

# UNIVERSITY OF SOUTH FLORIDA

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## Operational Audit



## BOARD OF TRUSTEES AND PRESIDENT

Members of the Board of Trustees and President who served during the 2010-11 fiscal year are listed below:

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Stephanie E. Goforth from 1-20-11  
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Brian D. Lamb  
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Rhea F. Law  
Stephen J. Mitchell from 5-20-11  
Dr. Louis S. Saco from 1-20-11  
Debbie Nye Sembler  
Byron E. Shinn  
Sherrill Tomasino to 1-06-11 (1)  
Jordan B. Zimmerman

Dr. Judy L. Genshaft, President

- Notes: (1) Positions remained vacant from January 7, 2011, to January 19, 2011.  
(2) Faculty advisory council president (equivalent to faculty senate chair referred to in Section 1001.71(1), Florida Statutes).  
(3) Position remained vacant from January 7, 2011, to May 19, 2011.  
(4) Student body president.

The audit team leader was Cathi M. Davis, CPA, and the audit was supervised by Karen J. Collington, CPA. For the information technology portion of this audit, the audit team leader was Stephanie J. Hogg, CISA, and the supervisor was Heidi G. Burns, CPA, CISA. Please address inquiries regarding this report to James R. Stultz, CPA, Audit Manager, by e-mail at [jimstultz@aud.state.fl.us](mailto: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](http://www.myflorida.com/audgen); by telephone at (850) 487-9175; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

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**UNIVERSITY OF SOUTH FLORIDA**

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**EXECUTIVE SUMMARY**

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Our operational audit disclosed the following:

**PROCUREMENT OF GOODS AND SERVICES**

**Finding No. 1:** The University needed to enhance its regulations and procedures relating to the competitive procurement process for evaluating and selecting vendors.

**Finding No. 2:** The University's controls over the issuance of purchase orders as a basis for controlling budgeted appropriations needed improvement.

**Finding No. 3:** The University needed to improve controls over its purchasing card program.

**TRAVEL EXPENSES**

**Finding No. 4:** The University needed to enhance controls over employee travel reimbursements.

**PERSONNEL AND PAYROLL**

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

**CAPITAL ASSETS**

**Finding No. 6:** The University needed to enhance internal controls over works of art and historical treasures.

**REPORTING**

**Finding No. 7:** The University needed to enhance its review procedures regarding the annual reporting of information for institutes and centers to the Board of Governors.

**INFORMATION TECHNOLOGY**

**Finding No. 8:** Some inappropriate or unnecessary information technology (IT) access privileges existed.

**Finding No. 9:** The University's security controls related to user authentication, logging, monitoring, and electronic storage of sensitive data needed improvement.

**Finding No. 10:** The University had not developed a written, comprehensive IT risk assessment.

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**BACKGROUND**

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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 advisory council president and student body president also are members.

The Board of Governors establishes the powers and duties of the Trustees. The Trustees are responsible for setting University policies, which provide governance in accordance with State law and Board of Governors' Regulations. The University President is selected by the Trustees and confirmed by the Board of Governors. The University President serves as the executive officer and the corporate secretary of the Trustees and is responsible for administering the policies prescribed by the Trustees for the University.

The results of our financial audit of the University for the fiscal year ended June 30, 2011, 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, 2011, will be presented in a separate report.

## FINDINGS AND RECOMMENDATIONS

### Procurement of Goods and Services

#### **Finding No. 1: Competitive Procurement Process**

Section 1010.04(2), Florida Statutes, provides that university boards of trustees must adopt regulations to be followed in making purchases. The University adopted regulations and procedures related to the competitive procurement of goods and services; however, our tests disclosed that improvements were needed. Competitive procurement procedures are intended to provide for the identification and selection of vendors resulting in procurement of goods and services at prices that are fair, competitive, and reasonable. Effective procurement procedures serve to increase public confidence in the procurement process and avoid the appearance of favoritism in the selection of vendors.

University records indicated that, in some instances, vendors doing business with the University also make donations to the University of South Florida Foundation, Inc. (Foundation). In response to our inquiry, the University provided a list of vendors doing business with the University, and a list of donors that made donations to the Foundation, for the period July 1, 2008, to June 30, 2011. Our comparison of these lists disclosed 76 donors who were also vendors that did business with the University. Our test of 10 of the 76 vendors disclosed that all 10 vendors were competitively selected using the University's competitive selection process.

For 1 of the 10 vendors tested, electronic recordings of meetings in May 2009 to evaluate potential construction managers for the University of South Florida (USF) – Polytechnic New Campus project were available. Our review of the electronic recordings disclosed that a consultant hired by USF – Polytechnic to assist the selection committee, while interviewing prospective construction managers, asked four of the six construction managers questions related to their willingness to assist USF – Polytechnic with fundraising activities. It was not readily apparent how questions related to the willingness of construction managers to assist in fundraising activities was appropriate in a competitive procurement process. Although our review of the final evaluation rankings of construction managers for this project disclosed that fundraising was not, of record, factored into the final decision for the project, asking such questions of potential construction managers during the vendor selection process could give the appearance of favoritism and result in reduced public confidence in the University's competitive procurement process.

**Recommendation: The University should enhance its competitive procurement regulations and procedures to prohibit the inquiry or consideration of the willingness of potential vendors to assist the University with fundraising activities.**

#### **Finding No. 2: Purchase Authorizations**

The issuance of purchase orders prior to purchases being made provide a basis for controlling budgeted appropriations. As a matter of good business practice, purchase orders should be prepared and approved by appropriate University management in advance of the purchase of goods and services. Our review of 40 payments for goods and services disclosed that for 5 payments, totaling \$784,848, purchase orders were issued 13 to 100 days after

the goods or services had been provided. The 5 purchases were for a patient medical study (\$13,125); a payment to the University of South Florida Research Foundation, Inc., for services related to the USF Tampa Bay Technology Incubator (\$700,000); charter of a research vessel (\$49,000); and two separate payments for food catering services for students (\$22,723). Failure to control purchase authorizations increases the risk that such purchases may exceed established budget limits. A similar finding was noted in our report No. 2010-077.

**Recommendation:** The University should ensure that purchase orders are used prior to incurring an obligation for payment to ensure that purchases of goods or services are within established budget limits.

**Finding No. 3: Purchasing Cards**

The University administers a purchasing card (P-card) program, which gives employees the convenience of purchasing items without using the standard purchase order process. The purpose of the P-card program is to efficiently and effectively handle and expedite low-dollar purchases of goods and services as well as high-volume repetitive purchases. P-cards are subject to the same rules and regulations that apply to regular University purchases and the University has established written P-card guidelines to provide users with additional guidance on how to properly use the P-cards. The University issued 1,567 P-cards to employees as of June 30, 2011, and purchasing charges totaled approximately \$41 million during the 2010-11 fiscal year.

Our review of 50 P-card transactions during the period July 1, 2010, through January 31, 2011, totaling \$485,591, indicated that University procedures were not always sufficient to ensure that P-cards complied with University P-card guidelines. Specifically, we noted that 4 of the 50 purchases, totaling \$18,706, were unallowable charges based on the University’s P-card guidelines. Three of the purchases were for contractual services totaling \$18,216 for the rental of furniture, a monthly copy lease, and roof repairs. The University P-card guidelines provides that contractual services are only allowable with approval from the Director or Associate Director of Purchasing and Property Services and contract approval, and these three purchases had not been approved by the Director or Associate Director. The other purchase, totaling \$490, was for coffee and related supplies, which are not allowable by the University P-card guidelines. A similar finding was noted in our report No. 2010-077.

**Recommendation:** The University should enhance its training and monitoring procedures over its P-card program to ensure compliance with the University’s guidelines.

**Travel Expenses**

**Finding No. 4: Employee Travel Reimbursements**

Section 112.061, Florida Statutes, governs travel expenses of public agencies, including universities. In addition, the University established regulations and procedures related to travel expenses. The University reported travel expenses totaling \$16,207,245 for the 2010-11 fiscal year.

Our tests of travel expenses disclosed that the University’s procedures for monitoring travel reimbursements could be improved. Our test of 121 travel reimbursements totaling \$82,108 for travel by executive level employees disclosed that travel reimbursements were generally properly calculated and supported; however, we noted 6 travel reimbursements totaling \$759 that were not in accordance with the University’s procedures. For example, we noted a \$266 duplicate reimbursement for mileage to one employee and a \$108 overpayment to another employee because a reimbursement for meals was not properly calculated. Subsequent to our inquiry, University personnel requested the

employees to reimburse the University for these overpayments. Improvements to monitoring procedures would provide the University with greater assurances that travel reimbursements are properly calculated and paid.

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**Recommendation:** The University should enhance its monitoring procedures for travel reimbursements to ensure that travel expenses are properly calculated and paid.

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<b>Personnel and Payroll</b>
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**Finding No. 5: Payroll Monitoring**

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The University adopted personnel policies and procedures for its administration of payments to employees and contracted staff, including the payment of overtime. The University's Division of Human Resources procedures state that overtime work is to be approved in advance by an employee's supervisor or other appropriate authority. Our review of 10 overtime payments disclosed improper overtime and other payments to a contracted physician resulting in \$17,316 of overpayments, as follows:

- The physician's contract provided that as full compensation for the physician's services, the physician was to be paid \$96 an hour, not to exceed a total of 2,083 hours during any year, with total compensation not to exceed \$200,000 per annum. According to University payroll records, the physician was paid \$204,468 for 1,949.5 hours for the 2010 calendar year. This included 1,620 regular hours at \$96 per hour and 329.5 hours of overtime at \$144 per hour. University personnel stated that the intention was that in certain weeks, 40 hours would be exceeded; however, the physician's contract did not provide for an hourly rate in excess of \$96 for overtime. Additionally, Title 29 Section 541.304, Code of Federal Regulations, provides that physicians are not entitled to overtime pay under the Fair Labor Standards Act.
- The physician was also paid a \$1,500 bonus; however, the payment of a bonus is not addressed in the physician's contract and the contract provides that the hourly rate is for the full compensation of the physician's services.

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

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**Recommendation:** The University should enhance its procedures to ensure that contracted employees are paid in accordance with contract provisions. In addition, the University should seek to recover the \$17,316 of overpayments.

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**Follow-up to Management's Response**

*The University indicated in its response that business considerations dictated that the physician be treated as an hourly employee and the Fair Labor Standards Act (FLSA) required that he be paid overtime. However, 29 CFR § 541.304(d) states that "The requirements of 29 CFR 541.300 and subpart G (salary requirements) of this part do not apply to the employees described in this section" and, as such, the FLSA provides that employees engaged in the practice of medicine or law are exempt from the salary basis test and therefore may be paid on an hourly basis and remain exempt from the FLSA minimum-wage and overtime-compensation provisions. Accordingly, we remain of the opinion that neither the FLSA nor the*

*physician’s contract required the University to make overtime payments to the physician at an hourly rate in excess of that provided for in the contract.*

**Capital Assets**

**Finding No. 6: Works of Art and Historical Treasures**

The University maintains archives, artifacts, and other collections of works of art and historical treasures at various University campus locations, including but not limited to the Contemporary Art Museum (Museum). Items are received through donors and are independently appraised or assessed by donors at the date of donation. In addition, in-house estimates are performed for items without an appraised value. The University reported works of art and historical treasures totaling \$3.8 million at June 30, 2011. Our review of 50 works of art and historical treasures disclosed the following:

- An annual inventory of the works of art and historical treasures had never been performed. Subsequent to our inquiry, an inventory was completed by June 16, 2011.
- A hanging sculpture was valued on the University’s property records as \$4,445, although the contract with the artist for the sculpture was \$100,000. Subsequent to audit inquiry, the hanging sculpture’s value was updated to \$100,000 on the University’s property records.
- Two works of art, a hanging sculpture and a digital collection with reported values of \$4,445 and \$4,999, respectively, were depreciated while other similar types of works of art were not depreciated. Subsequent to audit inquiry, the University determined that these works of art should not have been depreciated, and corrected the records.

Failure to maintain accurate accountability over these assets increases the risk that loss, theft, or unauthorized use of property, should they occur, may not be timely detected.

**Recommendation:** The University should establish procedures to perform a periodic physical inventory of the works of art and historical treasures. In addition, the University should enhance its procedures to ensure the recorded value for works of art and historical treasures are adequately documented and are not subject to depreciation for accounting purposes.

**Reporting**

**Finding No. 7: 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, the number of full-time equivalent positions (FTE) by funding source and type of position, 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 2009-10 fiscal year information to the BOG for 96 institutes and centers by September 30, 2010. Our review of the information included in the University’s reports for 9 institutes and centers disclosed the following:

- Actual FTE was over-reported for one institute and one center by 10.73 and 39.98, respectively. The reported FTE was a result of calculating the total number of employees for the department instead of the FTE for the institute or center.
- Actual expenses were over-reported for one institute and two centers in amounts ranging from \$23,169 to \$298,698 and underreported for one center by \$12,290. These inaccuracies in reported amounts occurred as a result of errors such as reporting certain expenses twice.

Accurate reporting of actual positions and expenses would help ensure that the BOG makes effective and efficient decisions related to future funding of institute and center activities. A similar finding was noted in our report No. 2010-077.

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**Recommendation:** The University should enhance its procedures to ensure the accuracy of reports submitted to the BOG for its institutes and centers. In addition, the University should contact the BOG to determine what corrective actions are necessary regarding the above-noted reporting errors.

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<b>Information Technology</b>
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**Finding No. 8: Access Privileges**

Access controls are intended to protect data and information technology (IT) resources from unauthorized disclosure, modification, or destruction. Effective access controls provide employees access to IT resources based on a demonstrated need to view, change, or delete data and restrict employees from performing incompatible functions or functions outside of their areas of responsibility. Periodically reviewing IT access privileges assigned to employees promotes good internal control and is necessary to ensure that employees cannot access IT resources inconsistent with their assigned job responsibilities.

Our audit test of selected access privileges to the finance and human resources applications and the supporting operating system and databases disclosed various employees whose access privileges either permitted the employees to perform incompatible duties or were not necessary for their job duties. Specifically:

- Three employees in the Controller’s Office had the ability to create or change vendor information and such access was unnecessary for their assigned job duties.
- Two employees in the Office of Human Resources and one employee in the Business Systems Reengineering Department had the ability to add an employee to the human resource system, add job data, create online checks for processing, and automated clearing house and direct deposit information, contrary to an appropriate separation of duties.
- One Office of Research employee had changed job duties and had ability to manage pre-award functions for contracts and grants although such access was no longer necessary for the employee’s new job duties.
- A system administrator was assigned one finance account and one human resources account that were unnecessary for the employee’s job duties.
- One Information Security Administrator was assigned two database privileges that were unnecessary for the employee’s job duties.

The University had compensating controls in place (e.g., separation of duties of initiating and approving purchases, and department supervisor monitoring of budget and actual expenditures) that, in part, mitigated the effect of the above deficiencies, and University performed limited database reviews and application access reviews in association with certain events, including upgrades, maintenance pack installations, and business process changes. However, the existence of inappropriate access privileges indicated a need for the University to implement periodic reviews of

access privileges to applications and the supporting operating system and databases. The absence of such reviews increases the risk that inappropriate access privileges will not be timely detected and addressed by the University.

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**Recommendation:** The University should implement procedures for the periodic review of the appropriateness of application, operating system, and database access privileges and timely remove or adjust any inappropriate or unnecessary access detected.

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**Finding No. 9: Security Controls – User Authentication, Logging, Monitoring, and Electronic Storage of Sensitive Data**

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Security controls are intended to protect the confidentiality, integrity, and availability of data and IT resources. Our audit disclosed certain University security controls related to user authentication, logging, monitoring, and electronic storage of sensitive data that needed improvement. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising University data and IT resources. However, we have notified appropriate University management of the specific issues. Without adequate security controls related to user authentication, logging, monitoring, and electronic storage of sensitive data the confidentiality, integrity, and availability of data and IT resources may be compromised, increasing the risk that University data and IT resources may be subject to improper disclosure, modification, or destruction.

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**Recommendation:** The University should improve security controls related to user authentication, logging, monitoring, and electronic storage of sensitive data to ensure the continued confidentiality, integrity, and availability of University data and IT resources.

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**Finding No. 10: Risk Assessment**

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Management of IT-related risks is a key part of enterprise IT governance. Incorporating an enterprise perspective into day-to-day governance actions helps an entity understand its greatest security risk exposures and determine whether planned controls are appropriate and adequate to secure IT resources from unauthorized disclosure, modification, or destruction. IT risk assessment, including the identification of risks and the evaluation of the likelihood of threats and the severity of threat impact, helps support management's decisions in establishing cost-effective measures to mitigate risk and, where appropriate, formally accept residual risk.

In October 2010, the University drafted a risk assessment; however, as of May 2011, University personnel were still identifying risks for inclusion. The absence of a comprehensive IT risk assessment may limit the University's assurance that all likely threats and vulnerabilities have been identified, the most significant risks have been addressed, and appropriate decisions have been made regarding which risks to accept and which risks to mitigate through security controls.

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**Recommendation:** The University should continue its efforts to develop a written, comprehensive IT risk assessment to provide a documented basis for determining how IT-related risks are managed.

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**PRIOR AUDIT FOLLOW-UP**

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Except as discussed in the preceding paragraphs, the University had taken corrective actions for findings included in our report No. 2010-077.

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**OBJECTIVES, SCOPE, AND METHODOLOGY**

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

We conducted this operational audit from February 2011 to January 2012 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. 2010-077. 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 2010-11 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**

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
Information technology (IT) logical access controls and user authorization.	Reviewed selected operating system, databases, and application security settings to determine whether authentication controls were configured and enforced in accordance with IT best practices.
IT access privileges and separation of duties.	Reviewed procedures for maintaining and reviewing access to IT resources. Tested selected access privileges over the operating system, databases, and applications to determine the appropriateness based on employees' job duties and adequacy with regard to preventing the performance of incompatible duties.
IT logging and monitoring.	Reviewed procedures and reports related to the capture, review, maintenance, and retention of selected system and security event logs.
IT data loss prevention.	Reviewed written policies, procedures, and programs in effect governing the classification, management, and protection of sensitive and confidential information.
IT security incident response.	Reviewed written policies and procedures, plans, and forms related to the response to and reporting of security incidents.
IT risk management and assessment.	Reviewed the University's risk management and assessment processes and security controls intended to protect the confidentiality, integrity, and availability of data and IT resources.
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 of the purpose of collecting their social security numbers.
Reporting of institutes and centers information as required by the Board of Governors (BOG).	Examined supporting documentation to determine whether the University had provided accurate and complete information to the BOG for selected institutes and centers.
Identity theft prevention program (Red Flags Rule).	Reviewed University policies and procedures related to its identity theft prevention program for compliance with the Federal Trade Commission's Red Flags Rule.
Imprest bank accounts.	Examined documentation to support the closing of the Florida Mental Health Institute's – Subject Payments imprest bank account.
Pharmaceutical inventories.	Tested pharmacy inventory items to determine whether the pharmacy's inventory records were accurate and complete.
Works of art and historical treasures.	Reviewed controls over works of art and historical treasures to determine whether the University had established adequate safeguards to protect such assets from theft or loss.

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

Scope (Topic)	Methodology
Tangible personal property.	Examined tangible personal property records to determine whether they contained information necessary to account for and identify University-owned property. Tested property items to determine whether the University's property records accurately described the property item. Tested deleted property items to determine the authority and timeliness of the deletions.
Florida residency determination and tuition.	Tested student registrations to determine whether the University documented Florida residency and correctly assessed tuition in compliance with Sections 1009.21, 1009.24, and 1009.286(2), Florida Statutes, and Board of Governors Regulation 7.005.
Tuition differential fees.	Reviewed payments from tuition differential fees collected to determine whether the University used the tuition differential fees in compliance with Section 1009.24(16)(a), Florida Statutes.
Distance learning fees and excess hour surcharges.	Determined whether distance learning fees and excess hour surcharges were assessed and collected as provided by Sections 1009.24(17) and 1009.286(2), Florida Statutes.
Continuing education programs.	Reviewed University policies and procedures to ensure that credit continuing education courses did not compete with, or replace, the regular on campus courses taken by degree seeking or special students.
Overtime payments.	Reviewed University policies, procedures, and supporting documentation evidencing the approval of and necessity for overtime payments.
Procurement of goods and services.	Reviewed University regulations and procedures related to the procurement of goods and services to ensure a competitive vendor selection process. Tested disbursements to determine whether purchase orders were issued prior to the University incurring an obligation for the goods or services.
Travel expenses.	Tested travel expenses to determine if employee reimbursements were paid in accordance with University regulations and procedures, and compliance with Section 112.061, Florida Statutes.
Electronic payments.	Reviewed University policies and procedures related to electronic payments and tested supporting documentation to determine if selected electronic payments were properly authorized and supported.
Purchasing card transactions.	Tested transactions to determine whether purchasing cards were administered in accordance with University policies and procedures. Also, tested former employees to determine whether purchasing cards were timely cancelled upon termination of employment.

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

Scope (Topic)	Methodology
Construction administration.	For selected major construction projects, tested payments and supporting documentation to determine compliance with University policies and procedures and provisions of laws and rules. Also, for construction management contracts, determined whether the University monitored the selection process of subcontractors by the construction manager.
Wireless communication devices.	Reviewed policies and procedures to determine whether the University limited the use of, and documented the level of service for, wireless communication devices.
Valuation of buildings for insurance purposes.	Examined supporting documentation to determine whether the insured values were properly calculated and insurance was updated for major asset acquisitions or disposals occurring in the audit period.
Related-party transactions.	Reviewed University policies and procedures for related-party transactions and tested transactions to determine if there were any related-party transactions for Board members and key administrators.

**EXHIBIT B**  
**MANAGEMENT'S RESPONSE**



March 9, 2012

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

Dear Mr. Martin:

Please see enclosed the University of South Florida System responses for those audit findings related to the University that are included in the 2010-2011 Operational Audit administered by the State of Florida.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Nick J. Trivunovich", written over a horizontal line.

Nick J. Trivunovich  
Vice President for Business and Finance

Enclosure

Copy to: Dr. Judy Genshaft  
John Long  
Sandy Lovins  
Dr. Ralph Wilcox  
Linda Peterson  
Debra Gula

**EXHIBIT B (CONTINUED)  
MANAGEMENT’S RESPONSE**

University of South Florida  
Responses to Preliminary and Tentative Findings of the USF 2011 Operational Audit  
Conducted by the Auditor General’s Office

**PROCUREMENT OF GOODS AND SERVICES**

**Finding No. 1:** The University needed to enhance its regulations and procedures relating to the competitive procurement process for evaluating and selecting vendors.

**Recommendation:** The University should enhance its competitive procurement regulations and procedures to prohibit the inquiry or consideration of the willingness of potential vendors to assist the University with fundraising activities.

**Management’s Response:** The University is undertaking a review of all procurement regulations and procedures to determine the specific changes which would enhance the clarity of its regulations or procedures on consideration of fundraising in the competitive procurement process. Any recommended enhancements will be implemented.

Expected Implementation Date: June 30, 2012

Responsible Party: Nick Trivunovich, 813/974-3297

**Finding No. 2:** The University’s controls over the issuance of purchase orders as a basis for controlling budgeted appropriations needed improvement.

**Recommendation:** The University should ensure that purchase orders are used prior to incurring an obligation for payment to ensure that purchases of goods or services are within established budget limits.

**Management’s Response:** A monitoring process, including actions for non-compliance, has been developed and will be implemented by University Leadership.

Expected Implementation Date: March 30, 2012

Responsible Party: Jeff Mack, 813/974-2539

**Finding No. 3:** The University needed to improve controls over its purchasing card program.

**Recommendation:** The University should enhance its training and monitoring procedures over its P-card program to ensure compliance with the University’s guidelines.

**Management’s Response:** Purchasing will enhance on-going training by reviewing and updating the allowable and non-allowance purchases list annually. A quarterly notice will be sent to PCard holders and reconcilers to further facilitate adherence to policy.

Expected Implementation Date: January 31, 2012

Responsible Party: Jeff Mack, 813/974-2539

**EXHIBIT B (CONTINUED)**  
**MANAGEMENT'S RESPONSE**

The monitoring process will be enhanced by removing filters so that all PCard transactions are subject to review.

Expected Implementation Date: June 30, 2012  
Responsible Party: Jeff Mack, 813/974-2539

**TRAVEL EXPENSES**

**Finding No. 4:** The University needed to enhance controls over employee travel reimbursements.

**Recommendation:** The University should enhance its monitoring procedures for travel reimbursements to ensure that travel expenses are properly calculated and paid.

**Management's Response:** The University will make available a travel checklist to all departments which will include instructions for proper submission of mileage and food expenses to provide guidance for travelers and submitters. We will also remind travel customers and Travel Department staff of the rules via our listserv and training.

Expected Implementation Date: March 31, 2012  
Responsible Party: Linda Peterson, 813/974-6061

**PERSONNEL AND PAYROLL**

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

**Recommendation:** The University should enhance its procedures to ensure that contracted employees are paid in accordance with contract provisions. In addition, the University should seek to recover the \$17,316 of overpayments.

**Management's Response:** The conclusion that "Title 29 Code of Federal Regulations Section 541.304 provides that physicians are not entitled to overtime pay under the Fair Labor Standards Act" ("FLSA") appears incorrect. The text of 29 CFR 541.304 provides that physicians are exempt from the requirements of 541.300 and subpart G (salary requirement), neither of which state that physicians are exempt from overtime payments. Section 541.304 does state that employees performing the duties of a physician need not otherwise satisfy the tests to be classified as exempt employees under the FLSA (i.e.: section 541.300 and subpart G). However, whether or not an employee could be classified as exempt from the minimum wage and overtime requirements of the FLSA is irrelevant to this matter because the FLSA does not require that an employee be classified as exempt. This is the case even if the employee could qualify for an exemption from the minimum wage and overtime requirements. Under the FLSA an employer can always classify an employee as hourly; however, in so doing the employer

**EXHIBIT B (CONTINUED)**  
**MANAGEMENT'S RESPONSE**

must meet the minimum wage and overtime requirements of the FLSA. Failure to do so would be a violation of federal law.

In the case of physician that was part of the finding, USF made the decision to classify him as an hourly employee because he is periodically absent from USF with legislative duties. It was concluded to be in the best interests of the taxpayers of the State of Florida to pay the physician only for the hours he actually worked as a physician at USF. Had the physician been classified as an exempt employee USF would have lost this flexibility. The physician was in support of this arrangement as evidenced by his signature to the contract. Notwithstanding the signatures of USF and the physician on the contract, USF is still required under the FLSA to pay overtime to any hourly employee who works more than forty hours in one workweek. USF cannot contract out of its federal legal obligations. Therefore, on the occasions that the doctor performed work as a physician at USF in excess of forty hours in one workweek, USF was legally required to pay him overtime regardless of what the contract says regarding maximum compensation. Additionally, a portion of these wages were funded with non-state funds. These payments are not a violation of the FLSA or the contract, which must be read as subject to the laws of the United States.

It has been determined that the subject contract of this finding is the only such contract and it is being reviewed by legal representatives of the university to better clarify and document the concerns raised for future contracts if any should be issued. As the suggested overpayment that should be recovered by the university is the result of legally obligated overtime payments with the remainder being the discretionary bonus, the university deems that there is no overpayment to be recovered. As a note, the physician that is the subject of this finding is no longer employed by the university and there are no other similar contracts to monitor.

Expected Implementation Date: February 28, 2012

Responsible Party: Theresa Drye, 813/974-5711

**CAPITAL ASSETS**

**Finding No. 6:** The University needed to enhance internal controls over works of art and historical treasures.

**Recommendation:** The University should establish procedures to perform a periodic physical inventory of the works of art and historical treasures. In addition, the University should enhance its procedures to ensure the recorded value for works of art and historical treasures are adequately documented and are not subject to depreciation for accounting purposes.

**Management's Response:** As of June 30, 2011 USF completed the Annual Physical Inventory which included works of art and historical treasures. This will be done on an annual basis. The University has enhanced its procedures to ensure the recorded value for works of art and historical treasures are adequately documented and are not subject to depreciation for accounting purposes.

**EXHIBIT B (CONTINUED)  
MANAGEMENT’S RESPONSE**

Expected Implementation Date: September 15, 2011

Responsible Parties: Linda Peterson, 813/974-6061

**REPORTING**

**Finding No. 7:** The University needed to enhance its review procedures regarding the annual reporting of information for institutes and centers to the Board of Governors.

**Recommendation:** The University should enhance its procedures to ensure the accuracy of reports submitted to the BOG for its institutes and centers. In addition, the University should contact the BOG to determine what corrective actions are necessary regarding the above-noted reporting errors.

**Management’s Response:** The Institute and Centers reporting process has been enhanced by getting clarifications on the reporting categories and disseminating the information to the colleges/units that gather the data for each Institute or Center. Queries and reports have been developed to validate the accuracy of numbers submitted for each Institute or Center before it is submitted to the Board of Governors.

Expected Implementation Date: June 30, 2011

Responsible Party: Michael Moore, 813/974-2391

The University checked with the BOG and received a response that “it was not necessary for us to make changes to the information we currently have for USF for 09/10”. The University will retain the documentation of the differences and the justification for each.

Expected Implementation Date: December 14, 2011

Responsible Party: Michael Moore, 813/974-2391

**INFORMATION TECHNOLOGY**

**Finding No. 8:** Some inappropriate or unnecessary information technology (IT) access privileges existed.

**Recommendation:** The University should implement procedures for the periodic review of the appropriateness of application, operating system, and database access privileges and timely remove or adjust any inappropriate or unnecessary access detected.

**Management’s Response:** The Office of Information Security will work in conjunction with Business System Engineering to implement procedures for the periodic review of the appropriateness of application, operating system, and database access.

Expected Implementation Date: June 30, 2012

Responsible Party: Michael Pearce, 813/974-1780

**EXHIBIT B (CONTINUED)  
MANAGEMENT'S RESPONSE**

**Finding No. 9:** The University's security controls related to user authentication, logging, monitoring, and electronic storage of sensitive data needed improvement.

**Recommendation:** The University should improve security controls related to user authentication, logging, monitoring, and electronic storage of sensitive data to ensure the continued confidentiality, integrity, and availability of University data and IT resources.

**Management's Response:** The Office of Information Security is working with the Infrastructure group to test Unix OS password complexity settings that we do not currently have implemented. Once the settings are thoroughly tested they will be configured in the production environments. Auditing of security changes within the People Soft applications will be implemented. OIS is working with BSR to identify all security tables that need to have auditing enabled.

Expected Implementation Date: June 30, 2012

Responsible Party: Michael Pearce, 813/974-1780

**Finding No. 10:** The University had not developed a written, comprehensive IT risk assessment.

**Recommendation:** The University should continue its efforts to develop a written, comprehensive IT risk assessment to provide a documented basis for determining how IT-related risks are managed.

**Management's Response:** The Office of Information Security will continue its efforts to develop a written, comprehensive IT risk assessment to provide a documented basis for determining how IT-related risks are managed. PeopleSoft Risk Assessment will be included on the comprehensive report.

Expected Implementation Date: June 30, 2012

Responsible Party: Michael Pearce, 813/974-1780