

UNIVERSITY OF FLORIDA

Operational Audit

For the Fiscal Year Ended
June 30, 2009



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

The audit team leader was Renae P. Prevatt, and the audit was supervised by Philip B. Ciano, 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 FLORIDA

SUMMARY

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

Finding No. 1: The State allocates Public Education Capital Outlay (PECO) funds to the University on an annual basis; annual allocations consist of specific State-defined project categories and appropriation amounts, each of which has their own restrictions governing use. Our audit of the University's administration of PECO funds disclosed areas needed improvement:

Finding No. 1A: The University's procedures for requesting PECO encumbrance authorizations needed improvement.

Finding No. 1B: Procedures for requesting PECO funds needed improvement.

Finding No. 1C: The University needed to establish procedures to allocate interest earning on PECO funds to each PECO project to accurately report interest earnings to the Florida Department of Education.

Finding No. 2: The University needed to develop written guidelines for determining continuing education MBA program fees.

Finding No. 3: The University needed to provide clear guidance on the amount of professional liability insurance requirements for design professionals.

Finding No. 4: The University needed to enhance its procedures to ensure that payments for consultant's invoices are made in accordance with contract terms.

Finding No. 5: The University procedures for documenting and monitoring alternate work location agreements needed improvement.

Finding No. 6: The University needed to establish procedures for monitoring submission of sabbatical and professional development leave reports.

Finding No. 7: The University needed adequate alternate information technology processing facilities should its primary processing facility become disabled.

Other Matter: An internal audit of the University's Purchasing Card program by the University's Office of Audit and Compliance Review disclosed internal control weaknesses that needed improvement.

BACKGROUND

The University of 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 the 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: Public Education Capital Outlay Funds

The Florida Department of Education's (FDOE), Office of Educational Facilities (OEF) is responsible for administration of the Public Education Capital Outlay and Debt Service Trust Fund and allocates Public Education Capital Outlay (PECO) funds to the University on an annual basis. The University's annual PECO allocation consists of specific State-defined project categories and appropriation amounts, each of which has its own restrictions governing use. During the 2008-09 fiscal year, the University received PECO appropriations totaling approximately \$78.4 million.

Finding No. 1A: Encumbrance Authorizations

The University is authorized to expend PECO funds only upon applying for and receiving an encumbrance authorization from OEF. OEF procedures require encumbrance request forms (OEF 352) be submitted monthly or when an encumbrance authorization is needed. Further, OEF procedures provide that the request form should be submitted one month before the contract being awarded or beginning an in-house project.

Our review disclosed that the University requested encumbrance authorizations for the entire legislative authorizations rather than basing the request on the actual start date of a specific project or need to award a specific contract. Consequently, revenues may be recognized prematurely and not properly matched with corresponding expenses given that actual expenses may actually occur several years later, or not at all. For example, in the 2007-08 fiscal year, the University received a \$20 million PECO appropriation for the Cellulosic Ethanol Plant, and requested the entire amount be encumbered. However, the University was still in the design phase and should have requested PECO moneys to fund the design phase rather than the entire project. As of June 30, 2009, the University had reported disbursements for the project totaling \$869,529, a difference of \$19,130,471. Consequently, revenue was recognized in the 2007-08 fiscal year for which only a small amount of expenditures had been incurred as of June 30, 2009.

Recommendation: The University should enhance its procedures to ensure encumbrance authorizations are requested based on the actual start date of a specific project or need to award a specific contract.

Finding No. 1B: Reporting Local Encumbrances and Estimating Anticipated Disbursements

FDOE, OEF requires the University, through OEF's on-line accounting system (disbursement request system), to report, on a monthly basis, local encumbrances (formal contractual commitments or work orders) and the actual and estimated current and next month's expenditures. OEF uses this information to determine the amount of cash to disburse to the University. Section 1013.65(3), Florida Statutes, provides that for projects costing in excess of \$50,000, contracts shall be approved and signed before any disbursements are authorized.

Our review of four projects funded with PECO appropriations disclosed two projects for which the University reported local encumbrances earlier than authorized by OEF. According to the University, they reported local encumbrances based on a formula that adds expenditures through the prior month plus the estimate of expenditures

for the current and the next month, rather than using the actual contractual commitments or work orders. Further, for these two projects, the University did not properly estimate anticipated current and next month's expenditures, as follows:

- Research and Conference Facility at Lake Nona (Project UF-280): The University requested and received cash draws of \$100,000 and \$506,691 on September 19, 2008, and November 20, 2008, respectively; however, an actual contract was not approved until November 25, 2008, and project expenses through February 28, 2009, totaled \$891.
- Veterinary Education and Clinical Research Center (Project UF-313): From March 20, 2008, through October 2008, the University requested and received cash draws totaling \$1,775,525; however, an actual commitment of funds was not made until December 2008 and the initial project expenses, totaling \$18,131, were recorded in February 2009.

As a result, FDOE disbursed PECO funds to the University prior to the approval of contracts, contrary to Section 1013.65(3), Florida Statutes, and the University received cash in amounts that exceeded capital outlay disbursements for the current and the following month.

Recommendation: The University should review its procedures for reporting local encumbrances so that amounts correspond with actual formal commitments to use the funds. The University should also review its procedures for estimating the amount of money needed to pay project expenses so that requests are made only for disbursements anticipated for the current and following month.

Finding No. 1C: Interest Earnings

PECO allocations consist of specific State-defined project categories and appropriation amounts, each of which has its own restrictions governing use, and income derived from investment of such allocations is restricted to those same specific State-defined project categories. PECO allocation moneys received by the University were transferred to Special Purpose Investment Accounts, which earned interest revenue. The University, however, did not allocate the interest revenue to the State-defined project categories and the interest revenue was not reported to FDOE through OEF's accounting system (disbursement request system) for any project categories. As of June 30, 2009, interest earnings totaling \$1,352,198 had accumulated in the University accounts and had not been allocated to the project categories that generated the revenue. As a result, the revenue may be inappropriately applied to purposes other than those for which the moneys that generated the earnings were appropriated. University personnel informed us that PECO interest is accumulated in a single project account because a methodology for allocation of that interest has not yet been developed.

Recommendation: The University should develop a methodology for allocating PECO interest earnings to the appropriation category that generated the revenue.

Finding No. 2: Student Fees – Continuing Education Programs

Six Department of Continuing Education (DOCE) Master of Business Administration (MBA) programs, for working professionals, were in operation during the 2008-09 fiscal year, with approximately 1,200 students enrolled in 20 sections. The curriculum for these programs are credit courses although students are not reported for enrollment funding purposes and program fees must cover the cost of the programs. Students were charged from \$28,000 to \$48,000, depending on the program, and fee revenues totaled approximately \$12.5 million for the 2008-09 fiscal year from its continuing education MBA programs.

Continuing education credit courses are authorized by Board of Governors Rule 6C-8.002. This Rule requires university presidents to develop rules and procedures for conducting continuing education credit offerings, including the approval of fees for continuing educational credit courses. The Rule limits such fees, if they are higher than the normal university board of trustees approved fees for similar credit activities offered in the regular on-campus program, to an amount sufficient to recover all increased costs resulting from offering these courses as continuing education activities.

Each MBA program has its own fee schedule developed to ensure that the University would cover the cost of the program. Although requested, the University did not provide written guidelines used in determining fees to be charged to students, and estimated enrollment, for MBA programs. Upon our request for an itemization of the components and amounts used in determining the amounts of fees to be charged for each program, we were provided a pricing analysis showing various fixed and variable costs. Our review of these costs disclosed the following fee components that did not appear to be appropriate:

- A contingency reserve of \$50,000 was assessed for each program (\$1,613 to \$2,381 per student). University personnel informed us that this revenue will be used to build reserves to fund new opportunities and to guard against adverse market demand conditions.
- A University provost tax was assessed for each program (\$2,605 to \$4,656 per student). This tax was calculated at 14 percent on revenue, less fees on direct expense and program assessment amounts, and ranged from \$70,349 to \$144,349. University personnel informed us that the revenue from this tax supports continuing education credit courses and distance education infrastructure and personnel, and provides seed funding to initiate new continuing education credit courses and distance education programs. While support towards infrastructure and personnel may be appropriate, seed money for new programs does not appear to be a necessary current program cost for students.
- Once the total fee to be charged a student was calculated based on program costs, the fee was rounded up to the next \$1,000 (\$50 to \$650 per student). University personnel informed us that this was done to guard against miscalculations and for accounting ease.

Additionally, the student program fee is based on the total estimated costs of the program divided by the estimated number of students. Properly estimating the anticipated enrollment is particularly important for fixed costs, since the larger the number of class participants, the less each student's share of fixed costs will be in the program course fee. Total fixed costs for the programs ranged from \$510,272 to \$871,807 per program. Although class enrollment was estimated from 21 to 31 students per program, actual enrollment ranged from 30 to 60 students per program. If enrollment is underestimated when estimating the course program fee, students will pay more fees than necessary to cover the fixed costs of the course.

The absence of written rules and procedures for establishing fees and estimating enrollments for education credit courses may result in students being charged fees that do not reasonably match the cost of the programs.

Recommendation: As required by Board of Governors Rule 6C-8.002, the University should develop written guidelines for determining continuing education MBA program fees assessed to students. The University should ensure such fees do not exceed an amount sufficient to recover the increased costs resulting from offering these classes as continuing education activities.

Finding No. 3: Design Professional Liability Insurance

The University's Facilities Planning and Construction Division is responsible for the planning and construction of all physical facilities of the University. Contracts with design professionals (architects and engineers) include a requirement that the design professionals maintain professional liability coverage. The University's document

template for design professionals references that minimum professional insurance of \$1 million be provided for projects with costs of \$15 million or less; however, for projects exceeding \$15 million or those considered special risk, the amount of professional liability insurance required is at the discretion of the Director of Facilities Acquisition and Construction.

Contracts with design professionals for three buildings, the Research Building at Lake Nona, the East Campus Office Building, and the Southwest Recreation Center Expansion, had approximate construction costs of \$44, \$12, and \$11 million, respectively. The architects' professional liability insurance coverage in effect for these projects was \$3, \$2, and \$1 million per claim, respectively. It is unclear as to whether the level of coverage for each project was consistent with the University's insurance philosophy as there were no written guidelines prescribing minimum liability insurance requirements for design professionals for projects exceeding \$15 million or what projects would be considered special risk. Adopting such policies and procedures would help protect the University in the event that deficiencies exist in the work performed by design professionals. Subsequent to our review in June 2009, the Facilities Planning and Construction Division adopted guidelines for professional liability coverage for major construction projects.

Recommendation: The University should continue its efforts to provide clear guidance on the amount of professional liability insurance coverage required for design professionals.

Finding No. 4: Consultant's Contracts – Professional Service Agreements

University Controller's Office directives and procedures for contractual services require that all procurement of contractual services in excess of \$75,000 be evidenced by a written agreement. According to University records, expenses for consulting services totaled approximately \$21 million for the 2008-09 fiscal year. Our audit of two consultant service contracts and related payments disclosed improvements are needed in ensuring contract payments are in accordance with contract terms, as discussed below.

The University entered into an agreement with a private attorney firm for services spanning the period October 1, 2007, through June 30, 2009. During the 2008-09 fiscal year, the private attorney firm was paid \$140,054. We noted invoices that were paid on January 22, 2009, for services in May and June 2008, at rates that exceeded the contract rate by \$42.50 an hour, resulting in a \$5,210.50 overpayment. Upon bringing this to the University's attention, the University advised the private attorney firm, who made an adjustment to subsequent billings to compensate the University for the amount overpaid.

The University entered into a professional service agreement with a consulting firm for the development of software and related documentation for the University's grants management and accounts receivable invoicing process. The agreement was based on a State contract with services billed by the hour. Although the contractor submitted a price sheet with employee job titles and hourly rates, the job titles and the hourly rates on the timesheets supporting amounts billed to the University did not correspond with the price sheet submitted by the contractor. Based on the documentation provided for audit, it is not apparent how the University was able to verify that the rates paid for services were in accordance with State contract pricing. University personnel informed us that the hourly rates billed by the contractor were determined through negotiation and were based on the contractor's expertise and prior experience with the University. Documentation, however, was not maintained in voucher files supporting the payments to allow, on postaudit, verification that the rates charged by the contractor were in accordance with State contract terms or as determined through negotiation. Payments to the consulting firm totaled \$652,681 during the 2008-09 fiscal year.

Absent adequate procedures for monitoring invoices from consultants, and payments thereon, there is an increased risk of overpayments without timely detection.

Recommendation: The University should enhance procedures for monitoring consultant invoices to ensure that subsequent payments are in agreement with contract terms.

Finding No. 5: Alternate Work Location Agreements

In accordance with the University's alternate work location policy, employees may be permitted to work at locations other than University sites. The terms and conditions of such work arrangements are documented in an *Alternate Work Location Agreement*. Among other things, the agreement protects the interests of the University by requiring the employee to agree to hold the University harmless against any and all claims, excluding workers' compensation claims, resulting from working at an alternate work location, and protects the employee, whereby the University agrees to provide workers' compensation coverage pursuant to Chapter 440, Florida Statutes. The agreement must be completed, approved, and forwarded to the University's Office of Human Resource Services (HRS), which is responsible for ensuring that such agreements are in effect for all employees working at alternate work locations.

In February 2009, HRS provided us a listing of 60 employees who were working at locations other than University sites. As similarly disclosed in our report No. 2008-045, our review of agreements on file in HRS for these employees disclosed five agreements that had expired. Follow-up with the respective departments disclosed three of the five employees had submitted revised agreements to their departments; however, the departments had not submitted the revised agreements to HRS for monitoring purposes. In the other two instances, the employees were still working at alternate work locations; however, revised agreements were not submitted by the employees. In addition, our inquiries at five University departments disclosed one new agreement effective December 2008 that had not been submitted to HRS.

Failure of departments to forward new or revised agreements to HRS diminishes its ability to monitor compliance with the University's alternate work location policy and increases the possibility of unexpected liabilities.

Recommendation: The University should enhance procedures for documenting and monitoring alternate work location arrangements.

Finding No. 6: Sabbatical and Professional Development Leave Reports

University of Florida Rule 6C1-1.201(20)(e)6.(vii) requires an employee returning from sabbatical or professional development leave to submit to the chair or supervisor, with a copy to the dean or director, a written report of the employee's accomplishments during the leave. In addition, the application form, which defines the terms of the leave program, requires that the employee submit the written report within thirty days upon return to the University. Our review of ten employees, from eight departments, who took such leave during the Fall 2008 term disclosed nine employees who did not submit the required report to their department chair or supervisor. Subsequent to our inquiries, the employees filed the required reports with their chair or supervisor ranging from March 5 through March 27, 2009, or 28 to 50 days late.

Delays in providing sabbatical or professional development leave reports limits management's ability to timely assess the results accomplished during the sabbatical or professional development leave to determine its impact on the University and the work expected to be produced by the employee.

Recommendation: The University should establish procedures to monitor the timely submission of sabbatical and professional development leave reports to ensure compliance with University rules.

Finding No. 7: Disaster Recovery

Disaster recovery planning is an element of information technology controls established to manage the availability of valuable data and computer resources in the event of a processing disruption. Its main objective is to provide the organization a plan for continuing critical information technology operations in the event of a disaster in which the organization's information technology processing facilities become disabled.

The University's Computing and Network Services (CNS) houses and runs the central-site hardware and systems software to support major University administrative systems, such as financial systems, human resources, and student records. CNS has developed Natural Disaster/Hurricane Preparedness, Disaster Recovery, and Continuity of Operations plans that are updated on at least an annual basis.

In our report No. 2008-045, we disclosed certain deficiencies relating to the University's Disaster Recovery Plan. Our current review disclosed that the University has addressed some of those deficiencies; however, the University needs to make additional improvements with regard to ensuring alternate processing capability. Specifically, although CNS has an alternate processing facility, it is located in close proximity to the primary processing facility. Additionally, the alternate processing facility does not have a backup power source to ensure continuity of operations should electrical service from the local power company be disrupted for an extended period of time. Consequently, should the primary processing facility become disabled and electrical service to the alternate processing facility be disrupted for an extended period of time, the University may have difficulty continuing information technology operations.

Recommendation: The University should continue its progress in providing alternate processing facilities to help ensure continuity of information technology operations.

OTHER MATTER

In a report dated July 24, 2009, the University's Office of Audit and Compliance Review (OACR) discussed the results of its internal audit of the University's Purchasing Card (PCard) program as of February 28, 2009. The objective of the internal audit was to evaluate the effectiveness of controls in place to determine whether PCard usage was appropriate, including approval of PCard transactions and compliance with the University's PCard use guidelines, and to follow-up on deficiencies cited in a prior OACR audit report dated June 24, 2008.

According to the report, as of February 28, 2009, there were approximately 4,900 active University PCards for 341 business units. During the period January 2008 through December 2008, approved PCard transactions totaled \$77.8 million. From this time period, OACR judgmentally selected 20 high-risk transactions from each of 50 cardholders (total of 1,000 transactions for 45 departments) who had high-risk attributes, such as high or unusual volume/dollar value transactions, high risk positions, and questionable purchase activity. OACR noted the following for the 1,000 transactions reviewed:

- Supporting documentation for 167 transactions were not recorded in the University's voucher imaging system, which serves as the University's official repository for transactional data support. Documentation was subsequently obtained for all but 12 transactions.

- Supporting documentation was inadequate for 66 transactions, including 50 fraudulent transactions (28 receipts altered and 22 receipt descriptions hand-written) totaling approximately \$28,500 from four cardholders. In response to our inquiry, the University indicated that these four employees subsequently resigned and the University submitted the information to appropriate law enforcement for resolution.
- 389 transactions were not approved within eight days, contrary to the University's PCard use guidelines.
- 328 transactions were not documented as to the receipt of goods or services.
- 94 transactions were not accurately classified to the appropriate account within the University's accounting system.
- Approvers for 8 of the 50 cardholders did not review supporting receipts before approving transactions that had no other independent means of verification.
- Approvers for 2 of the 50 cardholders were not organizationally appropriate in relation to the cardholder (approver reported to the cardholder) without adequate compensating controls.

The cause cited for many of the deficiencies was failure to follow University purchasing directives and procedures and incomplete or ineffective review of PCard purchases. The report also disclosed the University planned corrective actions to resolve the noted deficiencies.

Additionally, OACR analyzed approximately 380,000 transactions during the 2008 calendar year to evaluate the approval process. OACR disclosed that due to an error in system design, a template embedded in the University's PCard system to simplify the processing of multiple transactions allowed individuals who were cardholders themselves and verifiers for other cardholders to approve their own transactions. In addition, when transactions were approved using the template, no record was created to identify the approver. Of the 380,000 transactions analyzed, approval was not documented in the system for 6,104 transactions totaling approximately \$1.4 million. The error in the system design was corrected effective June 30, 2009.

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the University had taken corrective actions for findings included in our report No. 2008-045.

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. 2008-045. 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 training program.
IT Data Transmission policies and procedures.	Reviewed written policies and procedures for authorized transmission of data.
Procedures to timely prohibit former employees' access to electronic data files and IT applications.	Tested employees who terminated employment during the audit period and examined supporting documentation evidencing when access privileges were terminated.
IT disaster recovery plan.	Reviewed disaster recovery planning and alternate site capabilities.
Student financial system.	Reviewed operations of newly implemented Student financial system by obtaining an overview of processes and controls implemented. Tested processes and controls to verify that processes and controls were in place.
Student grade input and edit controls.	Tested University procedures for grade changes and reviewed procedures for ordering and issuing diplomas, backing up student record information, and other transcript related matters.
Policy on Board meetings.	Determined whether Board of Trustee (BOT) meetings and retreats complied with Government-In-The-Sunshine requirements and BOT Bylaws.
Fraud policies and procedures.	Examined written policies, procedures, and supporting documentation related to the University's fraud policies and procedures.
Social security number requirements of Section 119.071(5), 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 number.
Employee background checks.	Tested employees hired within the audit period to determine if the appropriate background checks and confidentiality agreements were completed and on file. Tested Developmental Research School personnel who had direct contact with children to determine whether they had been fingerprinted and had undergone a background check.
Institutes and centers.	Reviewed controls for submitting annual reports for each institute and center to the Board of Governors and tested the accuracy of information submitted.
Budget process.	Reviewed University Budget Guidelines and monitoring process.

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

Scope (Topic)	Methodology
Banking agreement and electronic funds and wire transfers.	Reviewed the University's banking agreement for reasonableness of fees and wire-transfer provisions. Tested wire-transfer and electronic fund transfer transactions and verified to proper approval and supporting documentation.
Worthless checks.	Reviewed procedures for processing worthless checks and tested checks returned by bank to determine departmental compliance with University procedures.
Investment policies.	Determined whether the University's investment policy complies with Sections 218.415 and 1011.42, Florida Statutes. Tested investments and determined compliance with the University's investment policy for authorized investments and portfolio composition.
Contracts and grants receivable.	Reviewed policies and procedures. Tested contracts and grants receivable records to determine proper accountability and collection efforts.
Pharmaceutical inventories.	Reviewed controls at the Student Health Care Center to determine compliance with policies and procedures governing pharmaceutical inventories. Tested pharmacy inventory transactions for propriety and accuracy.
Disposal of capital assets.	Obtained listing of capital assets removed or disposed of within the current fiscal year to determine if records indicated proper treatment, adequate support, and complete records. Tested accountability of dispositions and collection of proceeds from sales.
Cash collection procedures and decentralized collection locations.	Tested collection and deposit procedures at selected locations to determine the effectiveness of the University's collection procedures.
Rental of facilities.	Determined whether University policies and procedures for rental of facilities complied with Florida Administrative Code. Tested the fees assessed and collected for rentals.
Course fees for continuing education Master of Business Administration (MBA) programs.	Obtained documentation for fees charged to students within the continuing education MBA program to determine if the fees were based on costs attributable only to the instructional delivery of the courses and were self-supporting.
Graduate and professional tuition rates, out-of-State fees, student activity and service fees, health fees, and athletic fees.	Verified fees were approved by the Board of Governors and were within the limits established by Section 1009.24, Florida Statutes.
International Student Center fees.	Obtained and reviewed supporting documentation justifying the additional fees charged to students participating in the study abroad programs.
Supervisory approval of payroll.	Reviewed University policy and tested employee records to verify compliance with University policy regarding proper approval and authorization of payroll.

EXHIBIT A (Continued)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Overtime paid.	Reviewed University procedures and tested employees paid overtime to verify compliance with University procedures.
Alternate work location agreements.	Tested alternate work location agreements to determine compliance with University policy.
Sabbatical and professional development leave.	Tested employees granted sabbatical or professional development leave and determined if required reports were completed and filed.
Procurement policies and procedures.	Reviewed University purchasing policies for compliance with Board of Governor’s Purchasing Regulation 18.001.
Contractual agreements with consultants.	Tested payments for consultant’s services for compliance with contract terms and conditions.
Communication charges.	Tested cellular telephone charges for propriety. Determined whether the University was paying any charges it was exempt from paying pursuant to law.
Travel expenses.	Tested employee travel reimbursement requests to verify that travel reimbursement rates complied with Section 112.061, Florida Statutes. Reviewed University’s policies and procedures regarding travel and tested travel reimbursements to determine compliance with those activities.
Controls over Gator One cards.	Determined whether controls over Gator One cards were adequate.
Motor vehicle assignment and use.	Tested vehicle usage records, maintenance logs, and annual inspection records to determine if they were properly maintained.
Construction management policies and procedures.	Tested construction contracts to determine adequacy of documentation of expenses claimed and labor burden rate assessed. Also determined if University was taking advantage of direct purchases of building materials.
Public Education Capital Outlay appropriations and cash management.	Reviewed reports submitted to the Florida Department of Education, Office of Educational Facilities, and determined procedures followed in preparing reports and accuracy of information reported.
Procedures for insuring design professionals.	Tested major construction projects in progress to determine whether design professionals were required to provide adequate professional liability insurance.
Procedures for insuring buildings.	Reviewed procedures and tested adequacy of property insurance coverage for buildings.
Textbook affordability.	Reviewed University procedures to determine whether the procedures regarding textbook affordability complied with Section 1004.085, Florida Statutes.

**EXHIBIT B
MANAGEMENT'S RESPONSE**



**Office of the Vice President
and Chief Financial Officer**

**341 Tigert Hall
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352-392-2402 Telephone
352-846-3546 Fax**

January 20, 2010

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

Dear Mr. Martin:

Attached are responses to the University of Florida's preliminary and tentative operational audit findings for the fiscal year ended June 30, 2009.

Your staff's assistance is greatly appreciated and their evaluation will serve to strengthen UF's operations.

Sincerely,

A handwritten signature in black ink, appearing to read "Matt Fajack".

Matt Fajack
Vice President and Chief Financial Officer

Enclosures

Mr. Michael V. McKee, Asst. Vice President and University Controller
Mr. Brian Mikell, Chief Audit Executive

The Foundation for The Gator Nation
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University of Florida
Responses to Preliminary & Tentative Audit Findings
Operational Audit
For the Fiscal Year Ended June 30, 2009

Public Education Capital Outlay Funds

Recommendation 1A: The University should enhance its procedures to ensure encumbrance authorizations are requested based on the actual start date of a specific project or need to award a specific contract.

University's Response: The University will exercise greater diligence with respect to coordinating OEF 352 Encumbrance requests closer to the actual start of specific project phases or contracts.

Responsible Auditee: Carol Walker, Assistant Vice President and Director, Facilities Planning & Construction

Recommendation 1B: The University should review its procedures for reporting local encumbrances so that amounts correspond with actual formal commitments to use the funds. The University should also review its procedures for estimating the amount of money needed to pay project expenses so that requests are made only for disbursements anticipated for the current and following month.

University's Response: The University will verify that there is a formal commitment to use the funds on the project before requesting PECO funds from FDOE. University procedures have been changed so that requests are made only for disbursements anticipated for the current and following month.

Responsible Auditee: Michael V. McKee, Assistant Vice President and University Controller

Recommendation 1C: The University should develop a methodology for allocating PECO interest earnings to the appropriation category that generated the revenue.

University's Response: The University will develop procedures to allocate interest earned on PECO funds to the appropriation category that generated the revenue.

Responsible Auditee: Michael V. McKee, Assistant Vice President and University Controller

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Student Fees – Continuing Education Programs

Recommendation 2: As required by Board of Governors Rule 6C-8.002, the University should develop written guidelines for determining continuing education MBA program fees assessed to students. The University should ensure such fees do not exceed an amount sufficient to recover the increased costs resulting from offering these classes as continuing education activities.

University's Response: The University will develop written guidelines for determining continuing education MBA program fees assessed to students.

Responsible Auditee: Joe Glover, Provost and Senior Vice President for Academic Affairs

Design Professional Liability Insurance

Recommendation 3: The University should continue its efforts to provide clear guidance on the amount of professional liability insurance coverage required for design professionals.

University's Response: Along with the policies and procedures that have been implemented to address this audit finding, the University will continue to provide clear guidance on the amount of professional liability insurance coverage required for design professionals.

Responsible Auditee: Carol Walker, Assistant Vice President and Director, Facilities Planning & Construction

Consultants' Contracts – Professional Service Agreements

Recommendation 4: The University should enhance procedures for monitoring consultant invoices to ensure that subsequent payments are in agreement with contract terms.

University's Response: The University will communicate to departments the importance of monitoring consultant invoices to ensure that payments are in agreement with contract terms.

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Responsible Auditee: Matt Fajack, Vice President and Chief Financial Officer

Alternate Work Location Agreements

Recommendation 5: The University should enhance its procedure for documenting and monitoring alternate work location arrangements.

University's Response: Human Resource Services requires that alternative work location agreements be renewed each fiscal year. Communications to department administrators are sent yearly as a reminder. In 2009 the reminder was addressed in the June monthly HR Forum and included in the InfoGator newsletter to employees and department administrators.

Human Resource Services staff contacted the department administrators for the two missing alternative work locations agreements identified by the auditors during the spring of 2009 and received copies for the file. Copies of these documents were forwarded to the auditor and the information was also added to the database maintained by the compensation staff.

Responsible Auditee: Paula Varnes Fussell, Vice President, Human Resource Services

Sabbatical and Professional Development Leave Reports

Recommendation 6: The University should establish procedures to monitor the timely submission of sabbatical and professional development leave reports to ensure compliance with University rules.

University's Response: The University will send an annual communication to the deans reminding them of the requirement to timely submit sabbatical and professional development leave reports.

Responsible Auditee: Joe Glover, Provost and Senior Vice President for Academic Affairs

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Disaster Recovery

Recommendation 7: The University should continue its progress in providing alternate processing facilities to help ensure continuity of information technology operations.

University's Response: During the past year, CNS conducted a project to upgrade its current alternate processing facility (CSE209) to substantially the same degree of reliability and availability as its primary (SSRB) datacenter. These upgrades included:

- addition of a backup electric power generator, with automatic start-up in the event of a utility power failure
- addition of a whole-facility Uninterruptable Power Supply system, to provide battery-source power for the entire facility while the backup generator starts
- addition of a second (redundant) computer room air conditioner; each of the two air conditioners has sufficient capacity to provide 100% of the needed cooling for the facility in the event that either fails

These improvements, which are now complete and 100% operational, give the UF CNS/CSE209 alternate processing facility the capability for high reliability continuity of operations.

Responsible Auditee: Charles Frazier, Interim Chief Information Officer

