SUMMARY

This operational audit for the period January 1, 2003, through December 31, 2003, and certain transactions through April 9, 2004, disclosed the following:

Finding No. 1: A balanced budget, including beginning fund balance, estimated revenues, estimated expenditures, and ending fund balance, was not presented to the University Board of Trustees for the 2003-04 fiscal year.

Finding No. 2: Driver license verifications are not being performed for all drivers of University motor vehicles.

Finding No. 3: Motor vehicle usage logs are not reviewed by supervisors.

Finding No. 4: An energy performance-based contract was not executed in accordance with law.

Finding No. 5: The University has not developed written policies and procedures for charging admission and issuing complimentary tickets to University events. Improvements could be made over accountability for complimentary tickets.

Finding No. 6: The University has not developed policies and procedures regarding cell phone assignment and use.

BACKGROUND

In 1991, the Florida Legislature established the Florida Gulf Coast University. The University is one of Florida’s newest universities, reporting 3,023 full-time equivalent students for 2002-03.

The University is under the general direction and control of the State Board of Education. A board of trustees governs and operates the University. The Board of Trustees constitutes a corporation and is composed of 13 members, 6 appointed by the Governor and confirmed by the Senate, 5 appointed by the Board of Governors, the chair of the faculty senate, and the student body president. The members of the Board of Trustees who served during the audit period are listed on Exhibit 1.

The President of the University is responsible for the operation and administration of the University. The President is appointed by the Board of Trustees, subject to ratification by the State Board of Education. The President during the audit period was Dr. William C. Merwin.

The results of our audit of the University’s financial statements are presented in audit report No. 2004-110.

An examination of expenditures of Federal awards administered by the University under contract and grant agreements to finance specific programs and projects is included in our Statewide audit of Federal awards administered by the State of Florida, audit report No. 2004-168.
FINDINGS AND RECOMMENDATIONS

Finding No. 1: Budget Management

Section 1011.90(4), Florida Statutes, requires the preparation of expenditure analysis, operating budgets, and annual financial statements of each university using the standard financial reporting procedures and formats prescribed by the State Board of Education. The University staff submitted the various documents, including balanced operating budgets for the operating funds, to the Florida Department of Education, Division of Colleges and Universities. The budgets included estimated revenues and expenditures and estimated beginning and ending fund balances for the year.

At the May 29, 2003, University Board of Trustees (Board) meeting, University staff requested that the Board approve the 2003-04 initial operating budget. The minutes and supporting documents indicated that the amounts submitted to the Board were tentative. Documents included in the minutes supporting the Board’s approval of the budget included only budgetary information for estimated revenues by sources, as shown below:

<table>
<thead>
<tr>
<th>Estimated Revenues by Sources</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>General Revenue</td>
<td>$28,959,565</td>
</tr>
<tr>
<td>Lottery</td>
<td>1,487,511</td>
</tr>
<tr>
<td>Tuition</td>
<td>11,044,581</td>
</tr>
<tr>
<td>Contracts and Grants</td>
<td>786,888</td>
</tr>
<tr>
<td>Auxiliary</td>
<td>11,604,585</td>
</tr>
<tr>
<td>Sponsored Research</td>
<td>10,950,504</td>
</tr>
<tr>
<td>Student Activities</td>
<td>1,468,600</td>
</tr>
<tr>
<td>Athletics</td>
<td>1,962,000</td>
</tr>
<tr>
<td>Financial Aid</td>
<td>4,100,000</td>
</tr>
<tr>
<td>Concessions</td>
<td>20,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$72,384,234</strong></td>
</tr>
</tbody>
</table>

The minutes did not indicate that the Board was presented the balanced budget or estimated expenditures that were submitted to the Division of Colleges and Universities.

Further, the Board minutes indicate that the Board delegated authority to the President to amend the 2003-04 budgets by amounts not to exceed ten percent. However, since the Board was not presented with a balanced budget, including estimated expenditures, it was not clear from the minutes upon what basis the ten percent limit would apply other than estimated revenues, either in total or by revenue source.

**Recommendation:** To improve the completeness of the budgetary information submitted to the Board for approval and to clearly document in the minutes the basis on which the Board is delegating authority, we recommend that a balanced operating budget be presented to the Board, including estimated beginning and ending fund balances and estimated revenues and expenditures.

Finding No. 2: Driver License Verification

Driver license verifications decrease the risk that employees or other authorized drivers with possible operator restrictions or without valid driver licenses may operate University-owned vehicles. Our review of records for five vehicles disclosed that nineteen authorized drivers for two of the vehicles did not have their driver licenses verified by the University’s Campus Police and Safety Department. We noted a similar finding in audit report No. 03-002.

**Recommendation:** We recommend that the University verify the validity of driver licenses for all authorized drivers of University vehicles.

Finding No. 3: Vehicle Usage Records

The University’s policies and procedures for the operation and maintenance of motor vehicles did not include procedures to require supervisory review and approval of vehicle usage logs. However, the standard form used by the University to document vehicle usage does include spaces for supervisor
approval. Our review indicated that four of five vehicle usage logs from different departments did not indicate any supervisory approval. We noted a similar finding in audit report No. 03-002.

**Recommendation:** We recommend that the University document the supervisory review of all vehicle usage logs to enhance controls over vehicle use.

### Finding No. 4: Energy Performance-Based Contract

The University entered into an energy performance-based contract in July 2003 with an energy performance contractor to acquire energy conservation equipment and to have energy conservation measures undertaken related to the main chiller equipment plant and the delivery of chilled water to the campus buildings. Total costs of the contract were $2,099,405. The energy cost savings guaranteed by the contractor over a 15-year period was $2,214,494.

Sections 1013.23(3) and (4), Florida Statutes, provides energy performance-based contract procedures and provisions for State universities. Our review indicated that the University did not comply with several requirements of this law, as follow:

- A contractor must be selected in compliance with Section 287.055, Florida Statutes, except that if fewer than three firms are qualified to perform the required services, the requirement for agency selection of three firms does not apply. The University did not solicit proposals for this project contrary to law; consequently, it did not document that there were fewer than three firms qualified to perform the required services. From our audits of other State universities, community colleges, and district school boards, we have determined that there are several contractors that provide energy performance-based contracts.
- Before entering into a contract, the University must provide published notice of the meeting in which it proposes to award the contract, the names of the parties to the proposed contract, and the contract's purpose. The University awarded the contract without a published notice.
- Prior to the design and installation of the energy conservation measures, the University must obtain from the contractor a report that discloses all costs associated with the energy conservation measure and provides an estimate of the amount of the energy cost savings. The report must be reviewed by either the Florida Department of Education (FDOE) or Department of Management Services (DMS) or signed and sealed by a registered professional engineer. Although requested, we were not provided documentation that prior to the design and installation of the energy conservation measures that a report disclosing all costs was reviewed by either FDOE or DMS, or signed and sealed by a professional engineer.
- The contract must require that the contractor provide a 100 percent public construction bond to the University for its faithful performance. The contract did not require the contractor to provide a public construction bond.
- The contract shall require the contractor to provide the University an annual reconciliation of the guaranteed energy cost savings. If the reconciliation reveals a shortfall in annual energy cost savings, the contractor is liable for such shortfall. The University did not have a procedure to effectively monitor the reasonableness of the stipulated and measurable savings submitted.
by the contractor. Upon inquiry, we were informed that the reports were reviewed and filed. However, University analyses or other documentation was not provided to evidence that the savings amounts reported by the contractor were substantially correct.

**Recommendation:** We recommend that the University review the requirements of Section 1013.23, Florida Statutes, prior to entering into future energy performance-based contracts to ensure compliance. We further recommend that the University establish a method for evaluating and documenting the reasonableness of the cost savings reported by the contractor since the contractor would be obligated to pay or credit the University for any shortfall in savings.

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**Finding No. 5: Complimentary Tickets**

Beginning in the fall of 2002, the University fielded intercollegiate men’s and women’s basketball, baseball, and softball teams. The University charged admissions for home basketball games played at the on-campus arena and for several nonathletic events, such as music concerts. Complimentary tickets were provided to various individuals or companies for several of the events.

As of March 31, 2004, the University has not developed written policies and procedures for events for which admissions are charged and for which complimentary tickets may be issued. The University is currently in the process of developing draft policies and procedures for athletic events, but not for nonathletic events. Our review of ticket documentation for three events indicated that improvements are needed over record keeping for complimentary tickets, as follows:

➢ For a men’s basketball game held on December 30, 2003, the records showed that approximately 70 complimentary tickets were provided to individuals who appeared to be selected by the student athletes. However, there were no signatures evidencing who actually received the tickets.

➢ For a musical event on April 9, 2004, records indicated that several hundred complimentary tickets were issued. The documents listed approximately 80 individuals who may have received complimentary tickets and another list indicated that two organizations may have received 17 complimentary tickets. However, there were no signatures evidencing who actually received the complimentary tickets.

In the absence of written policies and procedures and documentation of who actually received the complimentary tickets, there is an increased risk that complimentary admissions could be abused and that accountability for ticket sales may be compromised.

**Recommendation:** We recommend that University management develop and implement written policies and procedures, including specific procedures for documenting the issuance of complimentary tickets, for events for which admissions are charged.

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**Finding No. 6: Cellular Telephones**

The University provides cellular (cell) phones to many of its employees for purposes of performing their official duties. As of April 2004, records indicate that there were approximately 125 cell phones assigned to University employees. The authorization to purchase a cell phone and select the type of calling plan for an employee is made by each University department. Employees with cell phones receive copies of monthly bills from the University Finance Department, and certify that the calls shown on the bills are necessary for the performance of their duties or reimburse the University for the personal use. However, there were no written policies or procedures specifically addressing the determination of a need for cell phones, selection of the most economical calling plan, and guidance for reimbursing the University for personal use.
Recommendation: We recommend that the University establish procedures regarding how employees are assigned cell phones and calling plans and how employees are to reimburse the University for personal use.

SCOPE, OBJECTIVES, AND METHODOLOGY

The objectives of this operational audit were to obtain an understanding and make overall judgments as to whether University management controls promoted and encouraged compliance with applicable laws, administrative rules, and other guidelines; the economic, effective, and efficient operation of the University; the reliability of records and reports; and the safeguarding of assets. Specifically, we reviewed management controls and administration of information technology, budget management, accounts receivable, inventories, capital assets, collections and revenues, student fees, purchasing, purchasing cards, procurement, travel, independent contractors, communications, construction projects, employee compensation, insurance, non-Federal student financial aid, grants and donations, and student records for the period January 1, 2003, through December 31, 2003, and selected transactions through April 9, 2004.

PRIOR AUDIT FINDINGS

The University had substantially corrected the deficiencies noted in audit report No. 03-002, except as noted in findings No. 2 and 3 of this report.

AUTHORITY

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.

William O. Monroe, CPA
Auditor General

AUDITEE RESPONSE

The University’s response is included as Exhibit 2.
Members of the University's Board of Trustees who served during the audit period are listed below:

**Board Member**

- Scott F. Lutgert, Chair
- Linda K. Taylor, Vice-Chair
- Brian Cobb
- Jeff Faramo from 5-12-03 (1)
- Dr. Peg Gray-Vickrey to 8-31-03
- Larry D. Hart
- Dr. Donna P. Henry from 9-1-03
- Renee Lee
- Dr. W. Bernard Lester
- David Lucas
- Dr. Harry K. Moon
- Edward A. Morton
- Adam Ricciardiello to 5-11-03 (1)
- Jerry Starkey
- P. Michael Villalobos

Note: (1) The student body president, who is a voting member of the Board in accordance with Section 1001.71(1), Florida Statutes.
June 29, 2004

William O. Monroe, CPA
Auditor General
State of Florida
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450

Re: Operational Audit of Florida Gulf Coast University administered by State of Florida
FGCU Management Response and Corrective Action Plan for Audit Findings

Dear Mr. Monroe:

Enclosed are the management responses from Florida Gulf Coast University (FGCU) for
the six audit findings found at FGCU in the Operational Audit performed by the Auditor
General’s Office for the period January 1, 2003 through December 31, 2003, and selected
transactions through April 9, 2004. Contained within each management response is a
written statement of explanation, including our actual or proposed corrective action.

In addition to standard mail, this letter and the enclosed management responses were
electronically mailed to your office on June 29, 2004.

If you have any questions or need additional information, please feel free to contact my
office or Linda Moore, FGCU Director of Internal Audit, at your convenience.

Sincerely,

[Signature]

William C. Merwin, President
Florida Gulf Coast University

Enclosure

C: Dr. Joseph D. Shepard, Vice President, Administrative Services
   Wendy S. Morris, General Counsel
   Linda M. Moore, Director, Internal Audit
   Linda Bachelor, FGCU Controller
   Reginald C. McNeill, Audit Supervisor, Auditor General’s Office
RESPONSES TO OPERATIONAL AUDIT RECOMMENDATIONS

1. **BUDGET MANAGEMENT**

**RECOMMENDATION:**

The University should present a balanced operating budget to its Board, including estimated beginning and ending fund balances and estimated revenues and expenditures.

**RESPONSE:**

The University concurs with this recommendation, which has already been implemented. At its June 15, 2004 Board meeting, the University presented to the members a balanced operating budget for fiscal year 2005, including estimated beginning and ending fund balances and estimated revenues and expenditures. Administrative Services will review the minutes of the June 15th Board meeting to verify they clearly document the basis on which the Board is delegating authority.

**IMPLEMENTATION DATE:** June 2004

**AUDITEE:** Dr. Joseph Shepard, VP, Administrative Services

2. **DRIVER LICENSE VERIFICATION**

**RECOMMENDATION:**

The University should verify the validity of driver licenses for all authorized drivers of University vehicles.

**RESPONSE:**

The University concurs with this recommendation, which is already its policy. The University will strengthen its procedures to ensure that all departments verify the validity of driver licenses for authorized drivers of University vehicles.

**IMPLEMENTATION DATE:** September 2004

**AUDITEE:** Dr. Joseph Shepard, VP, Administrative Services
3. VEHICLE USAGE RECORDS

RECOMMENDATION:

The University should document supervisory review of all vehicle usage logs to enhance controls over vehicle use.

RESPONSE:

The University agrees that documenting supervisory review of all vehicle usage logs may enhance controls over vehicle use. It will strengthen the procedures to ensure such documentation of supervisory review of vehicle usage logs.

IMPLEMENTATION DATE: September 2004

AUDITEE: Dr. Joseph Shepard, VP, Administrative Services

4. ENERGY PERFORMANCE-BASED CONTRACT

RECOMMENDATION:

The University should review the requirements of Section 1013.23, Florida Statutes, prior to entering into future energy performance-based contracts to ensure compliance. In addition, it should establish a method for evaluating and documenting the reasonableness of the cost savings reported by the contractor, because the contractor is obligated to pay or credit the University for any shortfall in savings.

RESPONSE:

The University concurs with these recommendations. Prior to signature, future energy performance-based contracts will be reviewed by legal counsel for compliance with the requirements of Section 1013.23, Florida Statutes. The University will establish procedures to effectively monitor the reasonableness of any stipulated and measurable savings submitted by a future contractor. The University will also document that future contractors’ reports are reviewed by either the Florida Department of Education (FDOE) or Department of Management Services (DMS) or signed and sealed by a registered professional engineer. In addition the University will establish procedures to document that the savings amounts reported by the contractor are substantially correct.

IMPLEMENTATION DATE: December 2004

AUDITEE: Dr. Joseph Shepard, VP, Administrative Services
5. **COMPLIMENTARY TICKETS**

**RECOMMENDATION:**

The University should develop and implement written policies and procedures, including specific procedures for documenting the issuance of complimentary tickets, for events for which admissions are charged.

**RESPONSE:**

The University concurs with this recommendation. Written policies and procedures for both athletic and nonathletic events, including specific procedures for documenting the issuance of complimentary tickets, for revenue producing events have been developed and implemented.

**IMPLEMENTATION DATE:** June 2004

**AUDITEE:** Dr. Joseph Shepard, VP, Administrative Services

6. **CELLULAR TELEPHONES**

**RECOMMENDATION:**

The University should establish procedures regarding how employees are assigned cell phones and calling plans and how employees are to reimburse the University for personal use.

**RESPONSE:**

The University agrees that establishing procedures regarding cell phone assignment to employees, selection of calling plans, and reimbursement for personal use may create cost savings for the University. Such procedures will be developed and documented.

**IMPLEMENTATION DATE:** December 2004

**AUDITEE:** Dr. Joseph Shepard, VP, Administrative Services