

STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

Report No. 2018-105
February 2018

UNIVERSITY OF SOUTH FLORIDA



Sherrill F. Norman, CPA
Auditor General

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^a System Faculty Council President (equivalent to faculty senate chair referred to in Section 1001.71(1), Florida Statutes).

^b Student Body President.

The team leader was Janet N. Case, CPA, and the audit was supervised by Rachel P. Sellers, CPA.

Please address inquiries regarding this report to Jaime N. Hoelscher, CPA, Audit Manager, by e-mail at jaimehoelscher@aud.state.fl.us or by telephone at (850) 412-2868.

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UNIVERSITY OF SOUTH FLORIDA

SUMMARY

This operational audit of University of South Florida (University) focused on selected University processes and administrative activities and included a follow-up on findings noted in our report No. 2016-133. Our audit disclosed the following:

Finding 1: University textbook affordability procedures need enhancement to promote compliance with State law.

Finding 2: The University made severance payments that exceeded the limits established in State law. Similar findings were noted in our report Nos. 2014-063 and 2016-133.

Finding 3: The University needs to enhance procedures for collecting student receivables.

Finding 4: University policies and records supporting University personal services provided to University direct-support organizations could be improved.

Finding 5: University information technology (IT) access controls over human resource and finance applications need improvement. In addition, the University did not document periodic reviews of assigned IT user access privileges to determine whether such privileges were necessary or that any inappropriate or unnecessary access privileges detected were timely removed. A similar finding was noted in our report No. 2016-133.

Finding 6: Some unnecessary IT user access privileges existed that increased the risk that unauthorized disclosure of student social security numbers may occur.

BACKGROUND

The University of South Florida (University) is part of the State university system of public universities, which is under the general direction and control of the Florida Board of Governors (BOG). The University is directly governed by a Board of Trustees (Trustees) consisting of 13 members. The Governor appoints 6 citizen members and the BOG appoints 5 citizen members. These members are confirmed by the Florida Senate and serve staggered 5-year terms. The System Faculty Council President and Student Body President also serve as members.

The BOG 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 BOG Regulations. The University President is selected by the Trustees and confirmed by the BOG. 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.

This operational audit focused on selected University processes and administrative activities and included a follow-up on findings noted in our report No. 2016-133. The results of our financial audit of the University for the fiscal year ended June 30, 2017, 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, 2017, will be presented in a separate report.

FINDINGS AND RECOMMENDATIONS

Finding 1: Textbook Affordability

State law¹ requires universities to post prominently in the course registration system and on its Web site, as early as feasible, but at least 45 days before the first day of class for each term, a hyperlink to lists of required and recommended textbooks and instructional materials for at least 95 percent of all courses and course sections offered at the university during the upcoming term. In addition, State law² requires universities to report to the Chancellor of the State University System (SUS) no later than September 30, 2016, the number of courses and course sections that were not able to meet the textbook and instructional materials posting deadline for the previous fiscal year.³ State law⁴ also requires universities to obtain confirmation by the course instructor or academic department offering the course, before each textbook and instructional materials adoption is finalized, of the intent to use all items ordered.

In response to our inquiries, University personnel indicated that the University had not established procedures to ensure that lists of required and recommended textbooks and instructional materials were timely posted as required. University personnel also indicated procedures were not established to ensure that University records supported the number of courses and course sections reported to the SUS Chancellor or that course instructors or academic departments confirmed the intent to use all items ordered. Effective procedures to ensure postings are timely, records support SUS Chancellor reports, and instructors or departments properly complete confirmations could include documented, supervisory review and approval of postings and records to demonstrate that these procedures are properly conducted.

Our examination of University records supporting textbooks and instructional materials for the Fall 2016 Semester and discussions with University personnel disclosed that:

- On September 1, 2016, the University reported to the SUS Chancellor that 216 (3.5 percent) of the 6,252 courses and course sections were not able to meet the textbook and instructional materials posting deadline. However, documentation was not maintained to support the number of courses and course sections reported as late or reported in total to the SUS Chancellor and, according to University records, there were 6,142 courses and course sections for the Fall 2016 Semester.
- The textbooks and instructional materials for 927 of the 6,142 courses and course sections were not timely posted in the course registration system and on the University Web site. The textbooks

¹ Section 1004.085(6), Florida Statutes, effective July 1, 2016.

² Section 1004.085(8), Florida Statutes.

³ The Board of Governors (BOG) template instructions required universities to report courses and course sections for the Fall 2016 Semester.

⁴ Section 1004.085(7)(b), Florida Statutes.

and instructional materials for these 927 of the 6,142 courses and course sections were posted from 42 days before the first day of classes to 8 days after the first day of classes.

- As the University only timely posted the textbooks and instructional materials for 5,215 (85 percent) of the courses and course sections, the University did not comply with the State law requiring such information be timely posted for at least 95 percent of the courses and course sections.

In response to our audit inquiry, University personnel indicated that some of the late postings may have been due to modifications to the data records (e.g., changes in textbook titles or editions) instead of late-posted adoptions; however, although we requested, documentation to support any data record modifications was not provided.

Without evidence of the timely posting of textbook information on the University Web site and confirmation of intent to use all items ordered, the University cannot demonstrate compliance with State law. Properly maintained University records to support the number of courses and course sections reported to the SUS Chancellor provide assurance of the accuracy of the reported information. In addition, the timely posting of required textbook and instructional materials information on the University Web site is necessary for students to understand course textbook requirements, have sufficient time to consider textbook purchase options, and potentially limit their textbook costs.

According to University personnel, procedures to monitor and document supervisory review and approval of compliance with the statutory textbook affordability requirements were implemented for the Spring 2017 Semester. Our examination of University records for Spring 2017 disclosed that textbooks and instructional materials required for courses and course sections were posted within the statutorily required deadline.

Recommendation: The University should continue efforts to ensure that a hyperlink to lists of required and recommended textbooks and instructional materials for at least 95 percent of all courses and course sections offered at the University during the upcoming term is prominently posted in the course registration system and on its Web site, as early as feasible, but at least 45 days before the first day of class for each term. We also recommend that the University maintain records to support the courses and course sections reported to the SUS Chancellor and document confirmation of course instructor or academic department intent to use all items ordered.

Finding 2: Severance Payments

State law⁵ provides that 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 must also include a provision in the contract or employment agreement that precludes severance pay from exceeding 20 weeks of compensation and prohibits the pay in instances of misconduct. State law further provides that an employee or contractor may receive severance pay that is not provided for in a contract or employment agreement if the pay represents the settlement of an employment dispute and the amount does not exceed 6 weeks of compensation. State law defines

⁵ Section 215.425(4), Florida Statutes.

severance pay as salary, benefits, or perquisites for employment services yet to be rendered that are provided to an employee who has recently been or is about to be terminated.

According to University records 22 employees received severance payments totaling \$1,175,875 during the period January 2016 through January 2017. We selected University records supporting payments totaling \$604,203 made to 4 of these 15 employees and noted that 2 employees received amounts in excess of those established in State law. Specifically:

- On and effective June 14, 2016, the University gave written notice to a head golf coach of her employment termination. The notice included a schedule of payments to be paid pursuant to her July 1, 2014, employment agreement, which allowed the University to terminate the coach's employment and continue to compensate her from the termination date until June 30, 2017. However, as a result, the University paid the former coach \$48,572 more than the amount equivalent to 20 weeks of her compensation. In response to our inquiries, University personnel indicated that the payments were for liquidated damages, rather than severance pay, since the termination of a coach's employment can reduce that individual's future coaching prospects and potential earnings.
- On and effective January 6, 2017, the University accepted the voluntary resignation of the head basketball coach. In exchange for the coach's voluntary resignation, the University paid him a lump sum of \$500,000. However, contrary to State law, the payment was \$356,322 more than the amount equivalent to 20 weeks of compensation. In response to our inquiries, University personnel stated that the payment represented a negotiated resolution to end the coach's employment and was a portion of what he would have received in liquidated damages (i.e., severance payments) pursuant to his employment agreement had he been terminated without cause.

Although the University did not consider these payments as severance pay, the payment amounts represented compensation for employment services not yet rendered and were provided to employees whose employment had recently been terminated. Therefore, as the payments exceeded the statutory severance pay limits, the payments appear contrary to State law. Similar findings were noted in our report Nos. 2014-063 and 2016-133.

Recommendation: The University should ensure that the severance pay provisions in University employment agreements are consistent with State law and that severance payments do not exceed the amounts established in State law.

Finding 3: Student Receivables

BOG regulations⁶ require the University to establish procedures by regulation for the payment of tuition and associated fees. Such procedures must provide that a student's course schedule will be canceled if payment, or appropriate arrangements for payment, has not occurred by the deadline set by the University, which must be no later than the end of the 2nd week of classes. University regulations⁷ allow the Controller to employ various means to help collect tuition and fees, such as issuing collection letters, placing holds on transcripts or current grades, withholding diplomas, and canceling the current semester's registration. The regulations also require University personnel to submit to a collection agency those student accounts that are 6 months delinquent. In addition, University regulations allow

⁶ BOG Regulations 7.002(7), *Tuition and Fee Assessment, Collection, Accounting and Remittance*.

⁷ University Regulation 4.09 Accounts Receivable.

uncollectible student accounts to be written off after every reasonable effort has been made to collect the accounts.

According to University personnel, when a past due student account balance is \$100 or greater, the University places a hold on the account to prohibit the student from registering for classes or obtaining transcripts and sends the student a collection letter requesting payment. For a past due student account balance of less than \$100, the University places a hold on the account to prohibit the student from obtaining transcripts and sends the student a collection letter requesting payment.

As of December 31, 2016, the University recorded student tuition accounts receivable totaling \$14.3 million for 6,260 accounts, including accounts with balances totaling \$7.5 million that had been outstanding 5 to 27 years. According to University personnel, the \$7.5 million had remained outstanding because University management had decided not to write off the delinquent accounts and continue to maintain records of the individual student receivables.

To evaluate University accounts receivable collection procedures, we examined University records supporting 30 selected student tuition accounts totaling \$397,414 as of December 31, 2016, and found that:

- 22 of the student accounts totaling \$284,821 had balances that had been outstanding 7 months to 13 years (an average of 2 years) before University personnel submitted the accounts to a collection agency. In response to our inquiries, University personnel indicated that 12 student accounts totaling \$163,561 were not timely submitted to a collection agency as the accounts had been overlooked. An explanation or documentation was not provided to justify why the other 10 student accounts totaling \$121,260 were not timely submitted to a collection agency.
- Included in the 22 student accounts were 3 student accounts totaling \$55,644 with holds to prohibit the students from registering for future classes. However, the holds were subsequently bypassed, resulting in additional receivable amounts totaling \$45,823. We expanded our procedures to test an additional 10 student accounts totaling \$99,078 and found 2 accounts totaling \$21,170 with holds that were bypassed. As a result, the University incurred additional receivable amounts totaling \$10,585 for these 2 accounts. According to University personnel, the hold bypass function is unable to be restricted due to current system limitations and academic advisors bypassed the system to enroll students.
- 3 other student accounts totaling \$35,889, also included in the 22 student accounts, were for students who concurrently registered for certain summer and fall semesters with related tuition and fees totaling \$10,978 and \$24,911, respectively. While the University allows for concurrent registration, the University does not always cancel a student's upcoming semester registration when the student did not timely pay for the previous semester's tuition and fees. The University incurred additional receivable amounts totaling \$24,911 as these 3 students did not pay for the summer or fall semester tuition and fees and were allowed to register and enroll in subsequent semesters.

Timely use of collection agencies could improve collections and reduce the amount of student accounts owed to the University. Restricting the use of hold bypasses for only documented, authorized purposes and timely canceling registration in subsequent terms for past due student accounts or, alternatively, making appropriate arrangements for payment of delinquent balances, would also reduce the amount of unpaid student accounts.

Recommendation: The University should improve efforts for collecting student accounts receivable by timely submitting delinquent student accounts to collection agencies, restricting the use of hold bypasses, and canceling class registrations for future semesters when previous semester tuition and fees remain unpaid.

Finding 4: Direct-Support Organizations

To promote accountability over University property, facility, and personal services use, it is important that public records prescribe the conditions for such use, document appropriate approval before the use occurs, and demonstrate appropriate use. Such records help document authorization for the use, demonstrate the reasonableness of the value associated with that use, and enhance government transparency.

State law⁸ provides that a direct-support organization (DSO) is organized and operated exclusively to receive, hold, invest, and administer property and to make expenditures to, or for the benefit of the University. State law⁹ also requires the Board of Trustees (Trustees) to prescribe by rule conditions with which a university DSO must comply in order to use property, facilities, or personal services and such rules must provide for budget and audit review and oversight by the Trustees.

The Trustees approved nine organizations as DSOs and these DSOs routinely receive and use charitable contributions for the benefit of the University. University regulations¹⁰ require that, upon approval by the Trustees, a DSO shall be certified and authorized to use University property, facilities, and personnel services to the extent permissible by applicable law and the conditions prescribed by University regulations and internal management memoranda. The conditions require each DSO to annually submit:

- Governing board-approved operating budgets that the President is to present to the Trustees for review and approval.
- Revenue and expense plans to the President or President designee for review and approval.
- Financial audit and management letters along with the Federal Internal Revenue Service Return of Organization Exempt from Income Tax Form (IRS Form) 990 to the Trustees for review and approval.

Our examination of University records disclosed that each June the Trustees review and approve DSO financial plans for the upcoming fiscal year. These plans include estimated revenues and expenses, such as University support. In addition, each October the Trustees receive the DSO financial statement audit reports for approval and the IRS Form 990 showing University personal service cost contributions. However, as the University is authorized by State law¹¹ to obtain data relative to the operation of DSOs, such as receipt of DSO financial plans, and DSOs are already required to comply with the audited financial statements and IRS Form 990 reporting requirements, the University regulations and internal management memoranda did not identify additional conditions that the DSOs must meet to use University property, facilities, or personal services.

⁸ Section 1004.28(1)(a), Florida Statutes.

⁹ Section 1004.28(2)(b), Florida Statutes.

¹⁰ University Regulation 13.002.

¹¹ Section 1004.28(5) and (7), Florida Statutes

According to University personnel, the nine University DSOs did not use any University property or facilities for the 2015-16 fiscal year but, during that period, the DSOs received University personal services totaling \$16.5 million and reimbursed \$6.6 million of these costs to the University based on cost-sharing arrangements with the University. However, University records did not evidence Trustees approval of the cost-sharing arrangements. In response to our inquiries, University personnel indicated that the personal services costs totaling \$9.9 million not reimbursed to the University related to the University of South Florida Foundation, Inc. (Foundation).

University personnel also indicated that, during the 2015-16 fiscal year, the Foundation used services provided by 192 University employees and the University incurred personal service costs totaling \$9.9 million for these services. Of the 192 University employees, 188 employees, such as the Senior Vice President of Advancement and Alumni Affairs and Executive Vice President of the Foundation, Vice President for Development, and Associate Vice President and Foundation Chief Financial Officer, devoted 100 percent of their time and effort to the management and operation of the Foundation and were paid \$9.7 million by the University. The University compensated the other 4 employees a total of \$167,624 and these 4 employees provided a portion of their time and effort for clerical services provided to the Foundation. While the University Human Resource Department approved employee job descriptions and position summaries that included percentages of allocated time that would be expected for the personal services provided to the DSOs, University records did not document the 4 employees' actual time and effort spent on services for the University and on services for the Foundation.

According to University personnel, Foundation personnel describe how University personal services benefit the Foundation during discussions with the University Finance Committee. Notwithstanding this response, we found that University records associated with DSO use of University personal services could be improved by establishing in Trustee-approved rules the conditions with which a DSO must comply in order to use University personal services. Such rule could prescribe, for example, conditions to:

- Restrict DSO use of University resources to those Trustee-approved public purposes consistent with the mission, vision, and values of the University.
- Require DSO management to certify that University resources will only be used for Trustee-approved purposes and to affirm, after use, that the resources were only used for those purposes.

University records could also be enhanced by obtaining the Trustees' approval of anticipated University personal services and resources, and the value of such services and resources, to be provided to DSOs before the services and resources are provided, and documenting University employee actual time and effort provided to a DSO to support the purpose for and value of personal services provided. Such records would document authorization, demonstrate the reasonableness of the value, and enhance transparency for the University resources provided for DSO use.

Recommendation: We recommend that:

- **The Trustees prescribe by rule any conditions with which a DSO must comply in order to use University property, facilities, and personal services and the University monitor and document DSO compliance with such conditions.**

- The University document the Trustees' consideration and approval of DSO anticipated use of University resources, at least on an annual basis, before the use occurs. To enhance government transparency, the Trustees' approval documentation should identify the positions of the employees who will provide the personal services that will be provided to the DSOs and the value of such services.
- The University document University employee actual time and effort provided to the DSO to support the purpose for and value of those services and the distribution of applicable personal service costs among specific University and DSO activities for employees who work on more than one activity.

Finding 5: Information Technology User Access Privileges – Enterprise Resource Planning System

Access controls are intended to protect University 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 inconsistent with their assigned responsibilities. Periodic reviews of assigned IT access privileges are necessary to ensure that employees can only access those IT resources that are necessary to perform their assigned job responsibilities and that assigned access privileges enforce an appropriate separation of incompatible responsibilities.

Our test of access privileges to the University's Enterprise Resource Planning (ERP) system finance and human resources (HR) applications from the population of 2,081 (1,825 finance and 256 HR) employees with update access to critical transactions within the finance and HR applications disclosed that some employees had access privileges that permitted them to perform incompatible or unnecessary functions within the HR application. Additionally, according to University personnel, the University did not have procedures for the periodic review of IT access privileges assigned to the ERP system applications.

We analyzed the IT user access privileges for University employees who had various access privileges to the University's 23 finance roles and 17 HR roles to determine whether any unnecessary or inappropriate access existed. For 11 HR employees with 5 or more HR roles, our examination of University records disclosed an inappropriate separation of duties as 2 data security analysts and 1 data security administrator had unnecessary HR access privileges that allowed them to update employee addresses, change rates of pay, and update direct deposit information.

By April 2017, and subsequent to our inquiries, the University had removed the 3 employees' unnecessary user access privileges and implemented certain controls such as the independent review and approval of payroll changes to verify the accuracy of all changes prior to payroll disbursements. In addition, University management indicated to us in August 2017 that a security review project was underway for supervisors to review and approve all IT user access privileges and that full implementation of the security review process was expected within the next few months.

Our examination of University records supporting selected payroll transactions did not disclose any fraud or errors as a result of the unnecessary and inappropriate access privileges; however, our procedures do not substitute for management's responsibility to implement adequate controls. Unnecessary or

inappropriate access privileges and the lack of a review of IT user access privileges assigned to the ERP system applications increase the risk that unauthorized disclosure, modification, or destruction of University data or IT resources may occur. A similar finding was noted in our report No. 2016-133.

Recommendation: The University should continue efforts to appropriately separate incompatible duties associated with the HR application, perform documented periodic reviews of IT user access privileges to the ERP system based on a demonstrated need for such access, and remove any inappropriate or unnecessary access privileges detected.

Finding 6: Information Technology User Access Privileges – Social Security Numbers

The Legislature has recognized in State law¹² that social security numbers (SSNs) can be used to acquire sensitive personal information, the release of which could result in fraud against individuals, or cause other financial or personal harm. Therefore, public entities are required to provide extra care in maintaining such information to ensure its confidential status. Effective controls restrict employees from accessing information unnecessary for their assigned job responsibilities and provide for documented, periodic reviews of employee access privileges to help prevent personnel from accessing sensitive personal information inconsistent with their responsibilities.

The University collects and uses SSNs for various purposes, including student admissions and enrollment, scholarships and financial aid, and administering Federal and State programs. Although University policies¹³ require that the SSN use be eliminated as the primary identifier in information systems and that an alternate identification number be used, the policies allow designated University officials and personnel access to student records, including student SSNs, to perform administrative, supervisory, or instructional responsibilities that serve a legitimate educational purpose.

As of June 2017, University personnel indicated that the University information technology (IT) system contained SSNs for a total of 1.5 million students. The students included 65,900 current students; 830,000 former students; 550,000 prospective students who applied to the University but did not enroll; and 11,000 applicants awaiting an admission decision.

To protect student information from unauthorized disclosure, modification, or destruction, the University requires employee supervisors and department administrators to approve IT user access privileges including access to student SSNs based on a demonstrated need for such access and to perform annual reviews of these privileges to confirm the propriety of the privileges. However, according to University personnel, the IT system did not have a mechanism to differentiate user access privileges to current student information from privileges to former or prospective student information.

In response to our inquiries, University personnel indicated the SSNs for prospective students are maintained to help individuals enroll at the University at later dates and that purging SSNs from the IT system increases the difficulty for reporting student financial aid information to State and Federal agencies. Notwithstanding this response, University records did not demonstrate the public purpose

¹² Section 119.071(5)(a), Florida Statutes.

¹³ University Policy Number 0-516.

served for indefinitely maintaining SSNs for prospective students who applied but had not enrolled in the University.

We examined University records related to IT system access privileges, including records for 26 employees selected from the 173 employees with access to student SSNs in the University's IT system. We found that University records did not always demonstrate the reason why employees had continuous access to applicant and former student SSNs when such access was not necessary for the employees to perform their job duties and responsibilities. We also found that the access privileges for 6 of the 26 selected employees were unnecessary. Specifically, we found that:

- An Office Manager, Administrative Specialist, Professor, Student Assistant, and Student Programs Coordinator had access to student SSNs and University records did not demonstrate the reason that these employees needed continuous access to student SSNs to perform their assigned responsibilities. In response to our inquiries, the University indicated that they were not aware that the employees had access to student SSNs and further research would be performed to determine the basis for such access. As a precautionary measure, the University removed access to the SSNs for these 5 employees after our inquiries.
- An Accounting Manager had unnecessary access to student SSNs. In response to our inquiry, University personnel determined that the access was needed in the employee's former position as Fiscal and Business Analyst in the University Financial Aid Department. Subsequent to our inquiries, in June 2017 the University removed the unnecessary access privileges for this employee based on the employee's current responsibilities.

Subsequent to our inquiries, in November 2017 University personnel indicated a review of access privileges for the 147 employees who had access to student SSNs and were not included in our audit procedures was being performed to determine whether the access was necessary for the employees to perform their job duties and responsibilities. The existence of unnecessary access privileges and the indefinite maintenance of prospective student SSNs without a documented public purpose increases the risk of unauthorized disclosure of student SSNs and the possibility that sensitive personal information may be used to commit a fraud against University students.

Recommendation: To ensure access to sensitive student information is properly safeguarded, the University should:

- **Document the public purpose served by indefinitely maintaining the SSNs for individuals who did not enroll in the University or establish a reasonable time period for maintaining prospective student SSNs.**
- **Upgrade the University IT system to include a mechanism to differentiate IT user access privileges to current student information from access privileges to former and prospective student information.**
- **Continue efforts to ensure that only those employees who have a demonstrated need to access sensitive student information have such access.**

PRIOR AUDIT FOLLOW-UP

The University had taken corrective actions for applicable findings in our report No. 2016-133, except as noted in Findings 2 and 5 and shown in Table 1.

Table 1
Findings Also Noted in Previous Audit Reports

Finding	Operational Audit Report No. 2016-133, Finding	Operational Audit Report No. 2014-063, Finding
2	3	7
5	4	Not Applicable

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 from January 2017 through May 2017 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:

- Evaluate management's performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse, and in administering assigned responsibilities in accordance with applicable laws, rules, regulations, contracts, grant agreements, and other guidelines.
- Examine internal controls designed and placed in operation to promote and encourage the achievement of management's control objectives in the categories of compliance, economic and efficient operations, reliability of records and reports, and safeguarding of assets, and identify weaknesses in those controls.
- Determine whether management had taken corrective actions for findings included in our report No. 2016-133.
- Identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

This audit was designed to identify, for those programs, activities, or functions included within the scope of the audit, weaknesses in management's internal controls; instances of noncompliance with applicable laws, rules, regulations, contracts, grant agreements, and other guidelines; and instances of inefficient or ineffective operational policies, procedures, or practices. The focus of this audit was to identify problems so that they may be corrected in such a way as to improve government accountability and efficiency and the stewardship of management. Professional judgment has been used in determining

significance and audit risk and in selecting the particular transactions, legal compliance matters, records, and controls considered.

As described in more detail below, for those programs, activities, and functions included within the scope of our audit, our audit work included, but was not limited to, communicating to management and those charged with governance the scope, objectives, timing, overall methodology, and reporting of our audit; obtaining an understanding of the program, activity, or function; exercising professional judgment in considering significance and audit risk in the design and execution of the research, interviews, tests, analyses, and other procedures included in the audit methodology; obtaining reasonable assurance of the overall sufficiency and appropriateness of the evidence gathered in support of our audit findings and conclusions; and reporting on the results of the audit as required by governing laws and auditing standards.

Our audit included transactions, as well as events and conditions, occurring during the audit period of January 2016 through December 2016, and selected University actions taken prior to and subsequent thereto. Unless otherwise indicated in this report, these records and transactions were not selected with the intent of statistically projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

An audit by its nature does not include a review of all records and actions of management, staff, and vendors and, as a consequence, cannot be relied upon to identify all instances of noncompliance, fraud, waste, abuse, or inefficiency.

In conducting our audit, we:

- Reviewed University information technology (IT) policies and procedures to determine whether the policies and procedures addressed certain important IT control functions, such as security, systems development and maintenance, and disaster recovery.
- Evaluated University procedures for maintaining and reviewing access to IT resources. We also tested the access privileges for 2,081 employees (1,825 Finance and 256 HR) with add or update access privileges to critical transactions within the finance and human resources applications to evaluate the appropriateness and necessity of the access privileges based on the employees' job duties and user account functions and determine whether the access did not allow the performance of incompatible duties. We examined administrator account access privileges granted and procedures for oversight of administrator accounts for the network, operating system, database, and application to determine whether these accounts had been appropriately assigned and managed.
- Reviewed University procedures to prohibit former employees' access to electronic data files. From the population of 630 employees who separated from University employment, we examined access privileges for 30 selected employees to determine whether their access privileges had been timely deactivated.
- Reviewed University procedures and reports related to the capture, review, maintenance, and retention of system activity to determine whether procedures and reports were designed to ensure the appropriateness of access to and modification of sensitive or critical resources.
- Reviewed operating system, database, network, and application security settings to determine whether authentication controls were configured and enforced in accordance with IT best practices.

- Evaluated University procedures for protecting student social security numbers (SSNs). Specifically, we examined University records supporting the access privileges of employees who had access to SSNs during the audit period to evaluate the appropriateness and necessity of the access privileges based on the employees' assigned job duties and responsibilities.
- Examined the Board of Trustees, committee, and advisory board meeting minutes to determine whether the Trustees' approval was obtained for policies and procedures in effect during the audit period and for evidence of compliance with Sunshine Law requirements (i.e., proper notice of meetings, meetings readily accessible to the public, and properly maintained meeting minutes).
- Examined University records to determine whether the University informed students and employees at orientation and on its Web site of the existence of the Florida Department of Law Enforcement sexual predator and sexual offender registry Web site and the toll-free telephone number that gives access to sexual predator and sexual offender public information as required by Section 1006.695, Florida Statutes.
- Reviewed the University's internal audit function activities during the audit period to determine whether the University followed professional requirements and provided for peer review of reports issued.
- Examined University records to determine whether the University had developed an anti-fraud policy to provide guidance to employees for communicating known or suspected fraud to appropriate individuals. Also, we examined University records to determine whether the University had implemented appropriate and sufficient procedures to comply with its anti-fraud policy.
- Examined University records supporting 7 payments totaling \$3 million and 7 transfers totaling \$15.1 million selected from the population of 392 payments totaling \$13 million and 470 transfers totaling \$33.4 million made during the audit period by the University to its direct-support organizations (DSOs) to determine whether the payments were authorized by Section 1004.28(1)(a)2. and (2), Florida Statutes.
- Examined University records to determine whether the Trustees had prescribed by rule the conditions with which the DSOs must comply in order to use University property, facilities, and personal services; the University maintained records to document the value of University property and facilities used by the DSOs and University employee actual time and effort provided to the DSOs; and the Trustees documented consideration and approval of anticipated property, facilities, and personal services and related costs provided to the Foundation.
- Examined University records for 40 selected student tuition accounts receivable totaling \$496,492 from the population of 6,260 student tuition accounts receivable totaling \$14.3 million as of December 31, 2016, to determine whether deferrals granted were properly authorized, evaluate the adequacy of University collection efforts, and determine whether restrictions on student records and subsequent registration were appropriate and enforced for students with delinquent account balances as required by Board of Governors (BOG) Regulation 7.002(7) and University Regulation 4.009.
- Evaluated University policies and procedures to determine whether the University assessed and expensed tuition differential fees in compliance with Section 1009.24(16)(a), Florida Statutes.
- From the population of 242 students classified as Florida residents during the Spring 2016, Summer 2016, and Fall 2016 Semesters, reviewed University records for 30 selected students to determine whether student status and residency determinations complied with Section 1009.21, Florida Statutes.
- Reviewed University procedures to determine whether distance learning fees totaling \$6.4 million for the audit period were assessed, collected, separately accounted for, and retained in accordance with Section 1009.24(17), Florida Statutes.

- From the population of eight auxiliary operation contracts, which generated revenue totaling \$6.9 million for the audit period, examined University records supporting three selected contracts, which generated revenues totaling \$5.8 million, to determine whether the University properly monitored compliance with the contract terms for fees, insurance, and other provisions. Also, we performed analytical procedures to determine whether the University's auxiliary services were self-supporting.
- From the population of 17,413 textbooks added for the Fall 2016 and Spring 2017 Semesters related to 12,688 courses and course sections, examined supporting documentation to determine whether the University policies and procedures for textbook affordability complied with Section 1004.085, Florida Statutes.
- Examined University policies, procedures, and related records for the audit period to determine whether the records documented the supervisory review and approval of time worked and leave used by exempt employees (i.e., full-time administrative and processional employees, and faculty).
- From the compensation payments totaling \$663.9 million to 19,538 employees during the audit period, selected 30 payroll transactions totaling \$56,339 and examined the related payroll and personnel records to determine the accuracy of the rate of pay, the validity of employment contracts, whether performance evaluations were completed, and accuracy of leave records.
- Evaluated University policies and procedures for payments of accumulated annual and sick leave (terminal leave pay) to determine whether the policies and procedures promoted compliance with State law and University policies. Specifically, from the population of 630 employees who separated from University employment during the audit period and were paid \$3.5 million for terminal leave, we selected 30 employees with terminal payments totaling \$1.2 million and examined the supporting records to evaluate the payments for compliance with Section 110.122, Florida Statutes, and University Regulations 10.104 and 10.203.
- From the population of 22 employees who received severance pay totaling \$1,175,875 during the period January 2016 through January 2017, examined related contract provisions and other University records for 4 selected employees paid \$604,203, to determine whether the payments complied with Section 215.425(4), Florida Statutes, and University policies.
- From the population of 18 administrative employees, including the President, who received compensation totaling \$6.5 million during the audit period, examined University records for 13 selected employees, including the President, who received compensation totaling \$5.4 million to determine whether the amounts paid did not exceed the limits established in Sections 1012.975(3) and 1012.976(2), Florida Statutes.
- Evaluated University policies and procedures for obtaining personnel background screenings to determine whether employees in positions of special trust and responsibility, such as positions with direct contact with persons under age 18, had undergone the appropriate background screenings.
- Examined University records supporting expenses to determine whether the expenses were reasonable; correctly recorded; adequately documented; for a valid University purpose; properly authorized and approved; in compliance with applicable laws, rules, contract terms, and University policies; and applicable vendors were properly selected. From the population of expenses totaling \$329.9 million for the audit period, we examined:
 - o 30 selected payments for general expenses totaling \$266,679.
 - o 30 selected payments for contractual services totaling \$3.3 million.
 - o The competitive selection of 9 vendors paid a total of \$329,639.

- Examined University records supporting selected purchasing card (P-card) transactions to determine whether the P-card program was administered in accordance with University policies and procedures and purchases were not of a personal nature. We also examined, from the population of 122 cardholders who separated from University employment during the audit period, University P-card records for 3 cardholders to determine whether P-cards were timely canceled upon the cardholders' employment separation.
- From the population of the University President and Trustees' travel expenses totaling \$37,987 during the audit period, examined University records supporting 22 selected travel expense reimbursements totaling \$23,845 to determine whether the travel expenses were reasonable, adequately supported, for valid University purposes, and limited to amounts allowed by Section 112.061, Florida Statutes.
- From the population of 249 payments totaling \$20,568 made during the audit period to employees for other than travel and compensation, examined University records supporting 13 selected payments totaling \$4,231 to determine whether such payments were reasonable, adequately supported, for valid University purposes and whether such payments were related to employees doing business with the University, contrary to Section 112.313, Florida Statutes.
- From the population of 68 major construction projects, which had payments totaling \$55.6 million during the audit period, selected 3 major construction projects with contracts totaling \$169.5 million and examined:
 - o Documentation supporting 30 selected payments totaling \$15.8 million to determine whether the payments were made in accordance with contract terms and conditions, University policies and procedures, and provisions of applicable State laws and rules.
 - o Documentation related to 1 project with a design-build construction contract totaling \$133.7 million to determine whether the University selected the design professionals and construction managers in compliance with State law, the University adequately monitored the process for selecting subcontractors, the Trustees had adopted a policy establishing insurance coverage requirements for design professionals and construction managers, and evidence of insurance was provided as required by BOG Regulation 14.021.
- Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.
- Prepared and submitted for management response the findings and recommendations that are included in this report and which describe the matters requiring corrective actions. Management's response is included in this report under the heading **MANAGEMENT'S RESPONSE**.

AUTHORITY

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



Sherrill F. Norman, CPA
Auditor General

MANAGEMENT'S RESPONSE



February 2, 2018

Sherrill F. Norman, CPA
Auditor General
3505 East Frontage Rd, Suite 350
Tampa, FL 33607

Dear Ms. Norman:

Please see enclosed, the University of South Florida response for the audit findings related to the University that are included in the 2016 Operational Audit administered by the State of Florida.

If you have any questions or require additional information, please contact Jennifer Condon, University Controller, at 813-974-7696.

Sincerely,

A handwritten signature in blue ink, appearing to read "Nick J. Trivunovich". The signature is stylized with a large, sweeping loop at the end.

Nick J. Trivunovich
Chief Financial Officer
Vice President for Business and Finance

Enclosure

Copy to: Dr. Judy Genshaft
Dr. Ralph Wilcox
John Long
Calvin Williams
Sidney Fernandes
Jennifer Condon
Virginia Kalil

OFFICE OF THE USF SYSTEM VICE PRESIDENT OF BUSINESS & FINANCE
University of South Florida • 4202 East Fowler Avenue, CGS401 • Tampa, FL 33620
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University of South Florida
Responses to Preliminary and Tentative Findings of the USF 2016 Operational Audit
Conducted by the Auditor General's Office

Finding 1: Textbook Affordability: University textbook affordability procedures need enhancement to promote compliance with State law.

Recommendation: The University should continue efforts to ensure that a hyperlink to lists of required and recommended textbooks and instructional materials for at least 95 percent of all courses and course sections offered at the University during the upcoming term is prominently posted in the course registration system and on its Web site, as early as feasible, but at least 45 days before the first day of class for each term. We also recommend that the University maintain records to support the courses and course sections reported to the SUS Chancellor and document confirmation of course instructor or academic department intent to use all items ordered.

Management's Response: Management has implemented procedures to ensure compliance with State law. Prior to the Spring 2017 term, the University's bookstore reported compliance using projected sales activities compared against the previous term. Internal reviews of the process determined that this approach may have over-reported textbook adoptions. As a result of this review and beginning with the Spring 2017 term, USF Libraries personnel launched a protocol that compared actual adoption records against "live" data from the OASIS system to determine rates of compliance. At critical junctures during the lead up to the 45-day posting deadline, communications from the Office of the Provost and Regional Institution administrators to Department Chairs/Directors throughout the USF System prompted faculty who had not yet complied to do so by the deadline. In these communications, Department Chairs/Directors were strongly encouraged to ensure compliance and were presented with data files documenting their department's performance to date.

To ensure intent to use all textbook and instructional materials posted for courses, the Office of the Provost has implemented a process that requires Department Chairs to complete and sign a form stating that all materials ordered by department faculty will be used in instruction. Department Chairs/Directors are responsible for reviewing the faculty's compliance with this requirement. The completed forms are maintained on the textbook affordability Canvas site.

<u>Implementation Date:</u>	January 1, 2018
<u>Responsible Party:</u>	Todd Chavez, 813/974-1646

Finding 2: Severance Payments: The University made severance payments that exceeded the limits established in State law. Similar findings were noted in our report Nos. 2014-063 and 2016-133.

Recommendation: The University should ensure that the severance pay provisions in University employment agreements are consistent with State law and that severance payments do not exceed the amounts established in State law.

Management's Response: The University ceased contracting for post-employment payments via liquidated damages in the intercollegiate athletics context. Damages for loss of employment were liquidated in intercollegiate athletic contracts because the market reality for individuals in

intercollegiate athletics is that the impact of a termination even without cause tends to create reputational loss and reduces future hiring prospects and earning potential. Therefore, until December 1, 2016 USF's athletics contracts included a pre-negotiated liquidated damages calculation intended to address damages that are difficult to quantify in amount or duration. USF's position is that liquidated damages are not covered by §215.425 (4)(d). However, as of December 1, 2016 USF eliminated liquidated damages provisions in excess of the time periods provided in §215.425(4)2 (i.e. 6 week or 20 weeks). For example, the University contracts extended to USF's new head coaches for Football, Men's Basketball and Soccer, along with the assistants for each program, do not contain post-employment payment provision in excess of twenty weeks. Contracts entered into prior to December 1, 2016 that come up for renewal will have their severance provisions re-negotiated. For example, the 2018 contract extension completed for the University's head Women's Soccer Coach was renegotiated to conform to the twenty week period.

<u>Implementation Date:</u>	December 1, 2016
<u>Responsible Party:</u>	Donna Keener, 813/974-5711

Finding 3: Student Receivables: The University needs to enhance procedures for collecting student receivables.

Recommendation: The University should improve efforts for collecting student accounts receivable by timely submitting delinquent student accounts to collection agencies, restricting the use of hold bypasses, and canceling class registrations for future semesters when previous tuition and fees remain unpaid.

Management's Response: The University will improve efforts for collecting student accounts receivable by timely submitting delinquent student accounts to collection agencies, restricting the use of hold bypasses, and canceling class registrations for future semesters when previous tuition and fees remain unpaid.

<u>Expected Implementation Date:</u>	September 30, 2018
<u>Responsible Party:</u>	Jennifer Condon, 813/974-7696

Finding 4: Direct Support Organizations: University policies and records supporting University personal services provided to University direct-support organizations could be improved.

Recommendation: We recommend that:

- The Trustees prescribe by rule any conditions with which a DSO must comply in order to use University property, facilities, and personal services and the University monitor and document DSO compliance with such conditions.
- The University document the Trustees' consideration and approval of DSO anticipated use of University resources, at least on an annual basis, before the use occurs. To enhance government transparency, the Trustees' approval documentation should identify the positions of the employees who will provide the personal services that will be provided to the DSOs and the value of such services.

- The University document University employee actual time and effort provided to the DSO to support the purpose for and the value of those services and the distribution of applicable personal service costs among specific University and DSO activities for employees who work on more than one activity.

Management's Response: The University has a formal, well-documented and long-established process whereby the DSOs annually present their fiscal year financial plans to the Trustees for consideration and approval in advance of the anticipated provision of personal services or use of University property and facilities. The Trustees' review and approval of the financial plans for the next fiscal year also includes a review of the DSO's anticipated value associated with the use of University personal services or property and facilities and actual value associated with the use of University personal services or property and facilities for the prior two fiscal years. The Trustees review and approval of the DSO financial plans is documented in the minutes of the meeting. The University process includes a mid-year report to the Trustees on the DSO use and value of University personal services or property and facilities comparing actual and forecasted usage to the anticipated use in the financial plan.

DSO financial plans include disclosures of strategic initiatives to enhance the mission, vision and values of the University. Additionally, any change to the DSO bylaws and mission must be approved by the Trustees.

Formal agreements approved by the University are in place with the DSOs that prescribe the conditions with which the DSOs must comply in order to use University personal services or property and facilities, which agreements require related financial reports, budgets and audit reports.

Annually, the DSO chief executive officer, chair of the board of directors and chief financial officer formally certify and submit to the Trustees compliance with federal and state laws and regulations and compliance with all applicable University policies, rules and regulations. The DSOs also certify that a system of internal controls is in place and effective to ensure compliance, and must disclose any instances of noncompliance.

Expected Implementation Date: May 31, 2018

Responsible Party: Fell Stubbs, 813/974-3298

Finding 5: Information Technology User Access Privileges– Enterprise Resource Planning

System: University information technology (IT) access controls over human resource and finance applications need improvement. In addition, the University did not document periodic reviews of assigned IT user access privileges to determine whether such privileges were necessary or that any inappropriate or unnecessary access privileges detected were timely removed. A similar finding was noted in our report No. 2016-133.

Recommendation: The University should continue efforts to appropriately separate incompatible duties associated with the HR application, perform documented periodic reviews of IT user access privileges to the ERP system based on a demonstrated need for such access, and remove any inappropriate or unnecessary access privileges detected.

Management's Response: The University will continue to improve our efforts to ensure that employees only have access to parts of the HR application necessary for performing their job duties

by enhancing our entitlement reviews (in progress), appropriately documenting these reviews, and taking prompt action based on the needed access privileges.

Expected Implementation Date: March 15, 2018

Responsible Party: Alex Campoe, 813/974-1796

Finding 6: Information Technology User Access Privileges– Social Security Numbers:

Some unnecessary IT user access privileges existed that increased the risk that unauthorized disclosure of student social security numbers may occur.

Recommendation: To ensure access to sensitive student information is properly safeguarded, the University should:

- Document the public purpose served by indefinitely maintaining the SSNs for individuals who did not enroll in the University or establish a reasonable time period for maintaining prospective student SSNs.
- Upgrade the University IT system to include a mechanism to differentiate IT user access privileges to current student information from access privileges to former and prospective student information.
- Continue efforts to ensure that only those employees who have a demonstrated need to access sensitive student information have such access.

Management's Response: The University will conduct annual entitlement reviews of employees with access to SSNs to confirm a business need for the access. As part of the review, we will determine if employees needing access require the access for both current and former students.

The University will also develop and implement a policy that will address the appropriate length of time to retain SSNs for prospective students who do not enroll in the semester in which they were admitted.

Expected Implementation Date: May 1, 2018

Responsible Party: Billie Jo Hamilton, 813/974-3039