Office of Inspector General Services

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PICTURED LEFT TO RIGHT: Seated: Janice Foley, Sam McCall, and Kitty Aggelis. Standing: Russell DeHennis, April Ulrich, Jeffrey Caines, Heather Harrell, Carolyn Williams-Lawyer, Jared Deason, and Kim Doss. (Chase Neumayer not pictured here.)
Message from the Chief Audit Officer (CAO)


During the year, the Office of Inspector General Services worked very diligently to issue several audit and investigation reports important to University operations. We brought forward and completed several projects begun in fiscal year 2012-2013 and we completed and began new projects approved by the President and Board of Trustees for the 2013-2014 fiscal year. The completed audits and investigations are described in this report. In addition, the 2014-2015 Annual Work Plan approved by the Board of Trustees is shown at the end of this Annual Report. The successful completion and issuance of reports would not have been possible without the cooperation, assistance, and suggestions provided by faculty and staff. The most important building block for any organization’s system of internal control is the control environment, which is demonstrated by a proper “tone at the top.” Both faculty and staff have demonstrated the proper tone by embracing recommendations for improvement and establishing a course of action to timely address areas for improvement.

During this year and especially in the development of our 2014-2015 Annual Work Plan, I have been very pleased to see increased requests for our services. The goal of the IGS is to be seen as essential to the successful operation of University programs, activities, and functions, and to provide a comprehensive program of internal auditing that adds value and assists management in the accomplishment of organizational goals and objectives. We are mindful of the need to conduct independent, objective, and unbiased investigations of alleged fraud and/or abuse identified by us or brought to our attention by others.

Several important staff changes have occurred since issuance of the 2012-2013 Annual Report. With the retirement of the former Director of Investigations and Audits on June 30, 2013, Janice Foley was promoted to the position of Director of Audits and Investigations in August 2013. Janice has many years of experience at FSU and additional years of experience auditing state government. Combining the experience of Janice Foley with that of Kitty Aggelis, the other Director of Audits and Investigations, the Office has two knowledgeable and competent professionals that understand University operations. As a result of our former Senior Investigator leaving to pursue other opportunities in November 2013, we were fortunate to have Kim Doss, Senior Investigator, join our team. Also, as a result of additional staff leaving, we welcomed Russell DeHennis and Jared Deason in the fall of 2014 as Senior Auditors. We are currently fully staffed, and with the education, certifications, and experience of current staff we are positioned to review financial, operational, programmatic, and investigative issues and to meet the challenges and opportunities that lie ahead.

Looking back on the year, I had the pleasure and honor of working for President Eric Barron until his resignation. His support of the necessary and essential role filled by an audit and investigative function was valued and appreciated. As Chief Audit Officer, I also report to the Board of Trustees and, specifically, to the Finance, Budget, and Audit Committee. Audit Committee Chairman Mark Hillis has demonstrated his commitment to ensuring the visibility, success, and independence of the audit and investigative function. Trustee Hillis has provided invaluable advice and counsel during the year. I now have the honor of serving our new President, John E. Thrasher, and look forward to being a contributing part of his administration. We will add value where possible in the review of important current programs and in the assessment and review of new projects and priorities identified by the President. It is an honor to serve the President;
the Finance, Budget, and Audit Committee; the Board of Trustees; students; and the University.

With the support of Office staff and University faculty and staff, much can be accomplished in the coming year. The IGS appreciates the trust placed by the President and Board of Trustees in our work and we look forward to all that can be accomplished in the 2014-2015 fiscal year.

Sam M. McCall, PhD, CPA, CGMA, CGFM, CIA, CGAP

Mission and Purpose

The IGS provides a systematic and disciplined approach to assist members of the University community with the effective discharge of their responsibilities. This facilitation is intended to help reduce the risks to the University’s resources and reputation, as well as enhance the University’s efficiency and effectiveness. The IGS accomplishes these goals primarily by providing audits and investigations.

Audits

Internal audits are conducted in conformance with The International Standards for the Professional Practice of Internal Auditing. The audits are generally carried out in accordance with an Annual Work Plan approved by the President and the Board of Trustees. The IGS takes a facilitative approach to our audits by actively engaging with our University colleagues in developing action plans in response to audit observations. The following audits were on our Annual Work Plan and were completed during 2013-2014. Many of the resulting planned actions either have been implemented or significant progress on them has been made.

Property Inventory for Items under $5,000

The purpose of this audit was to review processes relating to expendable property and determine if: 1) a University determination had been made as to the level of control and accountability to be maintained over such non-capitalized property or portions of those property items, and policies have been written and disseminated to address internal control accountability for non-capitalized property currently and going forward; 2) individual departments had sufficient controls in place for the safeguarding of property items below the newer capitalization threshold, especially “at-risk” property: a) of a dangerous or hazardous nature, b) that may have a heightened risk of theft (“walk-away” or pilferable items that are easily transportable, readily marketable, or easily diverted to personal use, e.g., laptop computers, hand-held computing devices, cameras, and communication equipment), and c) that contains sensitive information; and 3) individual departments were able to locate this type of property upon our request.

The audit focused on property items with historical values between $1,000 and $4,999 that were removed from the University’s Asset Management System when the University changed its capitalization threshold from $1,000 to $5,000, effective July 1, 2011, as well as new purchases of non-capitalized property following the new $5,000 threshold. Approximately 44,000 items with a net book value of $20,574,273 were affected by this change in policy.

We concluded that, while the University has a written policy in place for expendable property, the policy does not adequately address how to properly safeguard “at-risk” non-capitalized property. The processes for safeguarding these items varied between departments, from having adequate internal controls to little or no controls in place.
Several enhancements were recommended to improve the safeguarding and accountability of expendable property. These enhancements involve the Controller’s Office providing University-wide guidance, in written policy, for better safeguarding expendable property, including:

- Offering examples of “at-risk” expendable property and specific ways to safeguard such property;
- Informing departments of the availability of University gold tags (used for items below the capitalization threshold) and how to use the tags, as well as OMNI reports, to help account for expendable property;
- Communicating to departments the need to maintain accountability for “at-risk” items taken off-campus and offering examples of methods departments may use to accomplish this; and
- Recommending that departments perform periodic inventories of “at-risk” items to confirm physical existence to recorded accountability.

Recommendations were made and an action plan was developed to address each of the identified areas.

Selected Software Licensing Management and Administration

The purpose of this audit was to review processes relating to selected software licensing and determine if: 1) roles and responsibilities related to the acquisition, distribution, installation, and monitoring of software had been established for Information Technology Services (ITS) and campus units; 2) processes, policies, and procedures in place regarding the management of software licenses were adequate; 3) an inventory of software installed on computing devices (laptops, workstations, or servers) was available and the recorded number of purchased software matched the number of actual installations on computing devices; 4) monitoring procedures were in place to ensure compliance to licensing requirements; and 5) security measures in place ensured proper protection of software discs or downloads of copyright and licensed software.

This audit reviewed University management of selected software licensing by the ITS Software Licensing office and select campus units. A detailed analysis was performed of Adobe and IBM SPSS products purchased and installed on computing devices. The scope of this audit did not include software licenses purchased from Microsoft or Oracle, as management did not consider these licenses purchased as high risk. Reviewed activity included (but was not limited to) policies, procedures, inventory of computing devices and software installations, and certain software purchased over a five-year period through the ITS Software Licensing office.

We determined that internal controls over managing selected software licenses were not adequate to ensure campus units were meeting software licensing agreements. Overall, we found management and administration of selected software licensing needed to be strengthened.

We recommended ITS work with campus units to provide enhanced guidance, instructions, and procedures, as follows:

- Emphasize University-wide policies that establish roles and responsibilities for software licenses purchased by campus units from software vendors or third-party resellers;
• Come to a clear understanding of who in the University is responsible for the management of software licenses;
• Identify and develop an enterprise solution for managing software licenses and provide an inventory of computing devices, software acquisitions, and installations;
• Establish a standard method of entering software license purchases entered into the accounting records for easy identification;
• Periodically reconcile software purchases and installations;
• Monitor and maintain computing devices authorized software licenses and compliance; and
• Store licensed software discs and keys in a secured location.

An action plan was developed by management to address each of these identified areas. Completion of action plan steps will enable the University to respond to software licensing audits performed to detect copyright violations.

**International Wire Transfers**

The purpose of this audit was to review international wire transfers and determine if the University: 1) was in compliance with federal and state laws, as well as University policies and procedures governing international wire transfer payments and receipts; and 2) had adequate internal controls in place to provide reasonable assurance that international wire transfer transactions are allowable, properly authorized, sufficiently supported by documentation, and accurately recorded in the general ledger.

The audit focused on international wire transfer payments and receipts that were made during the 20-month period of July 1, 2011 through March 4, 2013. During this 20-month period, approximately $3.6 million of international wire transfer payments were made and $166,000 of incoming international wire transfers were received.

All of the international wire transfers we tested were made in accordance with federal and state laws governing international wire transfer payments and receipts, and the majority of them were also made in accordance with applicable University policies and procedures. Moreover, the Controller’s Office had numerous good internal controls in place.

In addition to the assurances noted above, we identified opportunities to improve internal controls and to better document transactions as allowable, properly authorized, supported, and accurately recorded. We recommended the Controller’s Office:

- Review applicable University policies and update the procedures within them to reflect current practices. The two we noted concerned listing the correct Foreign Vendor Payment Request Form to be used and reviewing supporting documentation for the Sponsored Research Accounting Services (SRAS) approval stamp and authorized signature;
- Ensure that all unencumbered purchases that require purchase orders include University Confirming Order Justification Forms with appropriate approver signatures, including the SRAS approval stamp and authorized signature, when applicable;
- Modify the University’s Foreign Payment Request Form to indicate the payment recipient’s International Bank Account Number (IBAN); and
- Ensure required reviewers and approvers of Foreign Payment Request Forms in the Controller’s Office fulfill their oversight responsibilities concerning the form. As part of this review, Controller’s Office staff should verify the vendor information on the Foreign Payment Request Form against the vendor invoice to ensure the wire transfer
payment is sent to the correct vendor and the correct bank.

The Controller’s Office developed an action plan to address each of these recommendations.

University Purchasing Card Transactions Vulnerable to Abuse

The purpose of this audit was to evaluate compliance with the University’s Purchasing Card (P-Card) policies and procedures for several specific transaction types that were identified as being of concern to management and vulnerable to abuse. We chose the period July 1, 2012 through December 31, 2012 as a representative period for these transaction types. During this six-month period, there were 32,939 P-Card transactions totaling approximately $6.4 million that were made by 773 individual University P-Card cardholders. Specifically, our objectives were to determine whether:

1) P-Card transactions made through the online retailer Amazon.com were consistent with University business needs, and whether descriptions provided in the University’s Online Management of Networked Information (OMNI) system were consistent with descriptions of items purchased provided by the vendors in independent electronic information;

2) P-Card purchases made through the third-party biller PayPal were consistent with University business needs and supported by adequate documentation; and

3) Local restaurant and grocery purchases, which are transactions that are vulnerable to abuse, were made consistent with University business needs and in accordance with University and other applicable policies.

An additional audit objective was to determine whether P-Card transactions were consistently approved in the University’s OMNI system in compliance with the University’s Purchasing Card User’s Policy Manual.

We concluded that transactions that were specifically identified as being of concern to management were generally made in compliance with University Policy and that the majority of University P-Card purchases were reviewed in a timely manner. However, we did identify opportunities to help improve compliance.

Purchasing Services could help improve compliance with the University’s P-Card policies and procedures by providing guidance, including:

- Reminding P-Card holders that all receipts are required to include a description for each item purchased, which should be included with documentation supporting the purchase; and
- Clarifying and emphasizing that student employees are subject to the same disallowances for food purchases as are non-student employees. (For example, Purchasing Services should advise and emphasize to departments that meal purchases for departmental employee meetings and trainings, whether the employees are students or non-students, are not allowable.)

We also determined that, should the Division of Student Affairs conclude that the purchase of meals for its employees, including student employees, is essential to the proper functioning of the Division, both specific authority and an allowable funding source should be identified for the purchase of such meals.
An action plan was developed to address each of these recommendations.

Donald L. Tucker Civic Center and Envisioned Arena District

The overall purpose of this audit was to ascertain and report on the current status of the Donald L. Tucker Civic Center and envisioned Arena District. Our five specific audit objectives included to:

1) Determine the Civic Center’s history leading up to transfer of ownership to the University and the University’s assumption of all operations;

2) Identify major obligations assumed by the University at the time of the transfer of ownership of the Civic Center to the University;

3) Identify the University’s significant financial and operational risks associated with its acquisition, maintenance, and operation of the Civic Center since the transfer of ownership;

4) Identify and assess measures the University has taken to mitigate these risks and determine remaining exposures; and

5) Determine the University’s future plans for oversight of the Civic Center and the development of the Civic Center and the envisioned Arena District.

We identified three concerns for which we made recommendations, as discussed below.

- The Authority had net operating losses for the fiscal years ended September 30, 2010, 2011, and 2012. Additionally, the Authority had unrestricted cash and cash equivalent balances of $0 for both the fiscal years ended September 30, 2011 and 2012. Because of insufficient funding, expenditures for the Civic Center’s maintenance needs were deferred. In September 2012, the University had a facility condition assessment performed on the Center by ISES Corporation. According to that assessment, the Civic Center facility had approximately $16.5 million in deferred maintenance needs over the next ten-year period. While the University received legislative authorization effective July 1, 2013 to expend its reserve or carry-forward balances from previous years’ operational and programmatic appropriations for deferred maintenance needs at the Civic Center, for fiscal years 2013-2014 and 2014-2015, this provides only short-term, partial assistance. Deferred maintenance can result in increased safety hazards, poor service to the public, higher costs in the future, and inefficient operations. To help avoid these outcomes, we recommended that the Center generate and maintain cash reserve balances for maintenance needs in lieu of deferring maintenance or relying

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1 The Civic Center was last audited for the year ended September 30, 2012. These financial statements had numerous errors, including assets and liabilities that were listed on the Authority’s financial statements even though the transfer agreement transferred these to the University as of the date of the agreement, July 26, 2012. For the period of October 1, 2012 through June 30, 2013, the Center was transferred to the University but still operating under Civic Center management. University management contracted with a different independent certified public accountant for a financial statement audit for this nine-month period, which was in progress at the time of the audit report.
upon other limited University resources or special funding requests from the Florida Legislature or local city and county governments.

- Both the Civic Center facility and the envisioned Arena District have (and will continue even more so to have, as renovations and development proceed) different funding needs and different types of available funding to meet those needs. University funding sources include Education and General (E&G), auxiliary, contracts and grants, and vending funds; student activities and technology fees; special appropriations from the Legislature and local (city and county) governments; private funding; etc. Each of these types of funding has a specific purpose or purposes and individual spending requirements. To ensure that the University’s expenditures from multiple sources of funding for the Civic Center and the Arena District are appropriate and transparent, we recommended the University structure separate accounting for the Arena District versus the Civic Center to distinctly and accurately record all incoming and outgoing monies for each entity individually, by source.

- We concluded that since acquiring the Center in July 2012, University management has made careful and significant progress in managing and reducing risks relating to acquisition, operation, and maintenance of the Center. Notwithstanding, significant risks lie ahead that will have to be addressed, as past history has shown the Center has not been financially sound for many years. Even so, the opportunity for the University to acquire the facility and related property, listed on the Leon County tax rolls for approximately $98 million, by assuming $9.1 million of Center liabilities was a logical business decision. Our audit determined that for the $9.1 million in liabilities assumed by the University at the time of transfer in July 2012, the Center had insufficient available resources to pay off these liabilities. For fiscal years 2009-2010 through 2011-2012, available current assets were significantly less than current liabilities; the Center incurred significant operating losses for each of the last three fiscal years; and the Center’s external auditors raised the issue of the sustainability of the Center’s operations as a going concern. To address the liabilities assumed, amounts owed by the Center were paid off by a loan from the FSU Auxiliary Services Board, a one-time State appropriation, payments from the City of Tallahassee and Leon County, and other limited University funding sources.

Future issues facing the Center include approximately $16.5 million in deferred maintenance and $12.4 million in capital renewal needs. According to one study, over the next two to five years, resources of over $22.7 million will be needed to meet the most pressing facility needs at the Center. Not included in Center operating costs are University services that have already been, and continue to be, provided by other University organizational units including Facilities, Finance and Administration, the Police Department, Office of the General Counsel, the University Business Administrators, etc. If the Center is to operate as an enterprise, departments currently using the Center without cost or at reduced costs may have to contribute additional revenues going forward.

Based on the above, it is unlikely given past history that the Center will be able, by itself from its current operational resources, to fund its identified needs. Accordingly, the University recognizes, and the community will need to also recognize, that realizing the vision for the Donald L. Tucker Civic
Center and Arena District to be a destination area will likely require additional University and community financial support until such time as the Arena District is further developed and established. Going forward, we recommended the University continue to keep the Board of Trustees fully informed as to the operating and capital needs of the Center and Arena District and the sources of funds that will be used to pay for those needs.

Selected Billing Rates Charged to Federal Programs – National High Magnetic Field Lab

The purpose of this audit was to review documentation supporting the billing rates charged to federally sponsored contracts and grants that were established by the University’s National High Magnetic Field Laboratory (NHMFL) Auxiliary. These billing rates are designed to recover the costs of providing a specialized good or service. Developing rates that are accurately calculated, adequately supported, and that do not include unallowable costs under federal cost principles, provides assurance that federal grants are properly charged when purchasing goods or services from University businesses. It also reduces the risk that the University will be required to reimburse federal grants and/or potentially be assessed federal fines. Our objectives were to determine whether:

1) The NHMFL Auxiliary assessed reasonable rates that were supported by adequate documentation;
2) The NHMFL Auxiliary excluded unallowable costs from its rate calculations in accordance with federal cost principles and applicable laws, rules, and written policies and procedures; and
3) Between October 2013 and March 2014 (six months), the Auxiliary received $101,981 in revenue from internal users. Amounts invoiced by the NHMFL Auxiliary were consistent with its approved rates.

We concluded that the NHMFL’s federal billing rates were generally developed in compliance with federal cost principles and applicable laws, rules, and written policies and procedures, and that invoices of federal users were based on established rates. However, we did identify the following opportunities to help improve compliance.

The NHMFL could help improve compliance with the University’s Auxiliary Operations policies and procedures by:

- Maintaining readily available detailed auditable documentation supporting how its rates were developed; and
- Maintaining readily available detailed and auditable accounting records that allow it to separately distinguish revenues collected from its internal users from those received from its external users.

In addition, the faculty member responsible for the Stable Isotope Lab (SIL) activity should:

- Work with NHMFL’s Auxiliary accounting management to establish a reasonable rate methodology for billing customers internal to the University, including federal projects, that is supported by readily available detailed and auditable documentation; and
- Work with Earth, Ocean, and Atmospheric Science (EOAS) accounting staff and...
Sponsored Research Post-Award to refund the $4,768 in federal grant revenue identified during our audit, and any additional revenue that may have been received that is associated with billings based on unsupported rates.

An action plan was developed to address each of these recommendations.

Criminal Background Checks

The purpose of this audit was to evaluate the University’s compliance with and administration of the University’s criminal background checks policies and procedures. We also assessed the current policy’s effectiveness and opportunities for improvement.

Criminal background checks are a vital tool used by Human Resources (HR) departments, hiring managers, and University administrators to help screen out undesirable or dangerous employees and job applicants, as well as to assist in hiring the best possible candidates. Increasingly, employers are using criminal background checks to respond to claims alleging they have been negligent in hiring or retaining employees who subsequently engage in workplace violence or other acts that result in harm to persons, or loss of or damage to property. The proliferation of negligent hiring and retention claims greatly increases employers’ exposure for large damages awards, making the use of background checks not only a means to help prevent harmful acts by employees, but also a defense to liability. While a criminal background check alone may not be sufficient to prevent malfeasant or malicious behavior by an individual, the information provided helps decision makers make better-informed hiring, promotion, and retention choices. Failure to conduct thorough background checks opens employers to greater risk of harm to persons or property, liability, loss of assets, and/or loss of reputation.

Our three audit objectives were to determine the extent that:

1) University criminal background checks were executed in accordance with controlling laws, regulations, policies, and procedures;

2) The University’s HR Office has properly and adequately implemented and monitored University compliance with controlling laws, regulations, policies, and procedures governing criminal background checks; and

3) The University’s current policy regarding criminal background checks is sufficient to meet its stated purpose of promoting a safe environment for students, employees, volunteers, visitors, and others, and the protection of University property and information resources against fraud, waste, and abuse, balanced against the need to protect the privacy of individuals subject to criminal background checks.

We observed general compliance with the University’s criminal background checks policies in our 10 sample departments. We offered the following seven recommendations to address the risks we identified during the audit:

1) University management should include faculty in the University’s employee background checks policy to establish a more comprehensive and consistent policy and to reduce risk.

2) Likewise, University management should eliminate its delegation of authority to vice presidents, deans, directors, and department
heads to determine whether or not to require criminal background checks, and at what level of screening, for their employees in the three remaining risk areas where this discretion exists. These three important areas should be brought under the University’s current policy’s designated positions of special trust or responsibility which would make them, in turn, governed by Section 110.1127(2)(a), F.S. As a result, level 2 national criminal background checks would be required for University employees with related job duties and responsibilities.

3) The University should, as other universities we surveyed do, require criminal background checks of all new employees, including faculty, upon hiring. This recommendation goes beyond what is required by law, being predicated instead on other universities’ practices and our compliance testing. The University should continue to require criminal background checks for current employees who are being considered for hire into new University positions/roles that require criminal background checks as positions of special trust or responsibility or as otherwise required by federal or state law.

4) HR should ensure that departments are adequately educated/trained about the University’s controlling laws, regulations, policies, and procedures. This education/training should be proactive and timely—prior to the implementation of new policies. We determined that the frequency of HR’s classroom training events and the ever-present online training concerning the current University policy are adequate. However, the vast majority of the approximately 246 University departments did not attend the training (214, or 87 percent). The University should require such training for departments’ HR representatives. HR’s offering of the training online makes it easily available. To assist with the education/training of departments about governing laws, we believe HR should include more detail in its training offerings about the various laws concerning criminal background checks that apply to the University (Chapters/Sections 435, 110.1127, 409.175, 943, and 1012.32, Florida Statutes (F.S.)) and provide examples for each.

5) Consistent with recommendation #4’s reference to education/training about governing laws, the current University employee background checks policy should be revised to clearly link each law cited in the policy to the corresponding situation(s) described in the policy where criminal background checks are required for employees and volunteers—e.g., Section 409.175, F.S., pertains to the University’s summer camps. Further, the policy should be revised to clarify that “Positions that are of special trust or responsibility” also are governed by state law, like those in the policy’s category “As required by Federal or State law.”

6) HR should employ internal monitoring that goes beyond reviewing front-end hiring processes to include reviewing appointments with incumbents. This will help ensure that criminal background checks are completed as required for persons hired into their current appointments under the University’s prior employee background checks policies. It will also help ensure compliance for persons governed by the current policy whose appointments are made without being advertised, such as occurs with internal transfers within departments. In such cases, there would be no “triggers” for HR’s current front-end involvement in thesehirings, to discern whether criminal background checks are required and at what levels, and to ensure the checks are conducted as required and results are received timely.
7) HR should include in its internal policies and procedures an ongoing process to routinely remind University departments to review their position descriptions for salaried employees and ensure they are up-to-date concerning the employees’ current job duties and responsibilities and that criminal background checks have been completed as required. This process should also include the departments reviewing their OPS and volunteer appointments to discern whether their current job duties and responsibilities require criminal background checks and, if so, whether checks have been completed as required.

Actions to address the above recommendations were identified and developed by the Office of Human Resources.

**Northwest Regional Data Center Information Technology (IT) Controls**

This audit was a follow-up to an operational audit report of Northwest Regional Data Center (NWRDC) issued by the State of Florida Auditor General in September 2012. This audit reviewed NWRDC’s management and administration of IT security requirements and controls and change management practices.

The audit focused on IT security requirements and controls of the NWRDC facility, computing devices, equipment, systems, and applications owned by Florida State University (FSU) and managed by NWRDC staff from November 2013 to May 2014.

Computing devices, equipment, systems, and applications housed at the NWRDC and owned and managed by NWRDC customers, and FSU systems and applications not managed by NWRDC staff were outside the scope of this audit and were not reviewed.

Overall, this audit showed that, in general, the change management practices and physical, environmental, and operational controls were properly and adequately managed and administered by NWRDC. However, the security program, risk assessment, and review procedures for computer room access needed to be strengthened.

Specificially, we found that: 1) a security program had been developed and had adequate security requirements; however, the security program did not adequately describe or document controls in place or planned in order to meet security requirements outlined in the program; 2) a change management system had been implemented to help ensure that change requests are properly authorized and processed; 3) physical, environmental, and operational controls were good; 4) computer room access procedures, in general, were good; however, procedures were not in place to periodically review the NWRDC building access list of persons authorized to enter the computer room and ensure the list remains current; and 5) annual risk assessments were not being conducted.

We recommend NWRDC improve security controls as follows:

- Review sample security programs we provided or research other security programs and customize NWRDC’s security program, as deemed appropriate. Describe, document, and implement procedures to meet security requirements specified in the security program.
- Document and conduct a periodic review and set up certification procedures of persons on the NWRDC building access list to ensure that the list remains current, to prevent unauthorized access to the computer room; and
- Review risk assessment tools provided by the FSU Privacy and Security Office or from another authorized source and use them as a guide for conducting risk assessments. Develop, document, and implement
procedures to conduct annual risk assessments.

An action plan was developed by management to address each of these identified areas.

Review of Direct Support Organizations’ (DSOs’) Financial Statements for the President

Starting in April 2012, the President appointed the IGS Chief Audit Officer to serve as his designee for receipt and review of documents related to audits and taxation of the University’s DSOs. The CAO reviews the DSOs’ audits and audit reports for completeness and submits them, through the President, to the Finance, Business, and Audit Committee of the Board of Trustees. The CAO also is delegated responsibility for collecting additional documents from the DSOs as required by statute or regulation, such as IRS 990 and 1023 forms. The CAO serves as the point of contact for DSO officials with regard to the deadlines for submissions and correcting deficiencies in submissions.

President’s Fundraising Goal

At the request of the University’s Board of Trustees’ Finance, Business, and Audit Committee, we reviewed the University’s report of pledges and gifts received from January 15, 2010, through June 18, 2013.

The primary objective of our review was to determine if the pledges, gifts, and grants/awards were recorded and counted in accordance with the University’s Board of Trustees’ intent in its contract with the President concerning his performance bonus for fundraising, and with written criteria used by the DSOs for gift counting, as applicable. We selected for testing a representative sample of pledges, gifts, and grants/awards from each of the six DSOs. In addition to reviewing supporting documentation, we discussed with appropriate staff the methodology used to count and report the pledges, gifts, and grants/awards.

Based upon our testing, we concluded reported pledges, gifts, and grants/awards of $305,811,665 received from January 15, 2010, through June 18, 2013, were recorded and counted in accordance with the University’s written policies for gift counting. For the period March 2, 2012, to June 18, 2013, and included in the above amount, an additional $100,000,000 in pledges, gifts, and grants/awards were received through University fundraising efforts. As a result, cumulative fundraising under the President’s contract exceeded $300,000,000. Based upon our review, we concluded the President had met another goal as provided for in his Contract Section 3.2 and should receive a third payment of $100,000.

In Progress and Carry Forward

At fiscal year-end we had audits in various stages of progress. Some of them were close to being finished while others were in the early stages of the process.

Audits in progress at fiscal year’s end were:

- Police Evidence Room;
- Capital Construction – Health and Wellness Center;
- Subrecipient Monitoring within Sponsored Research;
- Foundation Scholarships;
- Seminoles Boosters - College Town Project;
- Working Capital Trust Fund;
Follow-up Activity

In conformance with the International Standards for the Professional Practice of Internal Auditing, the IGS follows up on audit observations and other significant issues to determine if reported planned actions have been taken in response to our observations. Follow-up is performed every six months and all observations are followed up on until final resolution. Beginning in fiscal year 2011-2012, we began submitting a summary report to the University President with the results of our biannual follow-up activities.

Complaints/Investigations

The IGS receives complaints and allegations reported directly to our Office, from internal and external referrals, and through the University’s Ethics Point Hotline. The IGS occasionally initiates an investigation based on concerns arising from routine audits and existing investigations. In addition, we provide investigative assistance to management when requested. Upon receipt, each complaint is evaluated to determine what type of investigative action is needed. Complaints received that do not fall within our jurisdiction are referred to the appropriate entities. During 2013-2014, approximately 21 percent of our direct effort was expended on reviewing complaints and conducting investigations.
TYPES OF INVESTIGATIVE ACTIVITY

Standard Investigations (SIs) are opened from complaints involving violations of applicable laws, rules, or policies and procedures that could result in criminal convictions, terminations, or disciplinary action.

Preliminary Inquiries (PIs) are opened when the IGS is not certain whether an investigation is warranted. In these cases, we conduct additional fact-finding and make a determination whether to proceed with investigation or whether the complaint can be closed or resolved without need for further investigation. Even if an investigation is not warranted, occasionally these cases may result in an Investigative Memorandum to notify management of our findings and recommendations that may be of interest and helpful to the University.

Management Referrals (MRs) are opened for complaints that appear to be easily investigated and resolved by management of the applicable colleges or departments. Our Office refers the complaint for review and action deemed appropriate and requests management follow up with our Office to provide a resolution and explain any corrective actions taken. Our Office closes the case if the management response appears to address the concerns satisfactorily. However, if the concerns, in our opinion, are not adequately addressed or if management identifies other concerns, our Office may conduct additional investigative procedures.

No Investigative Action (NI) is taken when complaints contain insufficient information from the complainant, lack merit, or are not within our jurisdiction. These complaints are closed to the file for reference purposes only.

Management Assistance (MA) cases are opened when University management requests our Office to provide specific information. Should any potential violations of law or policy be identified in the course of providing assistance, the IGS reserves the right to initiate an investigation.

TYPES OF INVESTIGATIVE WORK PRODUCTS

Investigative Reports are to report the results of investigations into allegations determined to be significant to University operations and that reflect violations of law or University policy. The Investigative Report will conclude as to whether allegations(s) made are determined to be substantiated, unsubstantiated, or unfounded.

Investigative Memorandums are to report to management the results of investigations when allegations are not determined to be significant to University operations and/or do not reflect significant violations of law or University policy. Generally, these reports will result in conclusions about the issues, as compared to our more formal investigative reports.

Management Assistance Memorandums are to respond to management requests for specific information. Once provided to management, a determination will be made as to whether the request has been satisfied without further staff action.

Controls and Compliance Reports are to report internal control and/or compliance weaknesses identified by staff during the conduct of an investigation. Such limited-scope services are a by-product of the investigation but are not integral or directly related to the scope, objectives, or findings of the investigation. Such findings are provided to management for information, consideration, and corrective actions. In such instances a full audit is not warranted and the limited scope of services provided is clearly identified.
INVESTIGATIVE ACTIVITY FOR Fiscal Year 2013-2014

At the close of the prior fiscal year ended June 30, 2013, we had three investigations and three preliminary inquiries that remained opened, for a total of six cases carried over into the 2013-2014 fiscal year. Since July 1, 2014, the IGS received 38 new complaints. Of the 38 new complaints received, 11 were reported through the EthicsPoint Hotline, 13 were from internal referrals within the University, eight were external referrals from other state agencies, two were initiated by our Office, and four were from individuals who reported the complaints directly to our Office.

The IGS reviews each complaint received to determine how the complaint should be handled. Of the 38 new complaints received, 10 were closed due to insufficient information, lack of merit, or were resolved without the need for further investigation; 10 were referred to other entities for resolution, including the University’s Office of Human Resources, Police Department, and General Counsel; and 18 investigative cases were opened.

The IGS engaged in a total of 24 investigative projects during 2013-2014 including the six preliminary inquiries and investigations underway at the beginning of the fiscal year. Fourteen of the 24 projects were completed and closed in 2013-2014 including seven Standard Investigations, five complaints closed in the Preliminary Inquiry phase, and two Management Referrals that were resolved. Ten cases were in process at fiscal year’s end.

INVESTIGATIVE CASES COMPLETED

<table>
<thead>
<tr>
<th>Investigations</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Fraud/Theft</td>
<td>3</td>
</tr>
<tr>
<td>Improper Bidding</td>
<td>1</td>
</tr>
<tr>
<td>Conflict of Interest</td>
<td>1</td>
</tr>
<tr>
<td>Misappropriation of Funds</td>
<td>1</td>
</tr>
<tr>
<td>Misconduct/Student Safety</td>
<td>1</td>
</tr>
<tr>
<td>Preliminary Inquiries</td>
<td></td>
</tr>
<tr>
<td>Misuse of University Resources</td>
<td>3</td>
</tr>
<tr>
<td>Misappropriation of Funds</td>
<td>1</td>
</tr>
<tr>
<td>Disclosure of Confidential Information</td>
<td>1</td>
</tr>
<tr>
<td>Management Referrals</td>
<td></td>
</tr>
<tr>
<td>Mishandling of Billing Dispute</td>
<td>1</td>
</tr>
<tr>
<td>Misuse of University Resources</td>
<td>1</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>14</strong></td>
</tr>
</tbody>
</table>

In addition to conducting the above investigations, the IGS Chief Audit Officer serves as the University’s Ethics Officer and receives all complaints that allege a need for whistle-blower determination pursuant to Section 112.3189, Florida Statutes. During the fiscal year, the Chief Audit Officer received five such complaints and determined that none qualified for investigation under the whistle-blower act. These cases were closed without further investigation and are included in the 38 new complaints received.
Direct Services

Each year, the IGS conducts a risk assessment of University activities and services. The risk assessment process includes interviews with the University President, Vice Presidents, key administrators, and the Chairperson of the Finance, Business, and Audit Committee of the Board of Trustees. Feedback received through these interviews contributes significantly to the successful development of our Annual Work Plan.

The Annual Work Plan contains a detailed schedule of projects planned for the year. Estimated hours are allocated to each project in an effort to optimize utilization of IGS staff.

Our direct service level of effort for 2013-2014 was 73 percent. We achieved this level of direct service notwithstanding significant organizational structure changes, including staff turnover in three of our five Senior Auditor/Investigator positions due to staff departures and the promotion of a veteran Senior Auditor/Investigator to the position of Director of Audits/Investigations, which became vacant at the beginning of the fiscal year. We also had a Senior Auditor/Investigator who was on maternity leave for approximately the first two months of the fiscal year.

The two graphs that follow show the planned versus actual direct effort for fiscal year 2013-2014 and a seven-year trend of direct effort for fiscal years 2007-2008 through 2013-2014.

Activity Charts
Provision of Training to the University Community

The IGS is keenly aware of the importance of training and its benefits to the University and to its employees’ professional development. As such, we are fully committed to this essential component of our services.

The IGS will provide training to the University’s employees, including those outside Tallahassee at the Ringling Museum of Art in Sarasota and our Panama City Campus, in the following areas:

- Ethics;
- Internal controls,
- Fraud awareness, prevention, and detection; and
- Other topics of interest to the requesting entity.

Additionally, the IGS offers presentations to academic classes at the request of instructors. This fiscal year, some of our staff members were guest speakers for a graduate course in the University’s Askew School of Public Administration and Policy and also a class at Florida A&M’s School of Business and Industry.

Professional Activities and Certifications

The IGS is proud of the experience and professionalism of its staff. During 2013-2014, we continued our commitment to external organizations that support higher education and internal auditing activities. IGS staff members belong to a number of professional organizations including the:

- Association of College and University Auditors;
- Institute of Internal Auditors;
• Association of Government Accountants;
• Association of Inspectors General;
• American Institute of Certified Public Accountants;
• Florida Institute of Certified Public Accountants;
• American Society of Public Administration;
• Association of Certified Fraud Examiners; and
• Information Systems Audit and Control Association.

Our CAO is actively involved with several professional boards. These include the:

• Federal Accounting Standards Advisory Board;
• American Center for Government Auditing – Institute of Internal Auditors;
• Audit Committee – Association of Government Accountants;
• Tallahassee Chapter of the Association of Government Accountants; and
• Certified Government Financial Manager Board – Association of Government Accountants.

Certifications

Our staff maintains various professional certifications demonstrating their continued commitment to the audit profession. Current certifications held by staff include:

• Certified Internal Auditor;
• Certified Public Accountant;
• Chartered Global Management Accountant;
• Certified Fraud Examiner;
• Certified Information Systems Auditor;
• Certified Government Financial Manager;
• Certified Inspector General Investigator;
• Certified Inspector General Auditor;
• Certified Risk Management Assurance; and
• Certified Government Auditing Professional.

In addition to professional certifications, advanced degrees held by staff include:

• Master of Business Administration;
• Master of Science – Library Science;
• Master of Arts – Spanish;
• Master in Public Administration;
• Master of Science – Instructional Systems;
• Master of Social Work – Program Evaluation; and
• Doctor of Philosophy – Public Administration.
Post-Project Surveys

Upon completing our audits and major consulting engagements, the IGS provides the individuals with whom we worked most closely on our projects the opportunity to evaluate our services through post-project surveys. These survey results provide the IGS with valuable feedback and are intended to help us improve our operations.

Our University colleagues evaluate us on a scale from 1 to 5 (with 5 being the most favorable) in several categories, and provide an overall rating as to the value provided by the engagement.

The compiled results of the surveys received for projects completed during 2013-2014 are indicated in the following chart:

<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>AVERAGE RATING</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professionalism</td>
<td>4.23</td>
</tr>
<tr>
<td>Relations of Staff</td>
<td>4.35</td>
</tr>
<tr>
<td>Communications</td>
<td>4.12</td>
</tr>
<tr>
<td>Technical Knowledge</td>
<td>4.03</td>
</tr>
<tr>
<td>Helpfulness</td>
<td>3.79</td>
</tr>
<tr>
<td>Report was Unbiased</td>
<td>4.1</td>
</tr>
<tr>
<td>Report was Issued Timely</td>
<td>4.07</td>
</tr>
<tr>
<td>Clear and Accurate Report</td>
<td>4.13</td>
</tr>
<tr>
<td>Provided Value</td>
<td>3.84</td>
</tr>
<tr>
<td><strong>Overall Average</strong></td>
<td><strong>4.1</strong></td>
</tr>
</tbody>
</table>

We recognize there is always room to improve our services as we continually strive for excellence.
Upcoming Year

We look forward to working with our colleagues as we implement our 2014-2015 Annual Work Plan and to the many challenges the new fiscal year will likely bring.

The chart below reflects our expected allocation of personnel resources during 2014-2015.

**Allocation of Time for 2014-2015**
## Annual Work Plan 2014-2015

### A. Audit Projects Carried Forward from 2013-2014 Work Plan

<table>
<thead>
<tr>
<th>A.1.</th>
<th>In progress</th>
<th>Hours</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Server Security – General</td>
<td>160</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FSU Police Department Evidence Room</td>
<td>259</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital Construction – Health and Wellness Center</td>
<td>300</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Research – Subrecipient Monitoring</td>
<td>400</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foundation – Compliance with Donors’ Intentions</td>
<td>150</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rates Charged to Federal Programs by Laboratory Animal Resources Auxiliary</td>
<td>70</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rates Charged to Federal Programs by Information Technology Services Auxiliary</td>
<td>390</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Working Capital Trust Fund</td>
<td>315</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Campus Solutions – Student Financial Aid</td>
<td>208</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Seminole Boosters – College Town</td>
<td>250</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### A.2. For completion

<table>
<thead>
<tr>
<th>Hours</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ethics and Compliance Program</td>
<td>200</td>
</tr>
<tr>
<td>Facilities – Vehicle Maintenance</td>
<td>650</td>
</tr>
<tr>
<td>Deans’ Certifications of Graduate Students to Be Teaching Assistants</td>
<td>60</td>
</tr>
</tbody>
</table>

**Total Hours for Audit Projects Carried Forward from 2013-2014 Work Plan** 3,412

### B. New Audit Projects for 2014-2015

<table>
<thead>
<tr>
<th>Hours</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fraud and Internal Controls Training to University Entities</td>
<td>50</td>
</tr>
<tr>
<td>DSOs External Audits – Financial Report Reviews</td>
<td>50</td>
</tr>
<tr>
<td>DSO IRS Form 990 Reviews</td>
<td>50</td>
</tr>
<tr>
<td>Master Craftsman Studio Auxiliary</td>
<td>280</td>
</tr>
<tr>
<td>State University System Performance-Based Funding (Mandatory)</td>
<td>1000</td>
</tr>
<tr>
<td>Capital Construction Cost Multiplier – Indoor Practice Facility – Childers Construction</td>
<td>400</td>
</tr>
<tr>
<td>Capital Construction Cost Multiplier – University Housing Replacement</td>
<td>390</td>
</tr>
</tbody>
</table>
Culpepper Construction

Capital Construction Cost Multiplier – Johnston Building Annex - Peter Brown Construction 390
Capital Construction Cost Multiplier – Asian Art Center – Willis A. Smith Construction 400
Surplus Property 700
Server Security – Florida State University Schools 264
College of Arts and Sciences – History Department - Business Practices Enhancement Program 1100
University-Wide Courtesy Vehicles 400
Jeanne Clery Act – Annual Security Report 375
University Housing – Cash Collections 291
Required Filing of Commission on Ethics Form 1 – Statement of Financial Interests 104

**Total Hours for New Audit Projects for 2014-2015** 6244

<table>
<thead>
<tr>
<th>C. Follow-Up Projects for 2014-2015</th>
<th>Hours</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Follow-up activities for previously completed audits</td>
<td>180</td>
<td></td>
</tr>
</tbody>
</table>

**Total Hours for Follow-up Projects for 2014-2015** 180

<table>
<thead>
<tr>
<th>D. Contingency for 2014-2015</th>
<th>Hours</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>New and unplanned projects to be given priority during the year</td>
<td>377</td>
<td></td>
</tr>
<tr>
<td>Audits of the University’s Florida Medical Practice Plan and Student Athletes’ Satisfactory Progress towards Degrees have priority status for these hours. Every effort will be made to begin these two audits provided some of our planned audits are completed under budget.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Total Hours for Contingency for 2014-2015** 377

<table>
<thead>
<tr>
<th>E. Investigations for 2014-2015</th>
<th>Hours</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>This includes ongoing and new investigations that may result from faculty and/or staff requests, Whistleblower complaints, and complaints received from the Ethics Point hotline.</td>
<td>2141</td>
<td></td>
</tr>
</tbody>
</table>
Total hours for Investigations for 2014-2015 2141

Total Direct Service Hours for 2014-2015 12,354

<table>
<thead>
<tr>
<th>F. Audit Management and Administration for 2014-2015</th>
<th>Hours</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit management and administration includes administrative meetings, continuing professional development, approved employee leave and holidays, quality control reviews, and internal administrative systems.</td>
<td>5652</td>
<td>5,652</td>
</tr>
</tbody>
</table>

Total Audit Management and Administration 5,652

Total Hours 18,006