

UNIVERSITY OF SOUTH FLORIDA

Operational Audit

For the Fiscal Year Ended
June 30, 2009



BOARD MEMBERS AND PRESIDENT

Members of the Board of Trustees and President who served during the 2008-09 fiscal year are listed below:

Rhea F. Law, Chair
John B. Ramil, Vice Chair
Lee E. Arnold, Jr.
Dr. Michael Barber to 8-07-08 (1)
Dr. Laurence G. Branch from 8-08-08 (1)
Margarita R. Cancio, M.D.
Gene Engle
Sonja Garcia
Gregory Morgan to 5-03-09 (2)
Kiran C. Patel, M.D.
Debbie Nye Sembler
Jan E. Smith
Juan Soltero from 5-04-09 (2)
Robert L. Soran
Sherrill Tomasino

Dr. Judy L. Genshaft, President

Notes: (1) Faculty senate chair.
(2) Student body president.

The audit team leader was Vanessa J. Cellini, 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) 922-2263.

This report and other reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 487-9024; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

UNIVERSITY OF SOUTH FLORIDA

SUMMARY

Our operational audit for the fiscal year ended June 30, 2009, disclosed the following:

Finding No. 1: The University needed to enhance its review procedures regarding the annual reporting of information for institutes and centers to the Board of Governors.

Finding No. 2: The University's controls over an imprest bank account needed improvement.

Finding No. 3: Improvements were needed in the University's procedures relating to accountability of tangible personal property.

Finding No. 4: Monitoring controls over the University's purchasing card program needed improvement.

Finding No. 5: The University's disbursement processing procedures needed improvement.

Finding No. 6: The University did not have adequate policies and procedures for determining and documenting insurable values for buildings and other property.

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 faculty senate chair 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 Trustees select the University President. 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, 2009, 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, 2009, will be presented in a separate report.

FINDINGS AND RECOMMENDATIONS

Finding No. 1: Institutes and Centers Reporting

Universities establish institutes and centers to coordinate intra- and inter-institutional research, service, or educational and training activities that supplement and extend existing instruction, research, and services. The Board of Governors (BOG) has established Policy guidelines for approving, classifying, operating, reviewing, and disbanding university institutes and centers. These guidelines require each university to annually report, via an on-line reporting system, actual expenses by funding source for the previous year, and estimated expenses for the current fiscal year, as well as other information for all institutes and centers at the University.

The University was required to report 2007-08 fiscal year information to the BOG for 96 institutes and centers by September 30, 2008. Our review disclosed that actual expenses were overreported for one institute and three centers in amounts ranging from \$28,521 to \$306,181. These inaccuracies in reported amounts occurred as a result of reporting expenses for the incorrect period, reporting estimated expenses, and reporting budgeted expenses.

Accurate reporting of actual expenses would help ensure that the BOG makes effective and efficient decisions related to future funding of institute and center activities.

Recommendation: **The University should enhance its review procedures to ensure that reports submitted to the Board of Governors for its institutes and centers are accurate and complete.**

Finding No. 2: Imprest Bank Account

The Florida Mental Health Institute (FMHI) maintains a \$12,000 imprest bank account to issue payments to research survey participants. Our review of the controls over the imprest bank account disclosed that the same employee who had access to blank checks, also signed the checks, voided checks, and had access to checks returned in the mail. Under the above-noted conditions, there is an increased risk of cash being misappropriated or used for unauthorized purposes, without detection. A similar finding was noted in our report No. 2008-079.

Recommendation: **The University should establish procedures to ensure the proper separation of duties over cash.**

Finding No. 3: Tangible Personal Property

To ensure proper accountability and safeguarding of tangible personal property, the University should maintain an adequate record of each property item. University regulations provide for procedures governing the accountability, control, transfer, and ultimate disposal of tangible personal property.

To verify existence through inspection at assigned locations, we tested 30 tangible personal property items from the University's property records. Our test disclosed two items totaling \$3,915 (one scooter costing \$1,000 and one aquarium costing \$2,915) that could not be located. Subsequent to our inquiry, the property items were removed from the University's property records in accordance with proper deletion procedures.

Our selection of 10 tangible personal property items that were deleted from the University's property records disclosed the following:

- A laptop computer with a cost of \$1,790 was stolen while located off-campus. University procedures require that a Property USF Form 6028 be prepared to document the reason, and approval, for property being assigned off-campus. However, although requested, we were not provided with the required Form 6028 for the off-campus assignment of the laptop computer.
- A polisher and various tools used in a research and development project with a cost of \$5,793,207 were sold by the University in October 2006. Property USF Form 3008 which was completed by the department to remove the equipment from the property records did not identify all of the decal numbers associated with the polisher and various tools. Therefore, some of the property remained in the property records and was not removed until October 2008.
- A laptop computer with a cost of \$1,612 was deleted from the property records. Our review disclosed that this item was purchased with Federal funds and donated to a public school without Federal grantor approval. Subsequent to our inquiries, the University obtained grantor approval.

Failure to maintain accountability over tangible personal property increases the likelihood that loss, theft, or unauthorized use of property could occur and not be detected in a timely manner. A similar finding was noted in our report No. 2008-079.

Recommendation: The University should strengthen its procedures related to accountability over tangible personal property.

Finding No. 4: Purchasing Cards

The University established a purchasing card program, which gave employees the convenience of purchasing items without using the standard purchase order process. The University had issued purchasing cards to 1,397 employees as of June 30, 2009, and during the 2008-09 fiscal year, purchasing card charges totaled approximately \$34 million.

The University developed specific guidelines providing guidance and instructions for all authorized purchasing card users and approvers. Our review of 71 purchasing card transactions during the period July 1, 2008, through April 15, 2009, totaling \$61,187, disclosed that improvements in controls over the purchasing card program were needed, as follows:

- Four transactions, totaling \$2,202, included payments of sales tax totaling \$144. Pursuant to Section 212.08(7)(o), Florida Statutes, the University is exempt from paying sales tax.
- Eight transactions, totaling \$2,687, were not recorded to the correct accounting code. Improper coding of expenses limits management's ability to accurately monitor the use of University funds.
- Nine transactions, totaling \$4,791, were for items that are unallowable charges per the University's purchasing card guidelines. These included \$434 for pest control service; \$3,101 for capital equipment over \$1,000; \$299 for coffee vending service for an administrative office; \$514 for holiday cards; \$49 for a retirement gift for a University employee; \$375 for advertisement unrelated to employment; and \$19 for flowers.

Similar findings were noted in our report No. 2008-079. Although a purchasing card program is useful for expediting the payment of small purchases in an efficient manner with a significant reduction in overhead, without effective monitoring procedures, such a program places the University at a greater risk that purchases will be undocumented, unauthorized, and/or not properly recorded in the accounting records. In such circumstances, it is important that effective training and monitoring procedures exist to ensure that the use of purchasing cards complies with University purchasing guidelines and directives.

Recommendation: The University should improve monitoring procedures over its purchasing card program to ensure compliance with the University's purchasing card guidelines and to ensure the proper accounting of these transactions.

Finding No. 5: Procurement of Services

As a matter of good business practice, a purchase order should be prepared and approved by appropriate University management in advance of the purchase of goods or services. Our review of 20 payments for goods and services disclosed that for 4 payments, totaling \$573,195, purchase orders were issued 52 to 98 days after the goods or services had been provided. In the absence of a purchase order prior to the receipt of goods or services, the University's ability to manage its cost of services is limited.

Recommendation: The University should ensure that purchase orders are used to document the approval of purchases of goods or services prior to incurring an obligation for payment.

Finding No. 6: Insurance Coverage

The University obtains insurance coverage for buildings and inventoried equipment through the Florida Department of Financial Services, Division of Risk Management (Division). The Division annually provides universities with certificates of coverage, and the universities are responsible for notifying the Division of needed changes to insurable values shown on the certificates of coverage. Premiums are primarily based on total insurable value of all university buildings and other property shown on the insurance certificates.

The Division has developed a valuation method that includes a matrix of cost factors to arrive at the actual cash value (ACV) of the building. A university may use the Division's valuation method, or an alternative method, to determine insurable values. If a university elects an insurable value that is lower than the ACV, in the event of a loss the university would be covered up to the elected amount, rather than the ACV. However, according to Division personnel, the ACV is the maximum coverage provided by the Division. Therefore, a university's insurable values, as shown on the insurance certificates, should not exceed the ACV because to do so would result in the university paying additional premiums without receiving additional coverage. Universities may opt to purchase additional commercial insurance coverage for amounts in excess of the ACV, to obtain full coverage of property.

As of June 30, 2009, the University owned 310 buildings costing approximately \$742.1 million. Our analysis of insurance coverage obtained for the 2008-09 fiscal year for University buildings disclosed the following:

- The University did not have written policies and procedures addressing the level of insurance coverage to be maintained or the method to be used to determine insurable values.
- The University did not use the Division's valuation method to calculate insurable values for buildings shown on the insurance certificates, totaling \$846.6 million, opting instead to use an alternative method. University personnel did not calculate the ACV to determine whether the insurable values on the insurance certificates were higher or lower than the ACV. As such, there is an increased risk that the University may have, for some buildings, included insurable values on the insurance certificates that exceeded the ACV, resulting in the payment of excess premiums without the benefit of additional insurance coverage. There is also an increased risk that the University may have, for some buildings, included insurable values on the insurance certificates that were less than the ACV and, in the event of a loss, would only be covered up to that amount, rather than the ACV.

Recommendation: The University should establish formal risk management policies and procedures to address the level of insurance coverage to be maintained for buildings and other property and the methods to be used in determining insurable values. The University should also ensure that insurable values included on the certificates of coverage do not exceed the actual cash value as defined by the Division of Risk Management.

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the University had taken corrective actions for findings included in our report No. 2008-079.

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 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: (1) obtain an understanding and make overall judgments as to whether University internal controls promoted and encouraged compliance with applicable laws, rules, regulations, contracts, and grant agreements; the economic and efficient operation of the University; the reliability of records and reports; and the safeguarding of assets; (2) evaluate management's performance in these areas; and (3) determine whether the University had taken corrective actions for findings included in our report No. 2008-079. Also, pursuant to Section 11.45(7)(h), Florida Statutes, our audit may identify statutory and fiscal changes to be recommended to the Legislature.

The scope of this operational audit is described in Exhibit A. Our audit included examinations of various records and transactions (as well as events and conditions) occurring during the 2008-09 fiscal year.

Our audit methodology included obtaining an understanding of the internal controls by interviewing University personnel and, as appropriate, performing a walk-through of relevant internal controls through observation and examination of supporting documentation and records. Additional audit procedures applied to determine that internal controls were working as designed, and to determine the University's compliance with the above-noted audit objectives, are described in Exhibit A. Specific information describing the work conducted to address the audit objectives is also included in the individual findings.

AUTHORITY

Section 11.45, Florida Statutes, requires that the Auditor General conduct an operational audit of each university on a biennial 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.



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
Security awareness and training program regarding the confidentiality of information.	Examined supporting documentation related to the University's information technology (IT) security awareness and training program.
Procedures to timely prohibit former employees' access to electronic data files.	Tested former employees who separated from service during the audit period and examined supporting documentation evidencing when the University removed access privileges.
Information technology application environment controls.	Examined the University's application environment procedures related to system monitoring.
Fraud policy and related procedures.	Examined written policies, procedures, and supporting documentation related to the University's fraud policy and related procedures.
Social security number requirements of Section 119.071(5)(a), Florida Statutes.	Examined supporting documentation to determine whether the University had provided individuals with a written statement as to the purpose of collecting their social security numbers.
Reporting of information for institutes and centers to the Florida Board of Governors.	Tested institutes and centers to determine whether: (1) information for the 2007-08 fiscal year was timely reported to the Board of Governors; (2) actual current fiscal year expenses reported were accurate and complete; (3) estimated expenses reported for the subsequent fiscal year were supported by University records and calculated using a methodology that was consistently used to estimate expenses for all institutes/centers tested; (4) the actual number of positions reported for the current fiscal year were accurate and complete; and (5) the estimated number of positions reported for the subsequent fiscal year were supported by University records.
Imprest bank accounts.	Examined procedures and supporting documentation related to the separation of duties and reconciliations of the Florida Mental Health Institute's – Subject Payments imprest bank account.
Investment policy.	Examined the current policy for investing idle funds and the application of investment policy.
Pharmaceutical inventories.	Examined the University's compliance with policies and procedures governing pharmaceutical inventories. Tested inventory transactions for propriety.
Tangible personal property.	Tested tangible personal property items to determine if (1) items recorded on the University's property records existed and (2) deletions were in accordance with University policy and procedures.
Controls over multi-purpose (USF Bull Buck\$) cards.	Examined procedures and supporting documentation to determine whether the University had adequate controls in place over the issuance of, and accounting for, its multi-purpose USF Bull Buck\$ cards.

**EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY**

Scope (Topic)	Methodology
Auxiliary contracts.	Examined food service, vending, bookstore, and credit union contracts to determine the University's compliance with contractual provisions.
Cash collection procedures at decentralized locations.	Reviewed collection procedures at selected locations and tested daily cash collections to determine if controls were adequate and collections were deposited timely and intact.
Tuition and fees.	Verified graduate and professional tuition rates, out-of-state fees, student activity and service fees, health fees, and athletic fees were approved by the Board of Governors and were within the limits established by Section 1009.24, Florida Statutes. Tested students to determine if adequate documentation was maintained for the residency status of the students.
Terminal pay policies and procedures.	Reviewed the University's policies and procedures for terminal pay to ensure policies and procedures were consistent with Florida law. Tested terminal payments to former employees and determined whether the University timely processed terminal pay in accordance with University policies and procedures.
Procurement policies and procedures.	Examined University regulations related to procurement for compliance with Board of Governors regulations.
Procurement of goods and services.	Tested disbursements to determine whether purchase orders were issued prior to the University incurring an obligation for the goods or services.
Purchasing card transactions.	Tested purchasing card issuance and use and examined supporting documentation to determine if: (1) the selected charges were appropriate and in accordance with purchasing card policies and procedures, (2) purchasing cards were properly issued to employees, and (3) the purchasing card accounts of former employees were cancelled in a timely manner.
Travel expenses.	Examined travel policies and procedures. Tested employee travel vouchers to determine that (1) the University did not pay for travel to a terrorist state and (2) mileage and per diem rates were in accordance with Florida Statutes.
Procedures for insuring architects and engineers.	Tested major construction projects in progress to determine whether the University had obtained from architects and engineers evidence of required insurance.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Procedures for monitoring cellular telephone usage.	Reviewed University policies and procedures for the issuance and use of cellular telephones and determined if the University was paying any taxes on cellular telephone usage from which it was exempt.
Procedures for insuring buildings.	Tested insurance coverage for buildings to determine if adequately insured.
Procedures for student grade changes.	Tested students that had grade changes and examined supporting documentation to determine whether the changes were supported by appropriate documentation.
Procedures for issuance of diplomas.	Tested students issued a diploma and examined supporting documentation to determine whether the recipients of diplomas met the requirements for graduation and had a transcript on file indicating the student graduated.
Procedures for textbook affordability.	Reviewed supporting documentation to determine whether the University's procedures regarding textbook affordability were in accordance with Section 1004.085, Florida Statutes.

EXHIBIT B
MANAGEMENT'S RESPONSE



December 18, 2009

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,

Enclosed is our response to the preliminary and tentative findings and recommendations for the Operational Audit of the University of South Florida for the fiscal year ended June 30, 2009. We will implement the recommendations identified during the audit in accordance with the enclosed schedule of responses.

We commend your staff for their professionalism and thank you for your continuing support. Please let me know if I can be of any further assistance.

Sincerely,

A handwritten signature in blue ink that reads "James A. Hyatt". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

James A. Hyatt
Senior Vice President for Business & Finance and CFO

Enclosures

cc: Dr. Judy Genshaft, President
Dr. Ralph Wilcox, Provost and Senior Vice President
Ms. Trudie Frecker, Associate Vice President for Administrative Services
Ms. Debra Gula, Executive Director for Audit & Compliance
Mr. Nick Trivunovich, University Controller

OFFICE OF SENIOR VICE PRESIDENT FOR BUSINESS & FINANCE AND CFO
University of South Florida • 4202 E. Fowler Avenue, ADM200 • Tampa, FL 33620-6450
(813) 974-4903 • Fax (813) 974-2989

UNIVERSITY OF SOUTH FLORIDA

**Responses to Preliminary and Tentative Findings
of the USF 2009 Operational Audit
Conducted by the Auditor General's Office**

Finding No. 1: Institutes and Centers Reporting

Recommendation: The University needed to enhance its review procedures regarding the annual reporting of information for institutes and centers to the Board of Governors.

Response: The University will implement review procedures to validate that the data being submitted reconciles to the University's financial reporting system.

Expected Implementation Date: April 30, 2010

Responsible Party: Michael Moore, 813/974-2391

Finding No. 2: Imprest Bank Account

Recommendation: The University's controls over an imprest bank account needed improvement.

Response: The University is closing the FMHI imprest bank account related to research survey participants and will make these payments through the normal University processes.

Expected Implementation Date: January 31, 2010

Responsible Party: Dr. Junius Gonzales, 813/974-1990

Finding No. 3: Tangible Personal Property

Recommendation: Improvements were needed in the University's procedures relating to accountability of tangible personal property.

Response: During the audit period, University Property revised the USF System Property Policies. Several Property policies were consolidated into one Asset/Property Policy # 5-014. The revised policy became effective September 10, 2009. The USF System Asset/Property Manual has been updated to reflect the revised policy. The Property Department will conduct USF System training on property policies, forms and processes to improve end users understanding of policy requirements.

Expected Implementation Date: June 30, 2010

Responsible Party: Jeff Mack, 813/974-2539

Finding No. 4: Purchasing Cards

Recommendation: Monitoring controls over the University's purchasing card program needed improvement.

Response: The audit covered the period of July 1, 2008 thru April 15, 2009. Since that time Purchasing has taken a number of steps to improve the P-Card Program. Purchasing has established a USF System P-Card Policy # 5-026 which was effective August 20, 2009. In addition, Purchasing (with the assistance of University Audit and Compliance) developed ACL scripts that allow for a more accurate and detailed monitoring of P-Card transactions. The new monitoring process using the ACL product is a considerable improvement over the monitoring conducted during the audit period. Furthermore, the P-card manual and websites are in the final stage of being updated to reflect the new Policy and monitoring process and should be completed December 31, 2009.

In addition, documentation is being created to provide guidance on the use of proper account codes for P-Card transactions.

Expected Implementation Date: April 30, 2010

Responsible Party: Jeff Mack, 813/974-2539
Nick J. Trivunovich, 813/974-6061

Finding No. 5: Procurement of Services

Recommendation: The University's disbursement processing procedures needed improvement.

Response: Purchasing (with the assistance of University Audit and Compliance) has developed and is currently testing new ACL scripts to monitor POs that are after the fact. If POs are determined to be after the fact, Purchasing will provide the data to the appropriate Deans, Directors, and Chairs along with recommendations on how to stop after the fact POs.

Expected Implementation Date: February 28, 2010

Responsible Party: Jeff Mack, 813/974-2539

Finding No. 6: Insurance Coverage

Recommendation: The University did not have adequate policies and procedures for determining and documenting insurable values for buildings and other property.

Response: USF will update current processes and develop a formal procedure to address the level of insurance coverage on university buildings and other property and the method by which insurable values will be determined. In addition, USF will ensure that property values listed on the certificates of coverage do not exceed the actual cash values as defined by the Division of Risk Management. All property value updates will be forwarded to the Division of Risk Management.

Expected Implementation Date: June 30, 2010

Responsible Party: David Smith, 813/974-7986