

UNIVERSITY OF FLORIDA

Operational Audit



BOARD OF TRUSTEES AND PRESIDENT

Members of the Board of Trustees and President who served during the 2011-12 fiscal year are listed below:

C. David Brown, II, Vice Chair to 5-02-12,
Chair from 5-03-12
Marshall McAllister Criser, III, Vice Chair
from 5-03-12
Carlos J. Alfonso, Chair to 4-20-12 (1)(2)
Dr. Cheri W. Brodeur from 6-01-12 (3)
Susan Cameron
Christopher T. Corr from 5-07-12
Charles B. Edwards
William M. Heekin
Alan M. Levine
Ben Meyers to 10-06-11 (4)
Dr. Scott Nygren to 5-31-12 (3)
Anthony E. Reynolds from 10-07-11 to 4-30-12 (4)
Carolyn K. Roberts
Juliet Murphy Roulhac
Dr. Steven M. Scott
Jose Antonio "TJ" Villamil, IV, from 5-01-12 (4)
Alfred C. Warrington, IV

Dr. J. Bernard Machen, President

- Notes: (1) Board Chair position was vacant from April 20, 2012, through May 2, 2012.
(2) Board member resigned on April 20, 2012, position was vacant through May 6, 2012.
(3) Faculty senate chair.
(4) Student body president.

The audit team leader was Marc J. Wilson, CPA, and the audit was supervised by Philip B. Ciano, CPA. The information technology portion of this audit was conducted by Bill Allbritton, CISA, and supervised by 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 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) 487-9175; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

UNIVERSITY OF FLORIDA

SUMMARY

Our operational audit disclosed the following:

BOARD POLICIES

Finding No. 1: The Board of Trustees had not adopted policies relating to electronic funds transfers.

Finding No. 2: The University needed to enhance its regulations and procedures relating to its competitive procurement process.

CONTRACT MONITORING

Finding No. 3: The University's monitoring of healthcare claim payments by a service organization needed improvement.

PERSONNEL AND PAYROLL

Finding No. 4: The University's remuneration to some administrative employees exceeded the limitation contained in Section 1012.976(2), Florida Statutes.

Finding No. 5: The University made severance payments that exceeded the limitations provided by Section 215.425, Florida Statutes.

Finding No. 6: The application form for sabbatical and professional development leave did not include certain required terms and conditions.

INFORMATION TECHNOLOGY

Finding No. 7: The University needed to establish an adequate alternate information technology (IT) processing facility.

Finding No. 8: The University's IT security controls related to logging, monitoring, and user authentication 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 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, 2012, 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, 2012, will be presented in a separate report.

FINDINGS AND RECOMMENDATIONS

Board Policies

Finding No. 1: Electronic Funds Transfers

Section 1010.11, Florida Statutes, requires that each university board of trustees adopt written policies prescribing the accounting and control procedures under which funds are allowed to be moved by electronic transaction for any purpose including direct deposit, wire transfer, withdrawal, investment, or payment.

University Disbursement Services was responsible for payments on goods and services to vendors, refunds to students, and expense reimbursements to employees by various means including electronic funds transfers (EFT). During the 2011-12 fiscal year, the University executed EFTs totaling \$178 million. The University had controls in place to monitor and control EFT transactions, such as separating the duties of initiation and authorization as well as independent review of each transaction, and had written procedures addressing these transactions. In our report No. 2012-072, we noted that the University had an EFT policy; however, that policy had not been adopted by the Board. In the University's response to our recommendation, the University stated that they would seek Board approval of a policy that ratifies the existing system of accounting, internal controls, and operational procedures for EFT transactions. However, as of June 30, 2012, the Board had not approved a policy ratifying the existing system of accounting, internal controls, and operational procedures for EFT transactions. On July 24, 2012, University management furnished us with a copy of a draft policy governing EFT transactions, explaining that the policy is still being reviewed and will be placed on the agenda for a subsequent Board meeting.

Recommendation: The University should continue its efforts to obtain Board approval of policies and procedures related to accounting and control procedures for electronic funds transfers.

Finding No. 2: Direct-Support Organizations – Conflicts of Interest

University Regulation 3.020(5)(h)2, *Purchasing*, requires that all persons taking part in any purchase follow all relevant portions of the *State of Florida Code of Ethics for Public Employees*, Chapter 112, Part 3, Florida Statutes, and the University's regulation on outside activities, Regulation 1.011, the latter of which specifically requires the highest standards of ethical conduct by employees in all official acts. However, neither regulation provides guidance to employees on how to avoid the appearance of a conflict of interest and favoritism in the vendor selection process when vendors also donate money through the various University departments to the University of Florida Foundation, Inc. (Foundation).

Records provided by the Foundation indicated that donations equal to or greater than \$50,000 were made by 243 donors, which totaled \$68 million for the period July 1, 2011, through March 31, 2012. We compared the list of donors to the University's vendor files and noted 13 donors from whom the University made purchases totaling \$442,432 between July 1, 2011, and April 20, 2012. Of the \$442,432 purchases, \$345,529 was paid to two vendors that also made donations to the Foundation totaling \$113,000 between July 1, 2011, and March 31, 2012. These donations were directed to the College of Dentistry, which subsequently forwarded the donations to the Foundation for deposit. Although we found no evidence that these vendors were provided preference in the vendor selection process, in the absence of sufficient guidance to employees, there is an increased risk of the appearance of a conflict of interest or favoritism in the vendor selection process.

Although University management indicated that the reasons for the selections of these vendors were based on best value, reliability, and service for the type and quality of product needed by the College of Dentistry; University management also indicated that they plan to review the University's conflict of interest policies to (1) ensure such regulations and procedures make it explicit that a potential conflict is posed when one vendor is known by those involved in the purchasing process to be both a donor and a potential vendor and (2) include examples of how such a potential conflict can be managed to avoid any adverse effects.

Recommendation: The University should continue its efforts to enhance its regulations and procedures to avoid the potential of the appearance of conflicts of interest or favoritism in its vendor selection process.

Contract Monitoring

Finding No. 3: Monitoring of Service Provider

The University was under contract with the Florida Department of Health, Children's Medical Services, to provide comprehensive healthcare to children with special healthcare needs. The University contracted with a service organization to provide third-party administrator and utilization management services, including processing claim payments for services provided by University physicians and other healthcare providers. According to University records, the University paid the service organization \$14.6 million, comprised of \$13.2 million for claim payments and \$1.4 million for administrative service fees during the 2011-12 fiscal year.

As similarly noted in report No. 2012-072, our review of the University's monitoring of this third-party service provider disclosed that although University management had implemented procedures to reconcile individual claim payments to month-end medical expense reports from the service organization and to the bank account used for making claim payments, the University did not perform a test of claim payments or obtain a service organization report as described in *Statement on Standards for Attestation Engagements No. 16 (SSAE 16), Reporting on Controls at a Service Organization*, from the service provider. A SSAE 16 report is a report on the suitability of policies and procedures placed in operation to achieve specified control objectives and tests of controls to determine if they are operating effectively. The report also requires service organization management to provide a written assertion regarding the effectiveness of controls. Although our review did not disclose any findings or deficiencies that would impact the University's use of the service provider, our review does not substitute for the University's responsibility to timely monitor the service provider's performance. A similar finding was noted in our report No. 2012-072.

University management informed us that a SSAE 16 report will be obtained from the service organization in the 2012-13 fiscal year.

Recommendation: The University should continue its efforts to provide for monitoring of the third-party service provider to ensure that medical claims are executed in accordance with contract terms or require that the service provider timely provide service organization reports covering the internal controls over the processing of medical claims.

Personnel and Payroll

Finding No. 4: Remuneration of Administrative Employees

Section 1012.976(2), Florida Statutes, stipulates that a State university administrative employee may not receive more than \$200,000 in annual remuneration¹ from appropriated State funds. This limitation does not apply to university teaching faculty, or medical school faculty or staff, pursuant to Section 1012.976(3), Florida Statutes. Section 1012.945(2), Florida Statutes, requires that each full-time equivalent teaching faculty member who is paid wholly from State funds teach a minimum of 12 classroom contact hours per week; any faculty member who is assigned other responsibilities shall teach a minimum number of classroom contact hours in proportion to 12 classroom hours per week as such especially assigned other duties and responsibilities bear to 12 classroom contact hours per week.

Our review of the remuneration paid to 26 employees totaling \$8,176,570 (13 administrative employees, totaling \$3,663,630 and 13 nonadministrative employees totaling \$4,512,940), disclosed 4 administrative employees whose total remuneration paid from appropriated State funds during the 2011-12 fiscal year collectively exceeded the remuneration limitation by \$288,418, in amounts ranging from \$16,249 to \$165,173, as follows:

- Senior Vice President, Provost and Professor (Provost) – responsible for allocation of resources in academic areas; improvement of instruction; coordination of instructional activities; development and improvement of research activities; evaluation of University academic activity; establishment of policy with respect to employment, promotion, and tenure of academic faculty; and implementation of the University’s Affirmative Action/Equal Opportunity Program. The Provost is the second ranking officer of the University, acting for the President in his absence. Excess remuneration paid from appropriated State funds totaled \$165,173.
- Senior Vice President and Professor – responsible for administration of the Institute of Food and Agricultural Sciences (IFAS), a separate budgetary unit within the University. Excess remuneration paid from appropriated State funds totaled \$89,032.
- Associate Vice President, Dean and Professor – responsible for oversight of graduate school academic areas. Excess remuneration paid from appropriated State funds totaled \$17,964.
- Executive Associate Vice President and Professor – responsible for management of internal operations at IFAS. Excess remuneration paid from appropriated State funds totaled \$16,249.

Although “Professor” is included in the position title for all four employees, based on our review of the four employees’ actual responsibilities, none of the employees served as teaching faculty with classroom contact hours pursuant to the provisions of Section 1012.945(2), Florida Statutes, or medical school staff at any time during the 2011-12 fiscal year.

In response to our inquiries, University personnel informed us that the University, in consultation with the Florida Board of Governors and Legislative staff, determined that, for employees earning in excess of \$200,000 annually from appropriated State funds, the position title of Professor, in which the four employees referred to above were included, was not considered an administrative position and therefore was not subject to the remuneration limitation. However, since none of the four employees were teaching faculty or medical school staff, but instead served in an administrative capacity, it is not clear on what basis they would be exempt from the remuneration limitation applicable to administrative employees.

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

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

Follow-up to Management's Response

The University indicated in its response that these four employees serve an educational role as teaching faculty and are exempt under Section 1012.976(3), Florida Statutes. However, the University's records did not evidence that these individuals served as teachers, faculty, or medical school staff, nor did records indicate that these individuals were acting in other than an administrative capacity. Accordingly, it is not clear on what basis these employees would be exempt from the remuneration limitation applicable to administrative employees as provided in Section 1012.976(2), Florida Statutes.

Finding No. 5: Severance Pay

Chapter 2011-143, Laws of Florida, created Section 215.425(4)(a), Florida Statutes, which provides that on or after July 1, 2011, a unit of government that enters into a contract or employment agreement, or renewal or renegotiation of an existing contract or employment agreement, that contains a provision for severance pay with an officer, agent, employee, or contractor must include certain provisions, including a provision that severance pay may not exceed an amount greater than 20 weeks of compensation. Chapter 2011-143, Laws of Florida, also created Section 215.425(4)(b), Florida Statutes, which provides that any severance payment made on or after July 1, 2011, for the settlement of an employment dispute, other than that provided for in a contract or employment agreement, may not exceed an amount greater than six weeks of compensation. Section 1001.706(6)(d), Florida Statutes (2011), provided that universities may not enter into an employment agreement that authorized severance pay in excess of one year's annual salary.

Our tests of 15 employees who received \$378,000 in severance payments disclosed the following:

- Subsequent to March 1, 2012, the University provided notice of non-reappointment to 19 Technical, Executive, Administrative, and Managerial Support (TEAMS) employees. Of the 19 employees, the University elected to provide lump-sum payments to 11 employees totaling \$259,000 in lieu of reassignment, administrative leave, or working through the notice period. Included in the \$259,000 was \$184,000 to 5 employees whose contracts had been renewed on March 1, 2012. Incorporated in these renewals was Board Regulation 3.056, *Resignation, and Non-Reappointment of Technical, Executive, Administrative, and Managerial Support Staff*, which effectively provided for these employees to receive severance pay. However, pursuant to this Regulation, the 5 employees received severance pay in excess of 20 weeks contrary to Section 215.425(4)(a), Florida Statutes. As a result, \$45,258 was paid to these 5 employees in excess of the amount that would have been paid had these employees' renewed contracts included the 20-week severance pay limitation.
- We examined severance payments to 4 employees made from July 1, 2011, through May 15, 2012, totaling \$119,000, to settle employment disputes, for which there was no corresponding provision for severance pay in the respective employees' contracts. We noted one payment for \$79,683, pursuant to a settlement agreement that was executed on August 8, 2011, based on 20 weeks of compensation, which exceeded the 6 weeks of compensation limitation contained in Section 215.425(4)(b), Florida Statutes, by 14 weeks. As a result, \$68,098 was paid to this employee in excess of the amount authorized by law.

In response to our inquiry, University personnel indicated that the severance pay limitations contained in Section 215.425, Florida Statutes, did not apply to the University during the 2011-12 fiscal year based, in part, on the following:

- Chapter 2012-134, Laws of Florida, effective July 1, 2012, amended Section 1001.706, Florida Statutes, to require universities to comply with the severance pay limitations contained in Section 215.425, Florida Statutes. University personnel indicated that when the Legislature has required universities to comply with statutes of general applicability concerning public employees, it has done so by explicitly listing the general statute within Section 1001.706(6), Florida Statutes. They further indicated that prior to the enactment of Chapter 2012-134, Laws of Florida, the Legislature had not explicitly applied Section 215.425, Florida Statutes, to universities.
- An advisory memorandum issued by the Board of Governors' legal counsel, opined that prior to July 1, 2012, an irreconcilable conflict existed between Sections 1001.706(6)(d) and 215.425, Florida Statutes, and the principles of statutory construction indicate that, prior to the enactment of Chapter 2012-134, Laws of Florida, specifically making Section 215.425, Florida Statutes, applicable to universities, the provisions of Section 1001.706(6)(d), Florida Statutes, controlled severance payments made by universities. Therefore, University personnel indicated that the limitations on compensation contained in Section 215.425, Florida Statutes, did not apply to the University prior to July 1, 2012.

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

Recommendation: The University should comply with the severance pay limitations provided by Section 215.425, Florida Statutes. Also, the University should seek to restore the \$68,098 overpayment made contrary to Section 215.425(4)(b), Florida Statutes, to University accounts.

Follow-up to Management's Response

The University reiterated in its response that Section 1001.706(6)(d), Florida Statutes (2011), controlled Section 215.425, Florida Statutes, and the University complied with applicable law for these payments. However, since Section 215.425, Florida Statutes, applies to all units of government, the 2012 amendment to Sections 1001.706(6)(d), Florida Statutes, merely clarified existing law. Accordingly, we remain of the opinion that the payments in question were not made in accordance with existing law. In determining its actions to resolve this audit finding, the University should seek a legal opinion from the Florida Attorney General regarding its interpretation of the existing and controlling law.

Finding No. 6: Sabbatical and Professional Development Leave Reports

University Regulation 1.201(20)(e)6(vii), *Leaves*, 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; however, instructions on when to submit the required report are not provided.

Employees making application for sabbatical or professional development leave must complete an application form, which generally defines the terms and conditions of such leave, including instructions on the required report and when such report should be submitted. Although the application form for the 2010-11 fiscal year required that such reports be submitted within 30 days of the employees' return from leave, we noted that reporting instructions as well as the 30-day submission requirement were not included in the application form for the 2011-12 and 2012-13 fiscal years.

We were informed that the instructions were inadvertently removed from the application forms. While our tests disclosed that certain leave reports were submitted as required, failure to provide these instructions could result in reports not being submitted or the untimely submission of such reports, which may limit University management's ability to determine whether such leave was in the University's best interests.

Recommendation: The University should ensure the sabbatical or professional development leave application form includes all required terms and conditions to ensure that such leave is in the best interest of the University.

Information Technology

Finding No. 7: Disaster Recovery

Disaster recovery is an element of information technology (IT) controls established to manage the availability of valuable data and IT resources in the event of a processing disruption. Its main objective is to provide the organization a plan for continuing critical IT operations in the event of a disaster in which the organization's IT processing facilities become disabled. As noted in our report No. 2012-072, although the University had begun work on an east campus data center construction project, which will create a secondary site for various purposes including disaster recovery, University management estimated the facility would not likely be ready to occupy until late 2012 and that one additional year would be needed for the facility to become fully functional as a secondary site.

In response to our inquiry, University management indicated that, as of June 30, 2012, the east campus data center construction project is scheduled for completion in February 2013. Following completion of the construction project, backup equipment will be installed and tested. As processes to make the equipment fully operational may extend over several months, steps to ready the site for the purpose of disaster recovery will gradually be deployed throughout 2013.

Recommendation: The University should continue its efforts to provide for an adequate alternate processing facility to help ensure continuity of IT operations.

Finding No. 8: Security Controls – Logging, Monitoring, and User Authentication

Security controls are intended to protect the confidentiality, integrity, and availability of data and IT resources. As noted in our report No. 2012-072, certain University security controls related to logging and monitoring needed improvement. In addition, our audit disclosed certain University security controls related to user authentication needed improvement. We are not disclosing the 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 logging, monitoring, and user authentication, the risk is increased that the confidentiality, integrity, and availability of University data and IT resources may be compromised.

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

PRIOR AUDIT FOLLOW-UP

The University had taken corrective actions for findings included in our report No. 2012-072, except as follows: findings No. 1, 3, 7, and 8 were also noted in prior audit report No. 2012-072, as findings No. 1, 2, 7, and 8; and finding No. 7 in this report was also noted in prior audit report No. 2010-078, as finding No. 7.

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 with unbiased, timely, and relevant information for use in promoting government accountability and stewardship, and improving government operations.

We conducted this operational audit from January 2012 to June 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. 2012-072. 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 2011-12 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 application security settings to determine whether authentication controls were configured and enforced in accordance with IT best practices.
IT risk management and assessment.	Determined whether a written, comprehensive IT risk assessment had been developed to document the University's risk management and assessment processes and security controls intended to protect the confidentiality, integrity, and availability of data and IT resources.
IT logging and monitoring.	Determined the status of the University's implementation of IT logging and monitoring controls in accordance with IT best practices.
IT disaster recovery plan.	Determined whether a comprehensive disaster recovery plan was in place and had been recently tested. Also reviewed progress on construction of alternate processing facilities.
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.
Textbook affordability.	Examined supporting documentation to determine whether the University's procedures regarding textbook affordability were in accordance with Section 1004.085, Florida Statutes.
Internal audit function (Office of Audit and Compliance Review).	Determined whether the University's internal audit function had undergone an external quality assessment review and that professional standards were followed.
Donation, acquisition, or construction of capital assets involving outside entities.	Reviewed documentation for donation, acquisition, or construction of capital assets involving outside entities and determined whether such transactions and agreements were appropriate.
Distance learning fees.	Determined whether distance learning fees were assessed and collected as provided by Section 1009.24(17), Florida Statutes, and whether course information in the Florida Distance Learning Catalog was accurate.
Distance learning on-line registration process for transient students.	Determined whether the on-line registration process for transient students was in compliance with Section 1004.091(2)(b), Florida Statutes.
Overtime payments.	Reviewed University policies, procedures, and supporting documentation evidencing the approval of, and necessity for, overtime payments. Performed analytical procedures to determine the reasonableness of overtime payments.
Severance pay.	Reviewed severance pay provisions in contracts entered into on or after July 1, 2011, to determine whether the University was in compliance with Florida Statutes.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Administrative employees' compensation.	Reviewed administrative employees' compensation to determine whether compensation did not exceed limits provided in Florida law.
Compensation for President.	Determined whether the President's compensation was in accordance with Florida law, BOG Regulations, and University policy.
Incentive Pay.	Determined whether incentive payments to employees were paid in accordance with Section 215.425(3), Florida Statutes.
Electronic payments.	Reviewed University policies and procedures related to electronic vendor payments. Performed a search for duplicate payments.
Purchasing card transactions.	Reviewed University procedures for monitoring purchasing card transactions.
Travel expenses.	Tested executive foreign and out-of-state travel expenses to determine whether the travel was reasonable, adequately supported, and for University purposes.
Construction administration.	Reviewed procedures for monitoring payments to construction managers. Determined whether the University properly selected architects and engineers, and construction managers.
Earmarked capital project resources.	Determined whether Public Education Capital Outlay and other restricted capital outlay expenses were in compliance with the restrictions imposed on the use of these resources.
Purchase of software applications.	Determined whether the University evaluated the effectiveness and suitability of the software application prior to purchase and if the purchase was performed through a competitive selection process.
Direct-support organizations – conflicts of interest.	Determined whether the University had established policies and procedures to avoid conflicts of interest with vendors who were doing business with the University and made donations to the University's direct-support organizations.
Contracts and grants billing and accounting.	Reviewed policies and procedures for contracts and grants billing and accounting.
Pay rate determinations for faculty.	Reviewed procedures for ensuring that pay rate determinations for faculty were properly supported.
Employee alternate work location agreements.	Tested alternate work location agreements with employees to determine compliance with University policy.
Sabbatical and professional development leave.	Reviewed the University's policies and procedures for employee sabbatical and professional development leave; determined if employees returning from such leave filed the required reports.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Service organization report.	Reviewed procedures for requesting and obtaining a service organization report.
Information privacy.	Reviewed procedures for protecting sensitive information and notifying affected individuals in the event of a privacy breach.

**EXHIBIT B
MANAGEMENT'S RESPONSE**



Office of the Vice President
and Chief Financial Officer

1 Tigert Hall
P O Box 113240
Gainesville, FL 32611-3240
352-392-2402 Telephone
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October 5, 2012

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, 2012.

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

Sincerely,

A handwritten signature in blue ink, appearing to read "Matthew Fajack".

Matthew Fajack
Vice President and Chief Financial Officer

Enclosures

- cc: Mr. Michael V. McKee, Asst. Vice President and University Controller
- Mr. Brian Mikell, Chief Audit Executive
- Ms. Jamie Lewis Keith, Vice President and General Counsel
- Dr. Tom Walsh, Director of Division of Sponsored Research
- Ms. Paula Varnes Fussell, Vice President, Human Resource Services
- Dr. Joseph Glover, Provost and Sr. Vice President for Academic Affairs
- Mr. Elias Eldayrie, Vice President and Chief Information Officer

The Foundation for The Gator Nation
An Equal Opportunity Institution

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

University of Florida
Responses to Preliminary & Tentative Audit Findings
Operational Audit
For the Fiscal Year Ended June 30, 2012

Electronic Payment

Recommendation 1: The University should continue its efforts to obtain Board approval of policies and procedures related to accounting and control procedures for electronic funds transfers.

University's Response: The EFT policy was approved by the Board of Trustees at their September, 2012 meeting.

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

Direct Support Organizations – Conflicts of Interest

Recommendation 2: The University should continue its efforts to enhance its regulations and procedures to avoid the potential of the appearance of conflicts of interest or favoritism in its vendor selection process.

University's Response: As noted in the Finding, the University believes the reasons for selections of these vendors were based on best value, reliability and service. The University is working closely with other SUS institutions and the Board of Governors on regulation language that will enhance procedures in accordance with the recommendations.

Responsible Auditee: Jamie Lewis Keith, Vice President and General Counsel

Healthcare Claim Payments

Recommendation 3: The University should continue its efforts to provide for monitoring of the third-party service provider to ensure that medical claims are executed in accordance with contract terms or require that the service provider timely provide service organization reports covering the internal controls over processing medical claims.

University Response: The University will continue its monitoring over payments to this service provider and will amend its contract with the service provider to require a SSAE 16 – Service Organization Control report.

Responsible Auditee: Tom Walsh, Director of Division of Sponsored Research

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

University of Florida
Responses to Preliminary & Tentative Audit Findings
Operational Audit
For the Fiscal Year Ended June 30, 2012

Remuneration of Administrative Employees

Recommendation 4: The University should review the salaries of all employees working in an administrative capacity to ensure that salaries are paid within limitations provided in Section 1012.976(2), Florida Statutes. Also, the University should restore the amount of remunerations paid in excess of the amounts allowed by Statute to its appropriated State funds from other University resources.

University's Response: The University worked with Florida Board of Governors (BOG) staff to determine that all individuals holding the title of professor, including the four identified, were teaching faculty to whom the remuneration limits did not apply. These four employees serve an educational role and qualify as teaching faculty under the Statute. Consequently, the University does not believe any adjustment to appropriated State funds is required.

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

Severance Pay

Recommendation 5: The University should comply with the severance pay limitations required by Section 215.425, Florida Statutes, and seek to restore these overpayments to University accounts.

University's Response: The University, and the Florida Board of Governors with whom the University has consulted, believe that Section 1001.706(6)(d), Florida Statutes, controlled over Section 215.425, Florida Statutes, and the University complied with applicable law for those payments. Consequently, no restoration of funds is required.

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

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

University of Florida
Responses to Preliminary & Tentative Audit Findings
Operational Audit
For the Fiscal Year Ended June 30, 2012

Sabbatical and Professional Development Leave Reports

Recommendation 6: The University should ensure the sabbatical or professional development leave application form includes all required terms and conditions to ensure that such leave is in the best interest of the University.

University's Response: As noted, the requirement to submit a written report was inadvertently left off the leave application when reprinted and will be included with application instructions beginning in Fall, 2012.

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

Disaster Recovery

Recommendation 7: The University should continue its efforts to provide for an adequate alternate processing facility to help ensure continuity of IT operations..

University's Response: The University agrees with the recommendation and is currently in the construction phase of providing an alternate data center at the University's east side campus, a site which is additional to and separate from the main campus. The East Campus Data Center construction project is now scheduled for completion in February 2013. It will then take several months for backup equipment to be installed, tested, and operational. Full Disaster Recovery capability will gradually be deployed throughout 2013.

Responsible Auditee: Elias Eldayrie, Vice President and Chief Information Officer

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

University of Florida
Responses to Preliminary & Tentative Audit Findings
Operational Audit
For the Fiscal Year Ended June 30, 2012

Security Controls – Logging, Monitoring, and User Authentication

Recommendation 8: The University should improve security controls related to logging, monitoring, and user authentication to ensure the continued confidentiality, integrity, and availability of University data and IT resources.

University's Response: The University concurs with these recommendations and is currently developing and implementing additional security controls related to logging and monitoring and user authentication. The target date for implementation of these controls is October 30, 2012.

Responsible Auditee: Elias Eldayrie, Vice President and Chief Information Officer