

STATE SINGLE AUDIT REPORT

University of South Florida Foundation, Inc.

Year Ended June 30, 2021

With Reports of Independent Auditor

University of South Florida Foundation, Inc.

State Single Audit Report

Year Ended June 30, 2021

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University of South Florida Foundation, Inc.

Schedule of Expenditures of State Financial Assistance

Year Ended June 30, 2021

<u>Grantor/Agency Project</u>	<u>CSFA Number</u>	<u>Contract/Grant Number</u>	<u>Expenditures</u>
STATE FINANCIAL ASSISTANCE			
State of Florida - Department of Education and Commissioner of Education:			
University Major Gifts Program	48.074	13-9020	<u>\$ 16,301,102</u>
Total Expenditures of State Financial Assistance			<u><u>\$ 16,301,102</u></u>

University of South Florida Foundation, Inc.

Notes to Schedule of Expenditures of State Financial Assistance

Year Ended June 30, 2021

1. Presentation and Basis of Accounting

Expenditures are reported on the accrual basis of accounting and presented in accordance with Chapter 10.650, *Rules of the Auditor General of the State of Florida*, and the requirements of the Florida Board of Education. Expenditures are recorded when an obligation has been incurred pursuant to Section 1011.94, Florida Statutes.

2. University Major Gift Challenge Grant Program

The University of South Florida Foundation, Inc. (the "Foundation") may receive state-matching contributions from the state of Florida for new major gifts to the Foundation meeting the criteria of the Challenge Grant Program. The amounts shown as expenditures are the matching funds received from the state of Florida and expenditures made from these endowments during the fiscal year.

The Major Gifts Program has been temporarily suspended for donations received on or after June 30, 2011. Existing eligible donations received on or before June 29, 2011, remain eligible for future matching funds when appropriated by the state. The program may be restarted by the state after \$200 million of the backlog for the state-match programs has been funded.

3. Indirect Cost Rate

The Foundation did not utilize indirect cost rates, including the 10% de minimis indirect cost rate, for reimbursement of grant expenditures for the fiscal year ended June 30, 2021.

**Report of Independent Auditor on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

To the Board of Directors and Management
University of South Florida Foundation, Inc.
Tampa, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate remaining fund information of the University of South Florida Foundation, Inc. (the “Foundation”), a direct support organization and component unit of the University of South Florida, as of and for the year ended June 30, 2021 and the related notes to financial statements, which collectively comprise the Foundation’s basic financial statements and have issued our report thereon dated October 22, 2021. Our report includes an emphasis of matter paragraph which discloses that Foundation adopted the Governmental Accounting Standards Board (“GASB”) Statement No. 84, *Fiduciary Activities*. Our report is not modified with respect to that matter.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Foundation’s internal control over financial reporting (“internal control”) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as finding 2021-001 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Foundation's Response to Finding

The Foundations' response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Foundation's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cherry Bekkert LLP

Tampa, Florida
October 22, 2021

Report of Independent Auditor on Compliance for Each Major State Financial Assistance Project and on Internal Control over Compliance Required by Chapter 10.650, Rules of the Auditor General of the State of Florida

To the Board of Directors
University of South Florida Foundation, Inc.
Tampa, Florida

Report on Compliance for Each Major State Financial Assistance Project

We have audited the University of South Florida Foundation, Inc. (the “Foundation”) compliance with the types of compliance requirements described in the Executive Office of the Governor of Florida’s State Projects Compliance Supplement that could have a direct and material effect on each of the Foundation’s major state financial assistance project for the year ended June 30, 2021. The Foundation’s major state financial assistance projects are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with the state statutes, regulations, and the terms and conditions of its state awards applicable to its state financial assistance projects.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for each of the Foundation’s major state financial assistance projects based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 10.650, *Rules of the Auditor General of the State of Florida*. Those standards and Chapter 10.650, *Rules of the Auditor General of the State of Florida*, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state financial assistance project occurred. An audit includes examining, on a test basis, evidence about the Foundation’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for each major state financial assistance project. However, our audit does not provide a legal determination of the Foundation’s compliance.

Opinion on Each Major State Financial Assistance Project

In our opinion, the Foundation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state financial assistance projects for the year ended June 30, 2021.

Report on Internal Control over Compliance

Management of the Foundation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Foundation's internal control over compliance with the types of requirements that could have a direct and material effect on each major state financial assistance project to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state financial assistance project and to test and report on internal control over compliance in accordance with Chapter 10.650, *Rules of the Auditor General of the State of Florida*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state financial assistance project, on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state financial assistance project will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state financial assistance project that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Chapter 10.650, *Rules of the Auditor General of the State of Florida*. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of State Financial Assistance Required by Chapter 10.650, *Rules of the Auditor General of the State of Florida*

We have audited the financial statements of the Foundation as of and for the year ended June 30, 2021, and have issued our report thereon dated October 22, 2021, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of state financial assistance is presented for purposes of additional analysis as required by Chapter 10.650, *Rules of the Auditor General of the State of Florida*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of state financial assistance is fairly stated, in all material respects, in relation to the financial statements as a whole.

Cherry Bekaert LLP

Tampa, Florida
October 22, 2021

University of South Florida Foundation, Inc.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2021

Part I - Summary of Auditor's Results

Financial Statement Section

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? x yes no

Significant deficiency(ies) identified not considered to be material weakness(es)? yes x none reported

Noncompliance material to financial statements noted yes x no

State Projects Section

Internal control over major projects:

Material weakness(es) identified? yes x no

Significant deficiency(ies) identified not considered to be material weakness(es)? yes x none reported

Type of auditors' report on compliance for state projects: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Chapter 10.650, *Rules of the Auditor General of the State of Florida* yes x no

Identification of major state projects:

Dollar threshold used to determine Type A projects: \$ 750,000

University of South Florida Foundation, Inc.

Schedule of Findings and Questioned Costs (continued)

Year Ended June 30, 2021

Part II - Financial Statement Findings

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*.

2021-001 Material Weakness in Internal Control – Net Position Classification

Criteria: A critical component of the Foundation’s internal control over the financial reporting process is the process of maintaining accurate books and records that support the classification of revenues and the related receivables that are subject to external donor or grantor restrictions to benefit various programs at the University and that can be fulfilled by the actions of the Foundation pursuant to the restriction or that expire by the passage of time. Net position (the difference between restricted assets and restricted liabilities) should be reported as restricted when constraints placed on net asset use are externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments.

Condition: During the year ended June 30, 2021, the Foundation misclassified contribution revenue in the amount of approximately \$20 million as unrestricted. Of this amount, \$8 million was a contribution receivable as of June 30, 2021. The supporting gift agreements place donor restrictions on the revenue amounts and as such, the contribution revenue and contribution receivable related net position should have classified as restricted.

Effect: The misclassification of the contribution revenue into an unrestricted fund resulted in an audit adjustment to reclassification of \$20 million of unrestricted net position to restricted position.

University of South Florida Foundation, Inc.

Schedule of Findings and Questioned Costs (continued)

Year Ended June 30, 2021

Cause: The Office of Advancement Operations entered \$20 million of contribution revenue (\$12 million cash gift and an \$8 million receivable) into the Banner giving history system within an unrestricted fund which differed from the donor agreement and related bank transfer directive. Extract files of financial transactions from Banner were used to transfer giving information in the form of journal entries into the financial accounting system. The Foundation Office of Business & Financial Services, the area responsible for the financial reporting process, was not provided with the documentation necessary to make the determination of classification. In our discussions with management, it was noted that established communication protocols were not observed for these contributions and these conditions were largely a result of the contribution being anonymous and the pledge commitment was considered by management to be confidential.

Recommendation: We recommend the Foundation review its current processes in the Office of Advancement Operations to ensure that the Foundation Office of Business & Financial Services obtains the necessary information and documentation for all gifts to determine whether the contribution revenue (and related receivable) is subject to external donor or grantor restrictions for proper reporting and classification in the financial system.

Management Response: We agree with the finding. Management has developed a corrective action plan, attached to this report.

Part III - State Project Findings and Questioned Costs

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs, related to the audit of state financial assistance projects, as required to be reported by Chapter 10.650, *Rules of the Auditor General of the State of Florida*.

There were no findings required to be reported by Chapter 10.650, *Rules of the Auditor General of the State of Florida*.

Summary Schedule of Prior Audit Findings

A Summary Schedule of Prior Audit Findings is not necessary since there were no prior audit



Corrective Action Plan for Finding 2021-001 Material Weakness – Net Position Classification

Name of Contact Person: Rob Fischman, Chief Financial Officer

Fulfilling donor intent is central to the Foundation’s mission and is at the forefront of every process within the organization. The spirit of the actions of Foundation staff has been and will continue to be to uphold the fiduciary responsibility to ensure that donor’s wishes are strictly observed. The unique circumstances that led to the misclassification of net position are described below along with our corrective action plan.

To accommodate a donor’s request that their gift not be reflected in the benefitting college/unit on internal fundraising progress reports for a period of time, the Office of Advancement Operations recorded \$20 million in support from the donor to a different fund rather than the fund as directed in the gift documentation. This led to a \$20 million increase to unrestricted net position rather than donor restricted, which was a material misclassification of net position. In responding to the auditor’s documentation request, after the close of the fiscal year, the Office of Business & Financial Services identified the misclassification, recorded an audit adjustment to correctly classify net position, and transferred the full amount of the \$20 million in support to the restricted fund intended by the donor. There was no financial loss and the funds remain available as intended by the donor.

The Foundation agrees with the auditor’s recommendation that the Foundation review its current processes in the Office of Advancement Operations to ensure the Foundation Office of Business & Financial Services obtains the necessary information and documentation for all gifts to determine whether the contribution revenue (and related receivable) is subject to external donor or grantor restrictions for proper reporting and classification in the financial system.

The following steps of the corrective action plan will be implemented during the fiscal year ending June 30, 2022, unless otherwise indicated below:

- Update procedures in Advancement Operations to communicate any changes to a gift transmittal to the submitting area and the Office of Business & Financial Services. This change will be implemented immediately.
- Establish criteria and add procedures in the Office of Business & Financial Services to perform a post-transaction verification for gifts. This change will be implemented immediately.
- Grant direct access to staff in the Office of Business & Financial Services to pull giving information in electronic format to expedite reconciliations and related tasks. This change will be implemented immediately.
- Strengthen donor intent compliance procedures and policy to enhance current procedures and practices assuring strict adherence to donor restrictions in recording gifts and outline the review and distribution of donor agreements.

- Evaluate changes to fundraising progress reports to accommodate special donor requests.

Additional enhancements will be made to the fund reconciliation process and review of fundraising and financial reports to aid in detection efforts.