

STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

Report No. 2025-059
December 2024

FLORIDA STATE UNIVERSITY



Sherrill F. Norman, CPA
Auditor General

Board of Trustees and President

During the 2023 calendar year, Dr. Richard D. McCullough served as President of Florida State University and the following individuals served as Members of the Board of Trustees:

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Vivian de las Cuevas-Diaz	Drew Weatherford
Nimna Gabadage through 4-9-23 ^b	

^a Faculty Senate President (equivalent to Faculty Senate Chair referred to in Section 1001.71(1), Florida Statutes).

^b Student Body President.

The team leader was Craig J. Pohlmann, CPA, and the audit was supervised by Maria G. Loar, CPA.

Please address inquiries regarding this report to Jaime N. Hoelscher, CPA, Audit Manager, by e-mail at jaimehoelscher@aud.state.fl.us or by telephone at (850) 412-2868.

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FLORIDA STATE UNIVERSITY

SUMMARY

This operational audit of Florida State University (University) focused on selected University processes and administrative activities and included a follow-up on the finding noted in our report No. 2022-095. Our operational audit disclosed the following:

Finding 1: University controls over changes to vendor information need improvement.

BACKGROUND

Florida State University (University) is part of the State university system of public universities, which is under the general direction and control of the Florida Board of Governors (BOG). The University is directly governed by a Board of Trustees (Trustees) consisting of 13 members. The Governor appoints 6 citizen members and the BOG appoints 5 citizen members. These members are confirmed by the Florida Senate and serve staggered 5-year terms. The Faculty Senate Chair and Student Body President also are members.

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

FINDING AND RECOMMENDATION

Finding 1: Vendor Information Changes

State law¹ requires each state university to establish and maintain internal controls designed to, among other things, detect fraud, promote and encourage compliance with best practices, and safeguard assets. Such controls should include properly documented and independently verified and authorized vendor information (e.g., address and bank account) changes before payments to vendors are made to confirm the propriety of the changes and to reduce the likelihood of fraud or errors associated with the payments.

In October 2023, the University contracted with a third-party provider for a vendor data management system to identify University vendors and verify the propriety of University vendor information. Since that date, vendors have been required to create a profile in the system that identifies, for example, their legal names, tax identification number, addresses, and payment preferences. Once the system validates the vendor profile information, University personnel review the information for completeness.² If approved,

¹ Section 1010.01(5), Florida Statutes.

² The University personnel completeness review confirms that, for example, the system completed the address validation and bank account verification, tax identification numbers are not duplicated in the University management information system, and vendors verified information changes.

the vendor information from the system is securely transmitted to the University Management Information System (MIS), which is used to, among other things, record financial transactions, store vendor information, and make vendor payments.

According to University personnel, vendor information changes were not routinely authorized directly into the MIS except for specific vendor changes and under certain conditions, such as changes for the Internal Revenue Service and the Florida Retirement System. The changes directly into the MIS could be made, without secondary approval, by one of six University personnel, including four University Procurement Office personnel and two University Controller Office personnel.

For the period from January 2024 through June 2024, the University paid vendors a total of \$440.1 million electronically and by warrant and University records identified 15 vendor information (i.e., 11 address and 4 bank account) changes. As part of our audit, we requested for examination University records supporting the vendor information changes in the University MIS. We determined that University personnel made 7 routine vendor information changes directly into the MIS without requiring the vendors to enter their information into the vendor data management system, contrary to University procedures, or obtaining secondary approval.

In response to our inquiries, University personnel provided records that they relied upon to support the 7 changes. For example, for an address change, the University received a check returned as undeliverable by the postal service and relied on invoice information as the basis for changing the vendor's address. However, none of the records provided by University personnel demonstrated direct communication with the respective vendor to verify the changes or secondary approval of the changes by University staff.

We examined University records supporting payments related to the 7 vendor information changes and determined that the payments were sent to the appropriate addresses and accounts; however, our procedures do not substitute for University management's responsibility to implement adequate controls over these changes. Absent effective policies and procedures over vendor address and bank account changes, the University cannot demonstrate that appropriate measures have been taken to reduce the risk of fraud and errors associated with vendor payments.

Recommendation: The University should enhance procedures to ensure that, before changes to vendor information are made, the changes are properly documented, independently verified, appropriately authorized, and reviewed.

PRIOR AUDIT FOLLOW-UP

The University had taken corrective action for the finding included in our report No. 2022-095.

OBJECTIVES, SCOPE, AND METHODOLOGY

The Auditor General conducts operational audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

We conducted this operational audit from June 2024 through August 2024 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This operational audit focused on selected University processes and administrative activities.

For those areas, our audit objectives were to:

- Evaluate management's performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse, and in administering assigned responsibilities in accordance with applicable laws, rules, regulations, contracts, grant agreements, and other guidelines.
- Examine internal controls designed and placed in operation to promote and encourage the achievement of management's control objectives in the categories of compliance, economic and efficient operations, reliability of records and reports, and safeguarding of assets, and identify weaknesses in those controls.
- Determine whether management had taken corrective actions for findings included in our report No. 2022-095.
- Identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

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

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

Our audit included the selection and examination of transactions and records, as well as events and conditions, occurring during the audit period of January 2023 through December 2023 and selected University actions taken prior and subsequent thereto. Unless otherwise indicated in this report, these records and transactions were not selected with the intent of statistically projecting the results, although

we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

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

In conducting our audit, we:

- Reviewed applicable laws, rules, University policies and procedures, and other guidelines, and interviewed University personnel to obtain an understanding of applicable processes and administrative activities and related requirements.
- Reviewed University information technology (IT) policies and procedures to determine whether the policies and procedures addressed certain important IT control functions, such as security access, systems development and maintenance, user authentication, and disaster recovery.
- Evaluated University procedures for maintaining and reviewing employee access to IT data and resources. We examined selected user access privileges for 32 of the 203 employees with access to critical functions within the finance and human resources applications during the audit period to determine the appropriateness and necessity of the access privileges based on the employee job duties and user account functions and whether the access privileges prevented the performance of incompatible duties.
- Evaluated the appropriateness of the University comprehensive IT disaster recovery plan during the audit period and determined whether the plan had been recently tested.
- Reviewed operating system, database, network, and application security settings to determine whether authentication controls were configured and enforced in accordance with IT best practices.
- Determined whether a comprehensive IT risk assessment had been established for the audit period to document the University risk management and assessment processes and security controls intended to protect the confidentiality, integrity, and availability of data and IT resources.
- Reviewed University records supporting expenses totaling \$82,354 incurred under the authority granted by a state of emergency declared or renewed during the audit period to determine whether the expenses were appropriate and reasonable.
- Examined University student fee schedules to determine whether the University had the authority to assess such fees, the University separately accounted for the fees, and the fees did not exceed the limits established in Section 1009.24, Florida Statutes, and Board of Governors Regulations 7.001 and 7.003.
- From the population of \$143 million of student financial aid fees, activity and service fees, health fees, and athletic fees expended during the audit period, examined documentation supporting expenses totaling \$435,824 to determine whether the University expended the collected fees as required by Section 1009.24, Florida Statutes.
- From the population of general expenses totaling \$998.6 million during the 2023-24 fiscal year, examined University records for 30 selected expenses totaling \$1.6 million to determine whether selected expenses were properly supported; correctly recorded; adequately documented; properly authorized and approved; and whether the use of restricted resources was proper.
- From the population of 52,075 purchasing card (P-card) transactions totaling \$19.4 million during the audit period, examined University records supporting 30 selected P-card transactions totaling \$154,347 to determine whether the P-card program was administered in accordance with University policies and procedures and transactions were not of a personal nature.

- Examined P-card records for 10 of the 31 disputed charges to P-card transactions during the audit period to determine whether they were properly reported to the credit service provider and appropriately resolved in accordance with University policies and procedures.
- Examined P-card records for 29 of the 105 cardholders who separated from University employment during the audit period to determine whether the University timely canceled the cardholders' P-cards.
- From the population of 6 major construction projects with expenses totaling \$64.6 million and in progress during the audit period, selected 5 expenses totaling \$10.8 million related to 3 major construction projects and examined University records to determine whether the payments were made in accordance with contract terms and conditions.
- Reviewed documentation related to 3 major construction projects with total construction costs of \$64.3 million during the audit period to determine whether the University process for selecting design professionals and construction managers was in accordance with Section 287.055, Florida Statutes; the selection process of subcontractors was adequately monitored; the Trustees had adopted a policy establishing minimum insurance coverage requirements for design professionals and design professionals provided evidence of required insurance; and construction funding sources were appropriate.
- From the population of Deferred Building Maintenance Program expenses totaling \$18.3 million during the audit period, examined records supporting 27 selected expenses totaling \$9.2 million to determine whether use of the funds was consistent with restrictions imposed on the resources pursuant to Chapter 2022-156, Laws of Florida, General Appropriations Act, Section 197.
- For the 15 vendor information (i.e., address and bank account) changes during the period January 2024 through June 2024, examined University records to determine whether University procedures ensured, prior to vendor payment, that the address and bank account changes were properly authorized, documented, and verified.
- Examined University records to determine whether the internal loans and lines of credit were allowable and whether the operation of University controls over restricted resources adhered to good business practices.
- Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.
- Prepared and submitted for management response the findings and recommendations that are included in this report and which describe the matters requiring corrective actions. Management's response is included in this report under the heading **MANAGEMENT'S RESPONSE**.

AUTHORITY

Section 11.45, Florida Statutes, requires that the Auditor General conduct an operational audit of each University on a periodic basis. Pursuant to the provisions of Section 11.45, Florida Statutes, I have directed that this report be prepared to present the results of our operational audit.

A handwritten signature in blue ink that reads "Sherrill F. Norman". The signature is fluid and cursive, with the first name being the most prominent.

Sherrill F. Norman, CPA
Auditor General

MANAGEMENT'S RESPONSE

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November 25, 2024

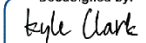
Ms. Sherrill F. Norman
Auditor General, State of Florida
Claude Denson Pepper Building, Suite G74
111 West Madison Street
Tallahassee, Florida 32399-1450

Dear Ms. Norman:

President McCullough approved the attached Florida State University's response to the Auditor General's preliminary and tentative operational audit recommendation, dated October 17, 2024.

If you should require additional information, please contact Undra Baldwin at 850-644-0651 or ub22@fsu.edu.

Sincerely,

DocuSigned by:

Kyle Clark

Senior Vice President for Finance and Administration

Cc: Richard McCullough
Undra Baldwin

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Florida State University
Response to Auditor General Operational Audit

Finding 1: University controls over changes to vendor information need improvement.

Recommendation: The University should enhance procedures to ensure that, before changes to vendor information are made, the changes are properly documented, independently verified, appropriately authorized, and reviewed.

Response: Florida State University has implemented best practices, policies, and procedures designed to safeguard assets and detect fraud. During the audit period the University was just a few months into their implementation of a new supplier onboarding system (PaymentWorks). This new system provides additional layers of security by automating manual tasks, reducing the need for collecting sensitive supplier information, streamlining communications, and improving data accuracy. With almost 14,000 active suppliers, the University expected there to be a lengthy transition to the new system, requiring updates to be made in both systems. In addition to PaymentWorks, the University automatically verifies all vendor banking information via Wells Fargo Account Validation functionality. This is an additional service the University procured through its banking relationship, to provide an extra layer of security.

The very limited number of required changes outside of the newly implemented PaymentWorks system, amounting to one per month over the first six months of calendar year 2024, were to update inaccurate supplier address or banking information. These changes were supported by either the University's external bank verification process or US Postal Service address information. System access to make these changes is limited to key personnel and system audit logs are maintained. The transactions in question amounted to approximately \$40,000 out of the \$440 million paid to vendors during this time.

Florida State University has established and maintains internal controls designed to detect fraud, promote and encourage compliance with best practices, and safeguards assets. To further enhance our best practices, the University will update procedures to ensure that when a direct change to vendor's information is required such changes will reflect additional documentation.