOG was a Plaintiff in an action for Declaratory Judgment seeking to declare provisions of the Florida Statutes unconstitutional that restricted the BOG’s authority to unilaterally adopt tuition and student fees and that imposed restrictions on the rulemaking authority of the BOG and University Trustees. The BOG entered into a State University System Governance Agreement (Agreement) on March 24, 2010, with the Governor, Senate President, and Speaker of the House, agreeing to dismiss its claims as a Plaintiff in *Graham et al. v. Pruitt et al.*, No. 2007-CA-1818 (Fla. 2nd Cir. Ct. Feb. 4, 2008). The Agreement also required the Presiding Officers to utilize their best efforts to enact legislation codifying the agreed upon terms. This legislation was enacted in Chapter 2010-78, Laws of Florida. While the BOG has filed a Notice of Voluntary Dismissal and is no longer a participant in the declaratory judgment, other Plaintiffs are continuing the action. The final resolution and impact of these legal matters and any actions required by the BOG will be reviewed in subsequent audits.

FINDINGS AND RECOMMENDATIONS

Finding No. 1: Financial Statement Reporting

Section 1010.01(3), Florida Statutes, provides that each State university shall annually file with the BOG financial statements prepared in conformity with accounting principles generally accepted in the United States and that BOG rules shall prescribe the filing deadline for the financial statements. BOG Regulation 9.009 requires each university to prepare its financial statements in accordance with instructions contained in the Inter-institutional Committee and

Finance and Accounting (ICOFA) Financial Statement Guide and submit a completed annual financial report to the BOG on or before September 15 or on the next business day if September 15th concludes on the weekend. The BOG Regulation provides that the financial report must include the statement of net assets; statement of revenues, expenses, and changes in net assets; schedule of expenditures of Federal awards; statewide financial statement adjustment forms; and component unit note forms. However, BOG Regulations did not require submission of the management discussion and analysis (MD&A), a statement of cash flows, notes to the financial statements, or required supplementary information that are required components of financial statements prepared in conformity with accounting principles generally accepted in the United State of America. Absent the requirement in BOG Regulations to include these components of the financial statements, the BOG Regulations do not fully address the financial reporting required by Section 1010.01(3), Florida Statutes.

In response to our inquiry, BOG personnel informed us that a new regulation is being developed that would require financial statements to include all required components of financial statements prepared in conformity with accounting principles generally accepted in the United States of America.

Recommendation: The BOG should continue its efforts to adopt a regulation to provide for the submission of financial statements prepared in conformity with accounting principles generally accepted in the United States of America.

Finding No. 2: Collection of Social Security Numbers

The Legislature has acknowledged in Section 119.071(5)(a), Florida Statutes, the necessity of collecting social security numbers (SSNs) for certain purposes because of their acceptance over time as a unique numeric identifier for identity verification and other legitimate purposes. The Legislature has also recognized that SSNs can be used to acquire sensitive personal information, the release of which could result in fraud against individuals or cause other financial or personal harm. Therefore, public entities are required to provide extra care in maintaining such information to ensure its confidential status.

Pursuant to Section 119.071(5)(a), Florida Statutes, the BOG may not collect an individual's SSN unless it has stated in writing the purpose for its collection and unless it is specifically authorized by law to do so, or it is imperative for the performance of BOG duties and responsibilities as prescribed by law. Additionally, this Section requires that if the BOG collects an individual's SSN, it must provide the individual with a written statement indicating whether the collection of the SSN is authorized or mandatory under Federal or State law, and identifying the specific Federal or State law governing the collection, use, or release of SSNs for each purpose for which a SSN is collected. This Section also provides that SSNs collected by the BOG may not be used for any purpose other than the purpose provided in the written statement. This Section further provides that the BOG review whether its collection of SSNs is in compliance with the above requirements and immediately discontinue the collection of SSNs for purposes that are not in compliance.

The BOG collected SSNs from employees, prospective employees, university board of trustee applicants, university students and employees, and vendors. During the 2008-09 fiscal year, and for the majority of the 2009-10 fiscal year, the BOG had not developed procedures to provide university board of trustee applicants, BOG employee applicants selected for interview, employees, and vendors, with the required written notification explaining the purpose for collection of their SSNs. Subsequently, in March 2010, the BOG developed a *Statement on the Collection, Use, or Release of Social Security Numbers* to provide the required written notifications to interviewed job applicants, employees, and

vendors. Additionally, in April 2010, the BOG revised its application for university board of trustee members to incorporate a written statement to provide the required information regarding the use of the collected SSN.

Effective controls to properly monitor the need for and use of SSNs and ensure compliance with statutory requirements reduce the risk that SSNs may be used for unauthorized purposes.

Recommendation: **The BOG should continue its efforts to ensure compliance with Section 119.071(5)(a), Florida Statutes.**

Finding No. 3: 21st Century World Class Scholars Program

Section 1004.226, Florida Statutes, established the 21st Century World Class Scholars Program (Program) to develop the State’s capabilities in science and high-technology research. This Section further provides that funds shall be used for the purpose of recruiting a 21st Century World Class Scholar and shall be expended according to an expenditure plan approved by the BOG.

In our report No. 2009-019, we noted that the BOG had not established procedures to monitor expenditures of the Program’s funds or required expenditure reports be provided by the various universities awarded funds by the BOG under the Program. Our current review disclosed that while the BOG had established procedures and obtained expenditure reports from the universities for the 2007-08 fiscal year, no expenditure reports for the 2008-09 fiscal year were available for our review. The timely monitoring of program expenditures to ensure compliance with approved expenditure plans would provide the BOG with additional assurance that Program funds were spent as intended.

Recommendation: **The BOG should strengthen its procedures to timely monitor Program expenditure reports from the universities to ensure awarded funds are spent for the purpose of recruiting a 21st Century World Class Scholar.**

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the BOG had taken corrective actions for findings included in our report No. 2009-019.

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 May 2010 through July 2010 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: (1) obtain an understanding and make overall judgments as to whether BOG internal controls promoted and encouraged compliance with applicable laws, rules, regulations, contracts, and grant agreements; the economic and efficient operation of the BOG; the reliability of records and

reports; and the safeguarding of assets; (2) evaluate management’s performance in these areas; and (3) determine whether the BOG had taken corrective actions for findings included in our report No. 2009-019. Also, pursuant to Section 11.45(7)(h), Florida Statutes, our audit may identify statutory and fiscal changes to be recommended to the Legislature.

The scope of this operational audit is described in Exhibit A. Our audit included examinations of various records and transactions (as well as events and conditions) occurring during the 2008-09 fiscal year and selected management actions taken through April 2010.

Our audit methodology included obtaining an understanding of the internal controls by interviewing BOG personnel and, as appropriate, performing a walk-through of relevant internal controls through observation and examination of supporting documentation and records. Additional audit procedures applied to determine that internal controls were working as designed, and to determine the BOG’ compliance with the above-noted audit objectives, are described in Exhibit A. Specific information describing the work conducted to address the audit objectives is also included in the individual findings.

AUTHORITY

Section 11.45, Florida Statutes, requires that the Auditor General conduct an operational audit of each State agency on a biennial 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.



David W. Martin, CPA
Auditor General

MANAGEMENT’S RESPONSE

The Board of Governors’ response is included as Exhibit B.

EXHIBIT A
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Information technology (IT) environmental and security controls.	Examined access controls associated with the BOGs' IT resources to determine whether vulnerabilities existed. Also tested employees who terminated employment during the audit period and examined supporting documentation evidencing when the BOG removed IT access privileges.
University board of trustee appointments.	Examined written policies, procedures, and supporting documentation to determine whether the BOG had made appointments to university boards of trustees in accordance with Section 1001.71(1), Florida Statutes.
Financial statements and budgeting.	Examined written policies, procedures, and supporting documentation to determine whether the BOG had adequately instructed the universities in the preparation and submission of financial statements in accordance with generally accepted accounting principles and that the BOG prepared and submitted consolidated university financial statements to the Division of Bond Finance as prescribed by law. Also examined written policies, procedures, and supporting documentation to determine whether the BOG had timely submitted to the chair of the appropriations committee of each house of the Legislature a report of the sponsored research activities of the universities with estimated budgets for the next fiscal year as prescribed by law.
Institutes and centers.	Determined whether the BOG approved any new institutes and centers. Reviewed written policies, procedures, and supporting documentation to determine whether the BOG verified that information obtained from universities for institutes and centers was accurate and complete.
Fraud policy and related procedures.	Examined written policies, procedures, and supporting documentation related to the BOG's fraud policy and related procedures.
Statement of financial interest requirements of Section 112.3145(2), Florida Statutes.	Obtained statements of financial interests forms filed with the Florida Commission on Ethics for BOG members and certain BOG employees to determine if filed timely.
Internal audit function.	Determined if the BOG provided for an internal audit function and, if not, how the BOG identified risks and what methods were used to reduce risk.
Social security number requirements of Section 119.071(5)(a), Florida Statutes.	Examined supporting documentation to determine whether the BOG had provided individuals with a written statement as to the purpose of collecting their social security numbers.
Guidance to universities related to capital assets.	Determined if the BOG had developed guidelines for universities related to the acquisition, sale, or disposal of real and personal property. Determined if the BOG had delegated requirements to prepare and adopt a campus master plan and a campus development agreement to the universities, pursuant to Section 1013.30, Florida Statutes.

**EXHIBIT A (Continued)
AUDIT SCOPE AND METHODOLOGY**

Scope (Topic)	Methodology
Tangible personal property records.	Examined tangible personal property records to determine whether they contained information necessary to account for and identify BOG-owned property. Tested property items to determine whether the BOG property records accurately described the property item.
Annual physical inventory of property.	Reviewed written policies and procedures related to performing annual inventory counts of property. Examined supporting documentation of the BOG's annual physical inventory of property.
Long-term financing.	Reviewed written policies, procedures, and supporting documentation to determine whether the BOG received, reviewed, and approved financing by revenue bonds, promissory notes, certificates of participation, lease-purchase agreements, or any other form of indebtedness by any university or direct-support organization for any university. In addition, reviewed procedures for monitoring revenue streams for bonds issued for auxiliary facilities.
Student tuition and fees.	Examined written policies, procedures, and supporting documentation to determine whether the BOG had approved tuition and fees charged by the universities, as provided by law.
Procedures for textbook affordability.	Examined supporting documentation to determine whether the BOG adopted policies, procedures, and guidelines to promote compliance by State universities with the textbook affordability requirements prescribed by Section 1004.085, Florida Statutes.
Building and capital improvement fees.	Examined written policies, procedures, and supporting documentation to determine whether the BOG identified and tracked receipt of building and capital improvement fees remitted by the universities.
Personnel program.	Examined policies, procedures, and supporting documentation to determine whether the BOG had formally adopted a personnel program as prescribed by Section 1001.706(5)(a), Florida Statutes.
New hires.	Tested new hires and examined supporting documentation to determine whether evidence of qualifications was obtained, and fingerprinting and background checks performed, in accordance with BOG established policies and procedures.
Terminal pay policies and procedures.	Reviewed the BOG's policies and procedures for terminal pay to ensure policies and procedures were consistent with Florida law. Tested terminal pay to former employees and determined whether the BOG properly calculated terminal pay in accordance with BOG policies and procedures.

**EXHIBIT A (Continued)
AUDIT SCOPE AND METHODOLOGY**

Scope (Topic)	Methodology
Procurement policies and procedures.	Determined whether the BOG had formally adopted policies and procedures related to procurement of goods and services. Reviewed supporting documentation for compliance with the policies and procedures and consistency with Chapter 287, Florida Statutes, including competitive procurement procedures.
Purchasing card transactions.	Examined written policies, procedure, and supporting documentation to determine whether the BOG used purchasing cards; and determine whether the BOG policies and procedures were adequate to ensure purchasing card transactions were properly authorized, reviewed, approved, and paid in accordance with the purchasing card agreement and good business practices.
Travel.	Examined documentation to determine whether the BOG had complied with Section 112.061, Florida Statutes, governing payment for travel and per diem. Determined whether employees were allowed to use BOG vehicles for personal use and, if so, determined whether fringe benefits attributable to such use were reported.
Contractual agreements.	Examined documentation to determine whether payments by the BOG for contractual services were adequately supported and in accordance with the terms of agreements.
Grants to universities.	Examined written policies, procedures, and supporting documentation to determine whether the BOG had established a process for the submission, documentation, and approval of requests for grant funds and monitoring grant expenditures by the universities.
Capital outlay and construction projects.	Examined policies, procedures, and regulations to determine whether the BOG had complied with Section 1001.706(6) Florida Statutes, related to capital outlay and construction projects for universities.
Wireless communication devices.	Examined written policies, procedures, and supporting documentation to determine whether the BOG had properly documented the use of wireless communication devices.
Governance and accountability.	Examined written policies, procedures, and documentation to determine whether the BOG had reviewed law changes and implemented guidance to the universities related to the mission of the State University System. Determined whether the BOG had developed a strategic plan that specified goals and objectives for the State University System and each university. Determined whether the BOG established performance measures and standards and a methodology for collection of accountability data from the universities.

**EXHIBIT B
MANAGEMENT'S RESPONSE**



Office of the Chancellor
 325 West Gaines Street, Suite 1614
 Tallahassee, FL 32399
 Phone 850.245.0466
 Fax 850.245.9685
 www.flbog.edu

September 16, 2010

Mr. David W. Martin
 Auditor General
 State of Florida
 G74 Claude Pepper Building
 111 West Madison Street
 Tallahassee, FL 32399-1450

Dear Mr. Martin:

Enclosed is the final response to the Board of Governors preliminary and tentative operational audit findings for the fiscal year ended June 30, 2009 and selected management actions taken through April 2010. Please contact me if I can be of further assistance.

Sincerely,

Frank T. Brogan
 Chancellor

FTB/lc

Enclosure: Responses to Preliminary and Tentative Audit Findings, BOG Operational Audit

- c: Ava Parker, Chair, Board of Governors
- Audit Committee, Board of Governors
- Derry Harper, Inspector General and Director of Compliance, Board of Governors

EXHIBIT B (Continued)
MANAGEMENT'S RESPONSE

Board of Governors
Responses to Preliminary and Tentative Audit Findings
Operational Audit for Fiscal Year Ended June 30, 2009
and Selected Management Actions Taken Through April 2010

Finding No. 1: Financial Statement Reporting

Contrary to Section 1010.01(3), Florida Statutes, the Board of Governors did not adopt a regulation requiring universities to submit financial statements prepared in conformity with generally accepted accounting principles.

Recommendation:

The BOG should continue its efforts to adopt a regulation to provide for the submission of financial statements prepared in conformity with accounting principles generally accepted in the United States of America (GAAP).

Response:

On June 18, 2010, the Board approved public notice of intent to amend Regulation 9.009 to include the requirement that university financial statements be prepared in conformity with accounting principles generally accepted in the United States of America. This notice was posted to the Board's website for public comment in accordance with the Board's regulation development procedure. Following the period for public comment, the amendment to Regulation 9.009 was approved by the Board on September 16, 2010 and became effective as of that date.

Implementation Date: Completed

Finding No. 2: Collection of Social Security Numbers

The Board of Governors needed to enhance its procedures to ensure compliance with section 119.071(5)(a), Florida Statutes, regarding the collection of social security numbers.

Recommendation:

The BOG should continue its efforts to ensure compliance with Section 119.071(5)(a), Florida Statutes.

Response:

The Board concurs and will continue to take appropriate action to ensure compliance with the statutory requirements of section 119.071(5)(a) with respect to the collection of social security numbers. The Board's *Statement on the Collection, Use, or Release of Social Security Numbers* was revised in August 2010 to group the purposes for which social security numbers are collected, together with the authorizing law, by requestor categories, i.e., employees, prospective employees, board of trustee applicants, vendors, etc.

Implementation Date: Completed.

Finding No. 3

The Board of Governors needed to improve procedures related to monitoring of grant expenditures by universities.

Recommendation:

The BOG should strengthen its procedures to timely monitor Program expenditure reports from the universities to ensure awarded funds are spent for the purpose of recruiting a 21st Century World Class Scholar.

Response:

On August 30, 2010, each university that received a 21st Century World Class Scholar award was requested to provide updated expenditure reports. In the future, this information will be collected at the end of each fiscal year and included in the Annual Report.

Implementation Date: Completed.