Florida Gulf Coast University Board of Trustees  
January 17, 2007

SUBJECT: University Operational Audit

PROPOSED BOARD ACTION

Information Only

BACKGROUND INFORMATION

Attached is a copy of Report No. 2007-044, an operational audit of Florida Gulf Coast University for the fiscal year ended June 30, 2006. The operational Audit is performed by the Auditor General every two years.

Supporting Documentation Included: Florida Gulf Coast University Operational Audit

Prepared by: Assistant Vice President of Administrative Services/Controller  
Linda Bacheler

Legal Review by: General Counsel Wendy Morris (December 18, 2006)

Submitted by: Vice President for Administrative Services and Finance Joe Shepard
AUDITOR GENERAL
WILLIAM O. MONROE, CPA

FLORIDA GULF COAST UNIVERSITY
Operational Audit

SUMMARY

Our operational audit for the fiscal year ended June 30, 2006, disclosed the following:

Finding No. 1: The University needed to strengthen its procedures for monitoring compliance with the terms of its written agreement with a food service contractor.

Finding No. 2: The University, prior to waiving out-of-State tuition for five Hurricane Katrina displaced students, had not developed written policies and procedures for determining and documenting that the students were hurricane victims and, contrary to Board of Governors guidance, did not obtain signed honesty statements or affidavits from the students attesting that they were displaced by Hurricane Katrina.

Finding No. 3: University records did not, for all employees, document supervisory verification that employees performed the duties for which they received payment.

Finding No. 4: Background checks and fingerprinting were not required for certain employees in positions of special trust or of a sensitive nature.

Finding No. 5: The University did not, of record, determine the reasonableness of energy cost savings reported by the contractor in connection with an energy performance-based contract.

Finding No. 6: The University had not established written policies and procedures regarding cellular telephone assignment and use.

Finding No. 7: The University, for a major construction manager (CM) administered construction project, did not, of record, attempt to take advantage of sales tax exemptions by making direct purchases of construction goods, or document that greater savings were realized by the CM making the purchases.

Finding No. 8: The University had not verified the validity of driver's licenses for all authorized drivers of University-owned vehicles.

BACKGROUND

The University is a separate public instrumentality that is part of a State university system of public universities. The University Board of Trustees (Trustees) consists of 13 members. The Governor appoints 6 citizen members and the Board of Governors appoints 5 citizen members. These members are confirmed by the Florida Senate and serve staggered terms of five years. The faculty senate chair and student body president also are members. Trustees who served during the audit period are listed in Appendix A of this report.

The Board of Governors establishes the powers and duties of the Trustees. The Trustees are responsible for setting policies for the University, which provides governance in accordance with State law and Board of Governors Rules. The Trustees select the University President and the State Board of Education ratifies the candidate selected. 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.

The President during the audit period was Dr. William C. Merwin.

The results of our financial audit of the University for the fiscal year ended June 30, 2006, will be presented in a separate report.

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. The results of that audit for the fiscal year ended June 30, 2006, will be presented in a separate report.

## FINDINGS AND RECOMMENDATIONS

### Finding No. 1: Auxiliary Contract

The University outsourced its food service operations to a private contractor. The University’s written agreement with the contractor is for an initial term of five years, and contains numerous terms and conditions describing the responsibilities of the parties relating to commissions and other deliverables, use of University facilities, insurance requirements, and required accounting records and audit provisions.

Our audit disclosed that the University had not established adequate procedures for monitoring contractor compliance with terms of the written agreement, as follows:

- The agreement required the contractor to pay the University a commission of six percent of cafeteria sales and ten percent of catering sales, and provided for a guaranteed minimum annual payment of $35,000. However, although the contractor was required to provide the University with monthly sales reports and quarterly profit and loss statements, the agreement did not specify when the commission payments were required to be made. The University received commission payments during the 2005-06 fiscal year from 93 to 113 days after the receipt of the monthly sales report. Inclusion of a provision in the agreement specifying when commission payments are due, and a penalty provision for late payments, would help ensure that the University receives commission payments more timely.

- The agreement required the contractor to provide audited financial statements within three months after the end of the contractor’s fiscal year. However, the contractor did not provide the University audited financial statements for the 2004-05 fiscal year until we requested them on May 8, 2006, ten months after the contractor’s fiscal year end.

- According to University personnel, reconciliations of the monthly sales reports to detail transaction reports generated by the food service cashiering system were used to determine the accuracy of the commission payments. However, for two of six months we tested, University personnel had not, of record, performed such reconciliations. Subsequent to our inquiry, University personnel completed the reconciliations for the two months.

Routine monitoring procedures are necessary to ensure contractor compliance with the specific terms and conditions of written agreements, and to ensure that the University receives all commissions to which it is entitled.

**Recommendation:** The University should strengthen its procedures for monitoring the food service contractor's compliance with the terms of the written agreement. The University should also pursue revising the written agreement to specify the timing of commission payments, and to include a penalty provision for late commission payments.
Finding No. 2: Student Fees

The Governor of Florida, through executive order, authorized Florida’s public higher education institutions to waive out-of-State residency and to enroll students displaced by Hurricane Katrina as expeditiously as possible. To implement this executive order, the State Coordinating Officer issued a supplemental order and mission statement authorizing State universities to waive existing statutory and rule requirements relating to student enrollment, including residency and student record requirements, to the extent necessary to allow students displaced by Hurricane Katrina to enroll expeditiously.

In November 2005, the Board of Governors (BOG) issued guidance to all State universities indicating that in lieu of immediately obtaining documentation from students evidencing their enrollment in an area affected by Hurricane Katrina, a signed honesty statement or affidavit promising to provide transcripts or other records at a later time may be used if such documentation is not immediately available. The BOG guidance did not specify what type of documentation universities should obtain from students as evidence of displacement due to Hurricane Katrina. As such, universities were responsible for adopting policies and procedures as they deemed appropriate for determining whether students were Hurricane Katrina victims.

The University waived out-of-State tuition for five displaced students for the fall 2005 semester (i.e., residency requirements were waived so that the students could enroll as in-State students and pay in-State tuition and fees). Although the University had not developed written policies and procedures for determining and documenting whether a student was a Hurricane Katrina victim, University personnel reviewed applications of, and interviewed, each of the five students to make a preliminary determination that the students were Hurricane Katrina victims.

At the time of enrollment, University personnel placed holds on the students’ accounts, whereby the students could not re-enroll at the University or receive official University transcripts until they provided transcripts from the institution they had been displaced from to validate the preliminary determination. However, contrary to the BOG guidance, the University did not obtain signed honesty statements or affidavits from the students at the time of enrollment. As of September 13, 2006, one of the five students still had not provided the required transcript, and a hold remained on the student’s account.

Recommendation: The University should ensure that future tuition and fee waivers for disaster victims are granted pursuant to written policies and procedures for determining and documenting that students are disaster victims. Such policies and procedures should be consistent with BOG guidance, and address documentation to be requested from displaced students and actions to be taken when requested documentation is not provided.

Finding No. 3: Payroll Certifications

Supervisor or department head payroll certifications serve to document the monitoring of employee effort and leave usage. Although payroll certifications were done to document compliance with Federal regulations for employees whose salaries are wholly or partially funded by Federal funding, such certifications were not done for employees whose salaries are not Federally-funded. A payroll cost report was available for review by supervisors or department heads; however, supervisors or department heads were not required to manually or electronically approve the report to certify its accuracy.

1 The Governor designated the Director of the Department of Community Affairs, Division of Energy Management, as the State Coordinating Officer responsible for exercising certain powers delegated by executive order, including suspension of existing State and local laws and rules to the extent that literal compliance with such laws and rules may be inconsistent with timely performance of disaster response functions.
Without the benefit of time reports certified by appropriate supervisory personnel, University records did not document efforts by supervisory personnel to monitor employees’ work efforts and leave usage. Under these conditions, there is an increased risk that employees may not perform the duties for which they are paid, or that leave used may not be reported, resulting in employees being compensated for hours not worked without a corresponding reduction in leave balances.

**Recommendation:** The University should implement procedures to require manual or electronic approval of payrolls by appropriate supervisory personnel.

**Finding No. 4: Background Checks and Fingerprinting**

Although not specific to universities, Florida Statutes provide for criminal history checks, including fingerprinting, for employees in positions of special trust or of a sensitive nature. For example, Section 110.1127, Florida Statutes, requires that persons occupying certain State employment positions, because of special trust or responsibility or sensitive location of those positions, be subject to a security background check, including fingerprinting, as a condition of employment. Section 1012.32(2)(a), Florida Statutes, requires personnel hired to fill positions requiring direct contact with students in any district school system or university lab school to undergo background screening, including fingerprinting, upon employment and every five years thereafter.

According to University personnel, background checks, including fingerprinting and criminal history checks, are required for all employees of the Law Enforcement, Housing, Child Care, and Aquatics departments, and for certain employees in positions in the Finance Department that are considered sensitive. However, our test of ten employees of the Law Enforcement, Housing, Child Care departments disclosed two such employees that were not been subjected to a background check (one employee in the Law Enforcement Department and one employee in the Housing Department). Subsequent to our inquiry, the University required these employees to submit fingerprints, and subjected them to a background check.

Additionally, the University did not require background checks and fingerprinting for Directors and Security Administrators within the Computing Services and Information System departments. These individuals are in positions of special trust or of a sensitive nature because they have primary responsibility for the University’s information technology operations or have the ability to make changes affecting computer resources.

**Recommendation:** The University should require criminal background checks, including fingerprinting, for all employees in positions of special trust or of a sensitive nature.

**Finding No. 5: 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.

Section 1013.23(4)(d), Florida Statutes, requires that the contractor provide to the University an annual reconciliation of the guaranteed energy cost savings, and provides that the contractor shall be liable for any annual energy cost savings shortfall.

Although the University received an annual reconciliation of the energy cost savings, the University did not have procedures in place to verify
the reasonableness of the energy cost savings calculations shown on the annual reconciliation submitted by the contractor. A similar finding was noted in our report No. 2004-207. Determining the reasonableness of the contractor’s reported energy cost savings would provide assurance that the guaranteed savings specified in the contract are being realized and, if such savings are not being realized, would alert the University of the need to seek reimbursement from the contractor for the amount of unrealized savings.

**Recommendation:** The University should develop a method for determining and documenting the reasonableness of energy cost savings reported by the contractor.

**Finding No. 6: Cellular Telephones**

The University provides cellular telephones (cell phones) to many of its employees for purposes of performing their official duties. According to University records, 187 cell phones were assigned to University employees as of June 2006.

The authorization to purchase a cell phone and select the type of calling plan for an employee was made by each University department. University procedures required that cell phone bills, prior to payment, be reviewed for indications of personal use. In addition, employees using University-provided cell phones received copies of monthly bills from the Finance Department, and certified that the calls shown on the bills were necessary for the performance of their duties or reimbursed the University for personal use. However, as also noted in our report No. 2004-207, the University had not established written policies or procedures specifically addressing the determination or a need for cell phones, selection of the most economical calling plan, and employee reimbursements to the University for personal cell phone use.

**Finding No. 7: Construction Projects**

Section 1013.45(1), Florida Statutes, authorizes the University to contract for the construction or renovation of facilities with a construction manager (CM) to be responsible for scheduling and coordination in both design and construction phases, and generally responsible for the successful, timely, and economical completion of the construction project. The Statute further provides that the construction manager may be required to offer a guaranteed maximum price (GMP). The University’s “Academic V” building was completed by the CM in April 2006 under a GMP contract of $6,832,012.

The University is exempt from paying sales tax on direct purchases as provided by Section 212.08(7)(o), Florida Statutes, and can take advantage of this exemption by directly purchasing certain goods (e.g., materials, equipment, and or fixtures) for construction projects. However, the University did not, for the “Academic V” building project, require the CM to quantify and document in its GMP proposal the sales tax savings associated with the direct purchase of goods. Nor did the University, of record, attempt to make any such direct purchases to realize sales tax savings.

In response to our inquiry, University personnel advised us that the CM obtained more favorable prices for goods purchased than could the University and, as such, any sales tax savings that the University may have realized by direct purchases would have been less than the savings realized by the CM making the purchases. However, we were not provided documentation evidencing this assertion.
Recommendation: The University, for future GMP construction contracts, should take advantage of sales tax exemptions by making direct purchases of construction goods, or document that greater savings were realized by the CM making the purchases.

Finding No. 8: Driver's License Verification

According to University records, there were 22 University-owned vehicles as of June 30, 2006. The University’s Campus Operations manual provided that only a University employee with a current valid Florida driver’s license will be authorized to operate a University vehicle. Our audit disclosed the following:

- The University had not established written policies and procedures requiring Departments to verify proper licensure of individuals using University-owned vehicles.
- As similarly noted in our report No. 2004-207, our review of records for five vehicles disclosed that eight of nine authorized drivers did not have their driver’s licenses verified by the University Police and Safety Department prior to operation of the University-owned vehicle.

Driver’s license verifications decrease the risk that employees or other authorized drivers with possible operator restrictions or without valid driver’s licenses may operate University-owned vehicles.

Recommendation: The University should establish written policies and procedures requiring Departments to verify the validity of driver’s licenses for all authorized drivers of University-owned vehicles, and ensure that such policies and procedures are being followed.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of this operational audit were to obtain an understanding and make overall judgments as to whether University internal controls promoted and encouraged compliance with applicable laws, administrative rules, and other guidelines; the economic and efficient operation of the University; the reliability of financial records and reports; and the safeguarding of assets. Specifically, we reviewed internal controls and administration of accounting records and management reporting, budgetary controls, cash and investments, construction projects, capital assets, revenues and receivables, purchasing processes, selected expenditures and contractual arrangements, and human resources and employee compensation for the fiscal year ended June 30, 2006.

This audit was conducted in accordance with applicable Generally Accepted Government Auditing Standards.

PRIOR AUDIT FINDINGS

As part of our current audit, we determined that the University had taken adequate corrective actions for findings included in our report No. 2004-207, except as noted in finding Nos. 5, 6, and 8 of this report.
This audit was coordinated by Deirdre F. Waigand, CPA. Please address inquiries regarding this report to Ted Sauerbeck, CPA, Audit Manager, via e-mail at ted.sauerbeck@aud.state.fl.us or by telephone at (850) 487-4468.

This report, as well as other audit reports prepared by the Auditor General, can be obtained on our Web site at www.state.fl.us/audgen; by telephone at (850) 487-9024; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.
Members of the University’s Board of Trustees who served during the audit period are listed below:

**Board Member**

Scott F. Lutgert, Chair  
Edward A. Morton, Vice-Chair  
Andres Andrade to 4-30-06 (1)  
Dr. Sharon Irish Bevins (2)  
Brian Cobb  
Kirt Gallatin from 5-1-06 (1)  
Lindsay Harrington  
Larry D. Hart  
Dr. W. Bernard Lester  
David Lucas  
James Malone from 1-24-06  
Dr. Harry K. Moon to 1-23-06  
Jerry Starkey  
P. Michael Villalobos  
Jaynie M. Whitcomb

Notes:  
(1) Student body president.  
(2) Faculty senate chair.
November 8, 2006

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 eight audit findings found at FGCU in the Operational Audit performed by the Auditor General’s Office for the period July 1, 2005 through June 30, 2006. Contained within each management response is a written statement of explanation, including our actual or proposed corrective action.

In addition to overnight mail, this letter and the enclosed management responses were electronically mailed to your office on November 9, 2006.

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

Sincerely,

William C. Merwin, President
Florida Gulf Coast University

Enclosure

C: Dr. Joseph Shepard, Vice President, Administrative Services & Finance
Wendy Morris, General Counsel
Carol Slade, Director, Internal Audit
Linda Bachelor, Assistant Vice-President & Controller
Deidre Waigand, Audit Supervisor, Auditor General’s Office
1. **Auxiliary Contract**

**RECOMMENDATION:**

The University should strengthen its procedures for monitoring the food service contractor's compliance with the terms of the written agreement. The University should also pursue revising the written agreement to specify the timing of commission payments, and to include a penalty provision for late commission payments.

**RESPONSE:**

The University concurs with this recommendation and has taken the following steps to strengthen procedures for monitoring the food service contract. The University recently entered into a new four year food service agreement with a new food service contractor. The new agreement clearly specifies the timing of all required operating reports, respective commission payments and right to offset past due amounts owed by the contractor. The University also implemented new procedures requiring a copy of the food service contract to be maintained by the Auxiliary Accountant in Finance & Accounting who will be responsible for assuring timely reconciliation by the Auxiliary Contract Manager and compliance with other contract requirements.

**IMPLEMENTATION DATE:** November, 2006

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

2. **Student Fees**

**RECOMMENDATION:**

The University should ensure that future tuition and fee waivers for disaster victims are granted pursuant to written policies and procedures for determining and documenting that students are disaster victims. Such policies and procedures should be consistent with BOG guidance, and address documentation to be requested from displaced students and actions to be taken when requested documentation is not provided.

**RESPONSE:**

The University concurs with this recommendation and will develop a written policy to cover the procedures that will be followed in the event the University is asked to assist students displaced by natural disasters. The policy will address the documentation that will be required and the procedures to be followed if documentation is not received. The policy will make reference to applicable Florida Board of Governors (BOG) guidance.
FLORIDA GULF COAST UNIVERSITY
STATEMENT FROM AUDITED OFFICIAL.
RESPONSES TO OPERATIONAL AUDIT RECOMMENDATIONS
For the Period July 1, 2005 Through June 30, 2006

With regard to the Auditor General’s finding for the fiscal year ended June 30, 2006, however, the University wishes to note that it followed the initial direction given by the Office of the Governor. The University waived requirements for official documents for any displaced students and designated them as special Florida residents for tuition purposes. The University relied on personal interviews and a signed application which indicated the students were from an affected area university or college to make the admission determination. Because the occurrence had no precedent, the University had no written policy at the start of the fall term 2005 when the students displaced by Hurricane Katrina were admitted. The BOG guidance recommending documents to request from displaced students was not received until November 2005 months after enrollment had taken place. The displaced students who continued for the spring semester provided the documents the University required. Any student who did not submit all required documents such as transcripts was restricted from further enrollment. None of the displaced students are still enrolled.

IMPLEMENTATION DATE: April 2007

AUDITEE: Dr. Joseph Shepard, VP, Administrative Services & Finance

3. Payroll Certifications

RECOMMENDATION:

The University should implement procedures to require manual or electronic approval of payrolls by appropriate supervisory personnel.

RESPONSE:

The University concurs with the recommendation. The University agrees that additional oversight in the form of manual or electronic supervisor certification of the payroll cost report would provide a final verification of hours worked and leave taken. The University is taking steps to provide this report to supervisors, obtain their certification, and retain the records, in an efficient and cost-effective process that is integrated with the current system.

As a result of the devolution of the State University System, in 2004 the University implemented a new human resources and payroll system. The University has full confidence in the system now in place to administer payroll in a safe, effective, and efficient manner. However, it agrees that providing evidence of this through implementing the Auditor General’s recommendation may strengthen the payroll process.

IMPLEMENTATION DATE: April 2007

AUDITEE: Dr. Joseph Shepard, VP, Administrative Services & Finance
4. **Background Checks and Fingerprinting**

**RECOMMENDATION:**

The University should require criminal background checks, including fingerprinting, for all employees in position of special trust or of a sensitive nature.

**RESPONSE:**

The University concurs with this recommendation. The Directors and Security Administrators of Information Systems and Computing Services will be identified as positions that require background checks, including fingerprinting.

**IMPLEMENTATION DATE:** November 2006

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

5. **Energy Performance-Based Contract**

**RECOMMENDATION:**

The University should develop a method for determining and documenting the reasonableness of energy cost savings reported by the contractor.

**RESPONSE:**

The University concurs with this recommendation. University staff is creating a spreadsheet to record monthly energy usage and cost. The spreadsheet will be compared with the annual report from Johnson Controls and the result documented as evidence that the University is meeting and/or exceeding the contract specified energy baseline.

**IMPLEMENTATION DATE:** January 2007

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

6. **Cellular Telephones**

**RECOMMENDATION:**

The University should establish written policies and procedures addressing assignment of cell phones, selection of calling plans, and employee reimbursements to the University for personal cell phone use.

**RESPONSE:**
The University concurs with this recommendation. A policy for cellular telephones that addresses all the recommendations has been drafted and is undergoing final review for approval.

In the past the University relied upon existing policies regarding the appropriate use of University property and the reimbursement of legitimate business expenses to manage cellular telephone expenditures. However, rapidly changing technology, increased usage, and evolving tax considerations have all underlined the need for a specific policy for cellular telephones, which has now been drafted.

**IMPLEMENTATION DATE:** January 2007

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

7. **Construction Projects**

**RECOMMENDATION:**

The University, for future GMP construction contracts, should take advantage of sales tax exemptions by making direct purchases of construction goods, or document that greater savings were realized by the CM making the purchases.

**RESPONSE:**

University Management recognizes the value of the tax savings mechanism; however, for many of our projects the delays from implementing direct material purchasing would create greater costs in the delivery and timing of the goods and materials, making it more difficult to complete the project on time and on budget. In the Southwest Florida market we have experienced materials increasing in cost by as much as 14% in six months. Any major effort to coordinate such tax savings often delays the purchase of the goods resulting in costs greater than the recognized tax savings. Additionally, given the small size of the University's staff in the Facilities Planning, Purchasing, and Finance and Accounting departments, coordination would require additional staffing in order to, for instance, issue purchase orders, approve small incremental payments, and monitor such purchases. Such costs further would further reduce or eliminate tax exempt cost savings. Given these conditions, the University will continue to attempt maximizing cost savings. As the University grows in size and complexity, Management will include consideration of direct material purchasing in its planning decisions.

**IMPLEMENTATION DATE:** On-Going

**AUDITEE:** Dr. Joseph Shepard, VP, Administrative Services & Finance
8. **Driver License Verification**

**RECOMMENDATION:**

The University should establish written policies and procedures requiring departments to verify the validity of driver’s licenses for all authorized drivers of University-owned vehicles, and ensure that such policies and procedures are being followed.

**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. Strengthening procedures will include educating new employees about existing policy and procedure and monitoring compliance.

**IMPLEMENTATION DATE:** November 2006

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