REPORT NO. 2014-063
DECEMBER 2013

UNIVERSITY OF SOUTH FLORIDA

Operational Audit

STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

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Notes: (1) System faculty council president (equivalent to faculty senate chair referred to in Section 1001.71(1), Florida Statutes).
(2) Position remained vacant from January 7, 2013, through January 16, 2013.
(3) Student body president.
(4) Position remained vacant from January 7, 2013, through June 27, 2013.
(5) Position remained vacant from October 9, 2012, through March 27, 2013.

The audit team leader was Vanessa C. Fernandez, CPA, and the audit was supervised by Karen J. Collington, CPA. Please address inquiries regarding this report to James R. Stultz, CPA, Audit Manager, by e-mail at jimstultz@aud.state.fl.us or by telephone at (850) 412-2869.

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UNIVERSITY OF SOUTH FLORIDA

EXECUTIVE SUMMARY

Our operational audit disclosed the following:

ADMINISTRATIVE MANAGEMENT AND BOARD POLICIES

Finding No. 1: The Board needed to enhance its written policies and procedures relating to electronic funds transfers.

Finding No. 2: The University needed to enhance its textbook affordability monitoring procedures to ensure that textbooks are timely posted on its Web site in accordance with State law.

STUDENT TUITION AND FEES

Finding No. 3: The University needed to evaluate its procedures for assessing distance learning course fees.

Finding No. 4: Our tests disclosed payments totaling $80,623 to ten employees from tuition differential fees for which University records did not evidence that these employees provided a benefit to undergraduate programs, and $14,853 to four graduate teaching assistants, contrary to Section 1009.24(16), Florida Statutes.

PERSONNEL AND PAYROLL

Finding No. 5: The University's controls over monitoring of contracted employee payroll expenses needed improvement.

Finding No. 6: The University's remuneration to some administrative employees exceeded the limitation contained in Section 1012.976(2), Florida Statutes.

Finding No. 7: The University made severance payments that exceeded the limitations provided by Section 215.425, Florida Statutes.

EXPENSES AND DISBURSEMENTS

Finding No. 8: The University provided a line of credit to one of its direct-support organizations without specific legal authority.

INFORMATION TECHNOLOGY

Finding No. 9: University information technology security controls related to user authentication, electronic storage of sensitive data, user account management practices, and data center physical security measures needed improvement.

BACKGROUND

The University of South Florida (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. The University is directly governed by a Board of Trustees (Trustees) consisting 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 system faculty council president and student body president also are members.

The Board of Governors 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 Board of Governors' Regulations. The University President is selected by the Trustees and confirmed by the Board of Governors. 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 results of our financial audit of the University for the fiscal year ended June 30, 2013, will be presented in a separate report. In addition, the Federal awards administered by the University are included within the scope of our Statewide audit of Federal awards administered by the State of Florida and the results of that audit, for the fiscal year ended June 30, 2013, will be presented in a separate report.

FINDINGS AND RECOMMENDATIONS

Administrative Management and Board Policies

Finding No. 1: Electronic Funds Transfers

Section 1010.11, Florida Statutes, requires each university board of trustees to adopt written policies prescribing the accounting and control procedures under which funds are allowed to be moved by electronic transaction for any purpose including direct deposit, wire transfer, withdrawal, investment, or payment. This law also requires that electronic transactions comply with the provisions of Chapter 668, Florida Statutes, which discusses the use of electronic signatures in electronic transactions between the universities and other entities.

According to University records, $210.7 million of electronic funds transfers (EFTs) were made during the 2012-13 fiscal year for transactions such as employee payments, retirement payments, investment transactions, and vendor payments. Board Policy 5-028 (Policy) has delegated responsibility for the daily management of University bank balances and the general oversight of EFTs to the University Controller's Office. The Policy also provides that the University Controller designates staff authorized to initiate and approve EFTs on behalf of the University. However, the Policy does not prescribe accounting and control procedures for EFTs or address the use of electronic signatures when conducting electronic transactions with other entities.

While the University Controller's Office had developed a written workflow for processing domestic and international wire transfers, including how the wire transfers are generated, reviewed, and approved, the lack of specific guidance in the form of Board-approved written policies and procedures increases the risk that electronic transactions will not be executed in accordance with Board directives and the provisions of Chapter 668, Florida Statutes.

Recommendation: The Board should enhance its written policies and procedures to prescribe accounting and control procedures for electronic funds transfers, including the use of electronic signatures.

Finding No. 2: Textbook Affordability

Section 1004.085(3), Florida Statutes, requires that universities post on their Web sites, as early as is feasible, but not less than 30 days prior to the first day of class for each term, a list of each textbook required for each course offered at the university during the upcoming term. Additionally, Board of Governors (BOG) Regulation No. 8.003, *Textbook Adoption,* provides that each university board of trustees adopt a regulation that establishes textbook adoption procedures to minimize the cost of textbooks for students and document the intent of the course instructors to use all items ordered, including the extent to which a new edition differs significantly and substantively from earlier versions and the value of changing to a new edition. The posted list must include the International Standard Book Number (ISBN) for each required textbook or other identifying information, which must include, at a minimum, all of the following: the title, all authors listed, publishers, edition number, copyright date, published date, and other relevant information necessary to identify the specific textbook or textbooks required for each course.

The University had established the BOG required textbook adoption regulation and procedures; however, the University did not have monitoring procedures in place to ensure the posting of textbook lists 30 days before the first day of class. The University contracted with a vendor to manage and operate the University bookstore, as well as compile and post lists of adopted textbooks on the University's Web site. According to University bookstore personnel, textbooks were supposed to be published on the University's Web site within 48 hours after the adopted textbooks were recorded in the vendor's system.

Our review disclosed that the University adopted 7,216 textbooks for the Fall 2012 term and 6,677 textbooks for the Spring 2013 term, which included the required ISBN or other identifying information. However, information for 1,661 textbooks for the Fall 2012 term and 2,059 textbooks for the Spring 2013 term was not posted on the University's Web site at least 30 days prior to the first day of class for each term, contrary to State law. This included 45 textbooks for the Fall 2012 term, and 45 textbooks for the Spring 2013 term, that were posted to the University's Web site from 5 to 49 days after the first day of class. For 50 of the 90 textbooks posted from 5 to 49 days after the first day of class, the University did not provide explanations for the late posting. For the other 40 textbooks posted late, University bookstore personnel provided explanations for the late posting, such as, although the courses were originally scheduled, the instructors were not appointed until a later date and the textbook orders could not be placed until the instructors were appointed; certain courses were added late; and while original orders were submitted on time, additional items were added after the deadline to complete the orders.

Effective monitoring procedures would help ensure that texbooks are listed on the University's Web site in accordance with State law and BOG Regulations. Timely posting of textbook information is necessary to improve textbook affordability for students.

Recommendation: The University should enhance its monitoring procedures to ensure that textbooks are timely posted on its Web site in accordance with State law.

Student Tuition and Fees

Finding No. 3: Distance Learning Course Fee

Section 1009.24(17)(a), Florida Statutes, provides in part that each university may assess a per-credit-hour distance learning course fee. Section 1009.24(17)(b), Florida Statutes, provides that the amount of the distance learning course fee may not exceed the additional costs of the services provided that are attributable to the development and delivery of the distance learning course, and the university may not assess duplicate fees to cover additional costs.

During the 2011-12 and 2012-13 fiscal years, the University assessed a $50 per-credit-hour distance learning course fee and collected fees totaling $9.9 million and $10 million, respectively, and incurred expenses for providing distance learning courses totaling $7.3 million and $8.8 million, respectively. Therefore, fees collected exceeded the additional costs of the services provided that were attributable to the development and delivery of the distance learning courses for the 2011-12 and 2012-13 fiscal years by $2.6 million and $1.2 million, respectively, contrary to Florida Statutes. In response to our inquiry, University personnel stated that during the 2011-12 and 2012-13 fiscal years the University was not able to fully execute its distance learning spending plans due to multiple instances of leadership turnover, delayed key hiring, and the ongoing refinement of its distance learning strategy. As a result, some of the planned spending of distance learning course fees was deferred, and the University reported surpluses of revenues over expenses. University personnel further stated that during the 2012-13 fiscal year, new leadership was established to oversee and execute the expansion of distance learning courses and indicated that a business plan had been developed

which will result in a significant multi-year investment in distance learning courses, beginning with the 2013-14 fiscal year.

Recommendation: The University should enhance its monitoring procedures to ensure that distance learning course fees assessed do not exceed the additional costs of the services that are attributable to the development and delivery of the distance learning courses.

Finding No. 4: Tuition Differential Fee

Section 1009.24(16), Florida Statutes, states in part that each university board of trustees may establish a student tuition differential fee for undergraduate courses, which shall be used to promote improvements in the quality of undergraduate education and provide financial aid to undergraduate students who exhibit financial need. Section 1009.24(16)(a), Florida Statutes, provides that 70 percent of revenues from tuition differential fees must be expended for certain specified purposes other than for student financial aid, which include increasing course offerings, improving graduation rates, increasing the percentage of undergraduate students who are taught by faculty, decreasing student-faculty ratios, providing salary increases for faculty who have a history of excellent teaching in undergraduate courses, improving the efficiency of the delivery of undergraduate education through academic advisement and counseling, and reducing the percentage of students who graduate with excess hours. This Section also provides that the tuition differential fees for undergraduate education may not be used to pay the salaries of graduate teaching assistants. This Section further provides that except as otherwise provided in Section 1009.24(16)(a), Florida Statutes, the remaining 30 percent of revenue from tuition differential fees, or the equivalent amount of revenue from private sources, must be expended to provide financial aid to undergraduate students who exhibit financial need.

The University established a separate fund and account to record tuition differential fee transactions. For the 2011-12 fiscal year, the University recorded $24.1 million in collections and $22.2 million in expenses from the tuition differential fees, and expenses were comprised of $15.4 million for specific purposes other than student financial aid and $6.8 million for student financial aid. For the 2012-13 fiscal year, the University recorded $36.9 million in collections and $35 million in expenses from the tuition differential fees, and expenses were comprised of $23.3 million for specific purposes other than student financial aid and $11.7 million for student financial aid.

Our test of 219 employees paid $15.5 million in salaries from tuition differential fees disclosed $95,476 of questioned expenditures of tuition differential fees, as follows:

- Fees totaling $14,853 were spent on salaries for one graduate teaching assistant during the Spring 2012 term ($3,880) and three graduate teaching assistants during the Fall 2012 term ($10,973), contrary to Section 1009.24(16)(a), Florida Statutes. In response to our inquiry, University personnel restored the $10,973 of Fall 2012 expenses to the tuition differential fee fund.
- Fees totaling $3.7 million and $4.3 million were spent to fund salaries of 54 and 62 faculty during the 2011-12 and 2012-13 fiscal years, respectively, who taught both graduate and undergraduate courses. The portion of faculty salaries funded by tuition differential fees was allocated based on the percentage of full-time equivalent hours assigned to each undergraduate course taught by the faculty member. However, University records indicated that for the Fall 2011 and Spring 2012 terms, fees totaling $80,623 were spent to fund portions of ten faculty members' salaries related to graduate courses taught by the faculty members. In response to our inquiry, University personnel stated that the allocation errors were due to oversight and that these errors would be corrected during the 2013-14 fiscal year.

Recommendation: The University should enhance its procedures to ensure that tuition differential fees are expended in accordance with Section 1009.24(16), Florida Statutes. Additionally, the University should restore the remaining $84,503 of questioned costs to the tuition differential fee fund.

Personnel and Payroll

Finding No. 5: Payroll Monitoring

The University adopted personnel policies and procedures for its administration of payments to employees and contracted staff, including the payment of overtime. In our report No. 2012-132, we noted that for the 2010 calendar year the University made improper overtime and other payments to a contracted physician resulting in $17,316 of overpayments. The physician's contract provided that as full compensation for the physician's services, the physician was to be paid $96 an hour, not to exceed a total of 2,083 hours during any year, with total compensation not to exceed $200,000 per annum. We recommended that the University seek to recover the $17,316 of overpayments; however, as of November 5, 2013, the University had not taken action to recover these moneys.

Our review, for the 2011 and 2012 calendar years, disclosed that based on University payroll records the physician was overpaid an additional $23,304, as follows:

- For the 2011 calendar year, the physician was paid $223,176 for 2,153 hours. This included 1,809.5 hours at $96 per hour and 343.5 hours of overtime at $144 per hour. In total, the physician was overpaid $23,208 for the 2011 calendar year.
- For the 2012 calendar year, the physician was paid $11,808 for 122 hours for the 2012 calendar year before resigning on January 12, 2012. This included 120 hours at $96 per hour and 2 hours of overtime at $144 per hour. In total, the physician was overpaid $96 for the 2012 calendar year.

University personnel stated that the intention was that in certain weeks, 40 hours would be exceeded; however, the physician's contract did not provide for an hourly rate in excess of $96 for overtime.

Title 29 Section 541.304, Code of Federal Regulations, provides that physicians are not entitled to overtime pay under the Fair Labor Standards Act (FLSA). In response to our prior audit finding, the University indicated that business considerations dictated that the physician be treated as an hourly employee and the FLSA required that he be paid overtime. However, 29 CFR Section 541.304(d) states that "The requirements of 29 CFR 541.300 and subpart G (salary requirements) of this part do not apply to the employees described in this section" and, as such, the FLSA provides that employees engaged in the practice of medicine are exempt from the salary basis test and therefore may not be paid on an hourly basis and remain exempt from the FLSA minimum-wage and overtime-compensation provisions. Accordingly, neither the FLSA nor the physician's contract required the University to make overtime payments to the physician at an hourly rate in excess of that provided for in the contract.

Our review also disclosed that the physician completed and signed biweekly time sheets; however, 5 of 15 time sheets reviewed were not signed by his supervisor to document monitoring of the physician's time worked. Without the timely monitoring and approval of timesheets, there is an increased risk that errors or fraud may occur and not be timely detected. Further, absent monitoring of compliance with employment contract terms and conditions, there is an increased risk that compensation payments will not be in accordance with contract terms and conditions.

Recommendation: The University should enhance its procedures to ensure that contracted employees are paid in accordance with contract provisions. In addition, the University should seek to recover amounts overpaid the physician to the extent allowed under Section 95.11, Florida Statutes.

Follow-up to Management's Response

The University's response indicates that, although not reguired to pay overtime, it is not precluded from paying overtime. However, the point of our finding is that neither the FLSA nor the employment contract required the payment of overtime and the employment contract indicated that full compensation was not to exceed $200,000 per annum. In these circumstances, the University had not documented the public purpose served by paying for overtime or an amount exceeding the contract amount.

Finding No. 6: Remuneration of Administrative Employees

Section 1012.976(2), Florida Statutes, stipulates that a State university administrative employee may not receive more than $200,000 in annual remuneration[1] from appropriated State funds. This limitation does not apply to university teaching faculty, or medical school faculty or staff, pursuant to Section 1012.976(3), Florida Statutes. Section 1012.945(2), Florida Statutes, requires that each full-time equivalent teaching faculty member who is paid wholly from State funds teach a minimum of 12 classroom contact hours per week, and any faculty member who is assigned other responsibilities must teach a minimum number of classroom contact hours in proportion to 12 classroom hours per week as such especially assigned other duties and responsibilities bear to 12 classroom contact hours per week.

Our review of the remuneration paid to 79 employees totaling $19,402,700, disclosed 3 employees whose total remuneration paid from appropriated State funds during the 2012-13 fiscal year collectively exceeded the remuneration limitation by $210,218, in amounts ranging from $17,064 to $154,660, as follows:

- Provost and Executive Vice President – Responsible for providing leadership and commitment to the full development of the USF System governance structure and a collaborative environment with the other Vice Presidents system-wide; providing leadership and direction to the academic colleges, divisions, and departments; providing leadership and commitment to support and develop the University as an extensive doctoral and research institution; providing a strong and demonstrated commitment to diversity, fundraising, fiscal, and personnel management; and providing organizational, interpersonal, and advocacy skills, including communication with internal and external groups. Excess remuneration paid from appropriated State funds totaled $154,660.
- Regional Chancellor – Responsible for representing the interests of the campus in the strategic planning, priority setting, and policy development process for the University; providing leadership to the campus to further its mission with respect to teaching, research, and service to students and the community; providing direction to program development and organization for the campus; and exercising administrative authority over the utilization of campus resources in service of the mission of the campus and the University. Excess remuneration paid from appropriated State funds totaled $38,494.
- Interim Regional Chancellor and Director of the Florida Institute of Oceanography (FIO) – As Interim Regional Chancellor, responsible for representing the interests of the campus in the strategic planning, priority setting, and policy development process for the University; providing leadership to the campus to further its mission with respect to teaching, research, and service to students and the community; providing direction to program development and organization for the campus; and exercising administrative authority over the utilization of campus resources in service of the mission of the campus and the University. As Director of FIO, responsible for providing leadership in support of FIO's stated mission and goals; managing the FIO budget; further developing and implementing FIO's five-year strategic plan; coordinating collaborative grant proposals from FIO members in partnership with the University Office of Research and Innovation; conducting private fundraising on behalf of FIO; overseeing the maintenance of the FIO Web

[1] Remuneration means salary, bonuses, and cash-equivalent compensation paid to a State administrative employee for work performed, excluding health insurance and retirement benefits.

site and issuance of quarterly reports; and overseeing scheduling and operation of research vessels. Excess remuneration paid from appropriated State funds totaled $17,064.

Based on our review of the three employees' actual responsibilities, none of the employees served as teaching faculty with classroom contact hours pursuant to the provisions of Section 1012.945(2), Florida Statutes, or as medical school staff at any time during the 2012-13 fiscal year. In response to our inquiries, the University informed us that the Human Resource Department listed the employees that had been classified as faculty under the University's faculty pay plan and it was their understanding that employees paid under the University's faculty pay plan, were excluded from the limitation on remuneration. However, the University's records did not evidence that these individuals served as teachers, faculty, or medical school staff, nor did University records indicate that these individuals were acting in other than an administrative capacity. Accordingly, it is not clear on what basis these employees would be exempt from the remuneration limitation applicable to administrative employees as provided in Section 1012.976(2), Florida Statutes.

Recommendation: The University should review the salaries of all employees working in an administrative capacity to ensure that salaries are paid within limitations provided in Section 1012.976(2), Florida Statutes. Also, the University should restore the amount of remunerations paid in excess of the amounts allowed by Statute to its appropriated State funds from other University resources.

Finding No. 7: Severance Pay

Section 215.425(4)(a), Florida Statutes, provides that on or after July 1, 2011, a unit of government that enters into a contract or employment agreement, or renewal or renegotiation of an existing contract or employment agreement, that contains a provision for severance pay must include a provision in the contract or employment agreement that precludes severance pay from exceeding 20 weeks of compensation. Section 215.425(4)(b), Florida Statutes, provides that any severance payment made on or after July 1, 2011, for the settlement of an employment dispute, other than that provided for in a contract or employment agreement, may not exceed six weeks of compensation. Section 1001.706(6)(d), Florida Statutes (2011), provided that universities may not enter into an employment agreement that authorized severance pay in excess of one year's annual salary.

Our tests of ten employees who received $2,988,715 in settlement agreements (of which $988,715 was paid) during the 2012-13 fiscal year disclosed the following:

- On December 2, 2012, the University gave written notice of termination of employment to its head football coach (Coach), which was effective on December 2, 2012. The notice of termination stated that the action was taken without cause as provided in the Head Coaching Agreement (Agreement) between the Coach and the University, dated July 1, 2012. Section 8.a. of the Agreement provided that the University could terminate the Agreement at any time without cause immediately upon providing written notice to the Coach. Section 8.a. further provided that the University would then be obligated to continue to provide the base salary, excluding benefits, totaling $500,000 per year, provided for in the Agreement, until December 31, 2017, the expiration date of the Agreement. The Agreement stated that the payment would not be subject to any mitigation, and the first payment would be paid within 30 days of termination and then on each anniversary thereafter until paid in full. The first payment of $500,000 was made December 28, 2012. The Agreement was entered into after July 1, 2011, and these payments were subject to the 20-week limitation contained in Section 215.425(4)(a)(1), Florida Statutes. However, contrary to law, the Agreement provided for the Coach to be paid $1,733,716 in excess of 20 weeks of compensation, prohibited by State law.

  In response to our inquiry, University personnel indicated that the payments provided in the Agreement were not for severance pay, but represented payments for damages as a result of the University terminating the Agreement with the Coach without cause. However, Section 215.425(4)(d), Florida Statutes, provides that

severance pay is the actual or constructive compensation for employment services yet to be rendered that is provided to an employee who has recently been terminated. As such, the payments provided in the Agreement appear to be severance pay as contemplated by Section 215.425(4), Florida Statutes.

- On January 20, 2012, the University provided a 90-day notification to terminate an employee's administrative assignment and place her on off-campus professional development leave. For the 90-day notice period, her salary and benefits remained unchanged, and her status as a tenured full professor remained unchanged. Subsequently, on June 19, 2012, the University entered into a settlement and general release agreement, whereby the faculty member agreed and acknowledged that entry into the agreement constituted an end of employment with the University as a resignation with no implication or intent to retire. The University elected to provide a lump-sum payment totaling $90,000 on July 13, 2012, equivalent to nine months of the faculty member's salary, excluding benefits, and the faculty member's summer 2012 salary (up to one 3 credit hour course), excluding benefits. As the faculty member's employment contract did not include a provision for severance pay, and the $90,000 payment was for a settlement dispute, the faculty member should not have been paid for more than six weeks of compensation pursuant to Section 215.425(4)(b), Florida Statutes. However, contrary to law, the faculty member was paid $79,655 in excess of six weeks of compensation.

  In response to our inquiry, University personnel indicated that the severance pay limitations contained in Section 215.425, Florida Statutes, did not apply to the University for the payment to the tenured professor based, in part, on the following:

  - The agreement was executed prior to the date the severance provisions of Section 215.425(4), Florida Statutes, became effective for State universities via a change to Section 1001.706(6)(d), Florida Statutes. University personnel asserted that Section 215.425(4), Florida Statutes, became effective on July 1, 2012, when the Legislature changed Section 1001.706(d), Florida Statutes, and explicitly applied Section 215.425(4), Florida Statutes, to universities, and that the faculty member's agreement was fully executed on June 22, 2012.

  - University personnel also indicated that the faculty member had lifetime employment with many years of service ahead and, in exchange for early retirement and relinquishment of tenure, the University agreed to pay the settlement amount and reinvest the faculty member's salary.

  However, the provisions of Sections 1001.706(6)(d) and 215.425, Florida Statutes (2011), were not in conflict because the provisions of both laws could have been easily complied with by applying the more restrictive provisions set forth in Section 215.425, Florida Statutes. Accordingly, the 2012 amendment to Section 1001.706(6)(d), Florida Statutes, was merely a clarification of existing law. Since Sections 215.425(4)(a) and (b), Florida Statutes (2011), were applicable to all units of government, these provisions applied to universities during the 2011-12 fiscal year.

Recommendation: The University should ensure that future severance payments comply with Section 215.425(4), Florida Statutes.

Expenses and Disbursements

Finding No. 8: Line of Credit to a Direct-Support Organization

On November 5, 2012, the University and the University of South Florida Health Professions Conferencing Corporation (HPCC), a University direct-support organization, entered into a revolving line of credit, whereby the University could loan HPCC up to $2 million to finance temporary cash flow needs related to the Center of Advanced Medical Learning and Simulation. The agreement provided that, based on the intent of the parties, amounts drawn on the line of credit would be repaid in full each year and the line of credit would have a zero balance for at least 15 contiguous days each year. In the event that HPCC decided to carry a balance on the line of credit in any fiscal year, all loan principal and interest accrued thereon had to be repaid no later than 36 months after the date of the first draw on the line of credit. Interest would be calculated from the date of the first draw on the line of credit at a fixed

interest rate of 1.5 percent per annum on daily average funds outstanding. The University used auxiliary funds to make a $1.5 million advance under the line of credit on November 19, 2012, and as of June 30, 2013, the amounts owed to the University totaled $1.5 million in principal and $13,747 in interest.

Section 1004.28(1)(a)2., Florida Statutes, provides that a direct-support organization is organized and operated exclusively to receive, hold, invest, and administer property, and make expenditures to and for the benefit of a university. Section 1004.28(2), Florida Statutes, in part, provides that each State university board of trustees is authorized to permit use of property, facilities, and personal services at any State university by any university direct-support organization. In response to our inquiry, University personnel said that they considered property as referenced in Section 1004.28, Florida Statutes, to include both real and personal property, and personal property includes cash. University personnel indicated that since the cash used to make the loan was accumulated through its auxiliary operations and did not include student fee revenues, the loan of these funds was in compliance with Florida Statutes. However, the University, as an entity created by statutes, possesses only the authority granted to it by statute and the authority to take action necessarily implied by its statutory authority. We are unaware of any specific authority in Florida Statutes or Board of Governors regulations permitting the University to make loans to a University direct-support organization. Further, Section 1004.28(1)(a)2., Florida Statutes, serves to highlight that direct-support organizations are intended to work to the benefit of the University, and not operate as a liability to the University by borrowing money from it.

Recommendation: The University should cease the practice of making loans to its direct-support organization. Also, the University should seek to collect the outstanding amount owed by HPCC and replenish University accounts.

Follow-up to Management's Response

The University's response to this finding indicates that the Unviersity has explicit statutory authority in Section 1004.28(2), Florida Statutes, to allow use of its property, including cash, as stated in Section 1004.28(3)(c), Florida Statutes. However, the point of our finding is that the University, as an entity created by statute, possesses only the authority granted to it by statute and the authority to take action necessarily implied by its statutory authority. As noted in our finding above, we are unaware of any explicit statutory authority for the University to make loans to a direct-support organization or any implied authority for such action.

Information Technology

Finding No. 9: Security Controls – User Authentication, Electronic Storage of Sensitive Data, User Account Management Practices, and Data Center Physical Security Measures

Security controls are intended to protect the confidentiality, integrity, and availability of data and information technology (IT) resources. Our audit disclosed certain University IT security controls related to user authentication, electronic storage of sensitive data, user account management practices, and data center physical security measures that needed improvement. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising University data and IT resources. However, we have notified appropriate University management of the specific issues. Without adequate security controls related to user authentication, electronic storage of sensitive data, user account management practices, and data center physical security measures, the risk is increased that the

confidentiality, integrity, and availability of University data and IT resources may be compromised. A similar finding was communicated to University management in connection with our report No. 2012-132.

Recommendation: The University should improve IT security controls related to user authentication, electronic storage of sensitive data, user account management practices, and data center physical security measures to ensure the continued confidentiality, integrity, and availability of University data and IT resources.

PRIOR AUDIT FOLLOW-UP

The University had taken corrective actions for findings included in our report No. 2012-132, except that finding Nos. 5 and 9 were also noted in prior audit report No. 2012-132, as finding Nos. 5 and 9, respectively.

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 January 2013 to September 2013 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of this operational audit were to:

- 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, safeguarding of assets, and identifying weaknesses in those controls.
- Determine whether management had taken corrective actions for findings included in our report No. 2012-132.
- 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 programs, activities, or functions included within the scope of the audit, deficiencies in management's internal controls; 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.

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; 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.

The scope and methodology of this operational audit are described in Exhibit A. Our audit included the selection and examination of records and transactions occurring during the 2011-12 and 2012-13 fiscal years, and selected actions taken prior thereto. Unless otherwise indicated in this report, these records and transactions were not selected with the intent of 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 agency management, staff, and vendors, and as a consequence, cannot be relied upon to identify all instances of noncompliance, fraud, waste, abuse, or inefficiency.

AUTHORITY

Pursuant to the provisions of Section 11.45, Florida Statutes, I have directed that this report be prepared to present the results of our operational audit.



David W. Martin, CPA
Auditor General

MANAGEMENT'S RESPONSE

Management's response is included as Exhibit B.

EXHIBIT A
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
IT access privileges and separation of duties.	Tested selected access privileges over the database and finance and human resources applications to determine the appropriateness and necessity based on employees' job duties and user account functions and adequacy with regard to preventing the performance of incompatible duties. Tested administrator account access privileges granted for the operating system and database to determine whether these accounts had been appropriately assigned and managed.
IT logical access controls and user authentication.	Reviewed selected operating system, database, network, and application security settings to determine whether authentication controls were configured and enforced in accordance with IT best practices.
IT logging and monitoring.	Reviewed procedures and reports related to the capture, review, maintenance, and retention of selected system and security event logs.
IT risk management and assessment.	Determined whether a written comprehensive IT risk assessment had been developed to document the University's risk management and assessment processes and security controls intended to protect the confidentiality, integrity, and availability of data and IT resources.
Board and committee meetings.	Reviewed Board and committee minutes to determine whether Board approval was obtained for policies and procedures in effect during the audit period and for evidence of compliance with Sunshine law requirements (i.e., proper notice of meetings, ready access to public, and maintenance of minutes).
Reporting of institute and centers information as required by the Board of Governors (BOG).	Examined supporting documentation to determine whether the University had provided accurate and complete information to the BOG for selected institutes and centers.
Textbook affordability.	Examined supporting documentation to determine whether the University's procedures regarding textbook affordability were in accordance with Section 1004.085, Florida Statutes.
Internal audit function (inspector general).	Reviewed the internal audit function to determine whether the University followed professional requirements and provided for peer review of reports issued.
Investments.	Determined whether the Board established investment policies and procedures as required by Section 218.415, Florida Statutes, and whether investments during the fiscal year were in accordance with those policies and procedures.
Student receivables.	Determined whether student receivables were properly authorized, documented, and properly recorded. Determined adequacy of collection efforts. Determined whether restrictions on student records and holds on transcripts and diplomas were adequate and enforced for delinquent accounts.
Works of art and historical treasures.	Reviewed controls over works of art and historical treasures to determine whether the University had established adequate safeguards to protect such assets from theft or loss.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Florida residency determination and tuition.	Tested student registrations to determine whether the University documented Florida residency and correctly assessed tuition in compliance with Sections 1009.21, 1009.24, and 1009.286(2), Florida Statutes, and BOG Regulation 7.005.
Tuition differential fees.	Reviewed payments from tuition differential fees collected to determine whether the University assessed and used tuition differential fees in compliance with Section 1009.24(16)(a), Florida Statutes.
Distance learning fees.	Determined whether distance learning fees were assessed and collected as provided by Section 1009.24(17), Florida Statutes.
Overtime payments.	Reviewed University policies, procedures, and supporting documentation evidencing the approval of, and necessity for, overtime payments.
Terminal pay.	Reviewed the University's policies and procedures for terminal pay to ensure consistency with Florida law. Tested former employees to determine appropriateness of terminal pay.
Severance pay.	Reviewed severance pay provisions in selected contracts to determine whether the University was in compliance with Florida Statutes.
Administrative employees' compensation.	Reviewed administrative employees' compensation to determine whether compensation did not exceed limits provided in Florida law.
President's compensation.	Determined whether the President's compensation was in accordance with Florida law, BOG Regulations, and University policy.
Bonuses.	Determined whether employee bonuses were paid in accordance with Section 215.425(3), Florida Statutes.
Procurement of goods and services.	Reviewed University policies and procedures related to the procurement of goods and services to ensure the competitive vendor selection process. Tested disbursements to determine whether purchase orders were issued prior to the University incurring an obligation for the goods or services.
Electronic funds transfers.	Reviewed University policies and procedures related to electronic funds transfers. Tested supporting documentation to determine whether selected electronic funds transfers were properly authorized and supported.
Purchasing card transactions.	Tested transactions to determine whether purchasing cards were administered in accordance with University policies and procedures. Also, tested former employees to determine whether purchasing cards were timely cancelled upon termination of employment.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Travel expenses.	Tested executive foreign, and out-of-state travel expenses to determine whether the travel was reasonable, adequately supported, and for University purposes.
Contractual agreements.	Determined whether contractual services were supported by Board-approved contracts. Also, examined and tested the aforementioned contracts to ensure whether they were properly awarded and executed and whether contract terms were adequately supported.
Related-party transactions.	For selected University officials, reviewed Department of State, Division of Corporation, records; statements of financial interest; and University records to identify any potential relationships that represent a conflict of interest with vendors used by the University.
Direct-support organizations.	Tested payments and transfers between the University and its direct-support organizations to determine the legal authority of such payments.
Direct-support organizations – conflicts of interest.	Determined whether the University had established policies and procedures to avoid potential conflicts of interest with vendors who were doing business with the University and made donations to the University's direct-support organizations.

EXHIBIT B
MANAGEMENT'S RESPONSE

USF
UNIVERSITY OF SOUTH FLORIDA
SYSTEM

December 12, 2013

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

Dear Mr. Martin:

Please see enclosed the University of South Florida System responses for those audit findings related to the University that are included in the 2012-13 Operational Audit prepared by your office.

If you have any questions or require additional information, please contact Jennifer Condon, University Controller, at 813-974-6061.

Sincerely,

Nick J. Trivunovich
Vice President for Business and Finance

Enclosure

Copy to: Dr. Judy Genshaft
John Long
Sandy Lovins
Dr. Ralph Wilcox
Jennifer Condon
Debra Gula

OFFICE OF THE USF SYSTEM VICE PRESIDENT OF BUSINESS & FINANCE
University of South Florida • 4202 East Fowler Avenue, CGS401 • Tampa, FL 33620
www.system.usf.edu

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

University of South Florida

Responses to Preliminary and Tentative Findings of the USF 2013 Operational Audit

Conducted by the Auditor General's Office

ADMINISTRATIVE MANAGEMENT and BOARD POLICIES

Finding No. 1: The Board needed to enhance its written policies and procedures relating to electronic funds transfers.

Recommendation: The Board should enhance its written policies and procedures to prescribe accounting and control procedures for electronic funds transfers, including the use of electronic signatures.

Management's Response: The University has revised policy number 5-028, *Electronic Funds Transfer* to enhance the documented accounting and control procedures for electronic funds transfers, including the use of electronic signatures.

Implementation Date: December 31, 2013

Responsible Party: Jennifer Condon, 813/974-6061

Finding No. 2: The University needed to enhance its textbook affordability monitoring procedures to ensure that textbooks are timely posted on its Web site in accordance with State law.

Recommendation: The University should enhance its monitoring procedures to ensure that textbooks are timely posted on its Web site in accordance with State law.

Management's Response: Management will assure compliance and document any exceptions along with management affirmation. In addition, at intervals prior to the 30-day deadline, the University sends to department chairs a list of textbook orders that have not been submitted to the bookstore. Management will assure that all department chairs carefully monitor textbook ordering among their faculty to obtain the highest rate of compliance possible and to better anticipate classes that may, by necessity, be added later to the schedule.

Expected Implementation Date: January 1, 2014

Responsible Party: Dr. Dwayne Smith 813/974-3151

STUDENT TUITION and FEES

Finding No. 3: The University needed to evaluate its procedures for assessing distance learning course fees.

Recommendation: The University should enhance its monitoring procedures to ensure that distance learning course fees collected do not exceed the additional costs and investments required to support services that are attributable to the development and delivery of the distance learning courses.

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

Management's Response: The University will enhance its monitoring procedures to ensure that distance learning course fees collected do not exceed the additional costs and investments required to support services that are attributable to the development and delivery of the distance learning courses.

Expected Implementation Date: June 30, 2014

Responsible Party: Michael Pearce, 813/974-1780

Finding No. 4: Our tests disclosed payments totaling $80,623 to ten employees from tuition differential fees for which University records did not evidence that these employees provided a benefit to undergraduate programs, and $14,853 to four graduate teaching assistants, contrary to Section 1009.24(16), Florida Statutes.

Recommendation: The University should enhance its procedures to ensure that tuition differential fees are expended in accordance with Section 1009.24(16), Florida Statutes. Additionally, the University should restore the remaining $84,503 of questioned costs to the tuition differential fee fund.

Management's Response: The University has recently adopted a new procedure that will directly distribute compensation at each payroll interval to the appropriate funding source. This includes the linking of undergraduate instructional compensation to the courses provided. Therefore, this enhancement will assure `that the tuition differential fees are expended in accordance with Section 1009.24(16), Florida Statutes'. Additionally, the unreconciled amount of $84,503 cited from FY 2012-13 will be reimbursed to the tuition differential fee fund in FY 2013-14.

Expected Implementation Date: January 1, 2014

Responsible Party: Nicholas Setteducato, 813/974-2707

PERSONNEL and PAYROLL

Finding No. 5: The University's controls over monitoring of contracted employee payroll expenses needed improvement.

Recommendation: The University should enhance its procedures to ensure that contracted employees are paid in accordance with contract provisions. In addition, the University should seek to recover amounts overpaid the physician to the extent allowed under Section 95.11, Florida Statutes.

Management's Response: The University continued to interpret this statute differently. It is the University's position that although not obligated to pay overtime, we are also not precluded from paying overtime. Therefore, the University does not believe that any salary recovery is required. This contracted employee is no longer employed by the University so no further action is necessary to address this issue.

Expected Implementation Date: June 30, 2013

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

Responsible Party: Theresa Drye, 813/974-5711

Finding No. 6: The University's remuneration to some administrative employees exceeded the limitation contained in Section 1012.976(2), Florida Statutes.

Recommendation: The University should review the salaries of all employees working in an administrative capacity to ensure that salaries are paid within limitations provided in Section 1012.976(2), Florida Statutes. Also, the University should restore the amount of remunerations paid in excess of the amounts allowed by Statute to its appropriated State funds from other University resources.

Management's Response: The University will improve the existing procedures to include employees coded in the Faculty salary plan. Funds will be restored to the appropriated State funds.

Expected Implementation Date: December 31, 2013

Responsible Party: Theresa Drye, 813/974-5711

Finding No. 7: The University's made severance payments that exceeded the limitations provided by Section 215.425, Florida Statutes.

Recommendation: The University should ensure that future severance payments comply with Section 215.425(4), Florida Statutes.

Management's Response: Management will comply with 215.425 (4), Florida Statutes.

Expected Implementation Date: June 30, 2013

Responsible Party: Theresa Drye, 813/974 5711

EXPENSES and DISBURSEMENTS

Finding No. 8: The University provided a line of credit to one of its direct-support organizations without specific legal authority.

Recommendation: The University should cease the practice of making loans to its direct-support organization. Also, the University should seek to collect the outstanding amount owed by HPCC and replenish University accounts.

Management's Response: To fully understand the relationship between the University and the University of South Florida Health Professions Conferencing Corporation ("HPCC") and the legal basis for the revolving line of credit being questioned by the Auditor General, a person needs to go back to the mid 1990's when the University's continuing medical professional development program was started by the University. The University continued to house the continuing professional development program until 2004 when it formed the DSO and moved this program to HPCC. The University has used HPCC to administer the University's continuing medical professional development program since that time. The selection of all the Board of Directors of HPCC is controlled by the University Board of Trustees or University officers. HPCC is required to prepare and submit an annual budget to the University Board of Trustees for review and approval.

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

In 2010, the University and HPCC finalized a financing plan to expand the University's continuing medical professional development program. On June 24, 2010, the University's Board of Trustees (BOT) approved a resolution authorizing the financing of the Center for Advanced Medical Learning & Simulation ("CAMLS"). The goal of the University BOT, as described in the materials transmitted with the proposed resolution and also submitted to the Florida Board of Governors, was to construct a facility that would transform the University's continuing medical professional development program through the construction of a facility to deliver the type of training and research needed for the contemporary healthcare environment. The construction, installation, and the equipping of the CAMLS facility was undertaken with the full support and encouragement of the University. In fact, the CAMLS facility is located on land acquired by the University from the City of Tampa for this very purpose. The CAMLS facility and the University's continuing medical professional development program that is administered by HPCC, at the CAMLS facility, are critical parts of the University's overall educational program and it cannot be said that HPCC acted in a manner that was not supported by or supportive of the University. HPCC undertook the project exclusively for the benefit of the University as required by Section 1004.28 (1)(a)(2), Florida Statutes.

Once CAMLS was established and as the temporary need for financial assistance arose, the University had several options available to it to assist HPCC in the start-up operations of the CAMLS facility. The Auditor General is correct in its reading of Section 1004.28 (2), Florida Statutes, in that HPCC may use the University's property. The type of University property that a direct support organization may use is very broad. In fact, the definition contained in Section 1004.28 (3)(c), Florida Statutes, defines the scope of property that may be used by excluding only one type of property which is also a form of cash, student fee revenues. Given the fact that the University does have explicit statutory authority in Section 1004.28 (2), Florida Statutes to allow the use of its property including revenues (other than student fee revenues), as stated in Section 1004.28(3)(c), Florida Statutes, the University then needed to decide how best to document that use. The University is required by Board of Governors Regulation Section 9.011 to establish conditions with which a support organization must comply in order to use university property, facilities, or personal services. Use of property can be a temporary use, such as a loan or advance or a permanent use such as a contribution. The University chose a temporary use by HPCC with the full expectation of repayment and the payment of a fair rate of return on its investment through the use of a revolving line of credit. The conditions of HPCC's use of the University property are contained in the loan agreement.

Therefore, the use of the cash was and continues to be authorized by Statute. This legal conclusion was determined by the University's Office of the General Counsel and the University's special counsel that reviewed this matter at great length before advising the University that the advancement of the funds to HPCC was authorized by statute.

Expected Implementation Date: June 30, 2013

Responsible Party: Nick Trivunovich, 813/974-3297

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

INFORMATION TECHNOLOGY

Finding No. 9: University information technology security controls related to user authentication, electronic storage of sensitive data, user account management practices, and data center physical security measures needed improvement.

Recommendation: The University should improve IT security controls related to user authentication, electronic storage of sensitive data, user account management practices, and data center physical security measures to ensure the continued confidentiality, integrity, and availability of University data and IT resources.

Management's Response: A detailed response to all issues raised by the State Audit with respect to the confidentiality, integrity, and availability of the data residing in our systems and network will be submitted separately in order to maintain the need-to-know aspect of the report. The University believes that the current controls are adequate to establish a secure environment. However, the University will review the security settings and, if necessary, make appropriate changes.

Expected Implementation Date: June 30, 2014

Responsible Party: Michael Pearce, 813/974-1780