

STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

Report No. 2018-193
March 2018

UNIVERSITY OF FLORIDA



Sherrill F. Norman, CPA
Auditor General

Board of Trustees and President

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Charles B. Edwards through 1-20-16	Anita G. Zucker

^a Faculty Senate Chair.

^b Student Body President.

The team leader was Julee W. Tinsler, CPA, and the audit was supervised by Denita K. Tyre, 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 FLORIDA

SUMMARY

This operational audit of the University of Florida (University) focused on selected University processes and administrative activities and included a follow-up on findings noted in our report No. 2016-058. Our operational audit disclosed the following:

Finding 1: Contrary to State law, the University used tuition differential fees totaling \$24,027 to fund the salaries and benefits of seven graduate teaching assistants during the 2016 calendar year.

Finding 2: The University did not always timely deactivate the information technology access privileges for employees who separated from University employment.

Finding 3: The University needs to continue efforts to ensure purchasing cards are timely canceled upon a cardholder's separation from University employment.

Finding 4: University records associated with the University's direct-support organization use of University property, facilities, and personal services could be improved.

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 (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 Faculty Senate Chair and Student Body President also are 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. 2016-058. The results of our financial audit of the University for the fiscal year ended June 30, 2017, is 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: Tuition Differential

State law¹ provides that each university board of trustees may establish a tuition differential fee for undergraduate courses, which shall be used to promote improvements in the quality of undergraduate education and provide financial aid to undergraduate students who exhibit financial need. State law specifies the purposes for which the revenues from tuition differential fees may be expended and states that the expenditure for undergraduate education may not be used to pay the salaries of graduate teaching assistants.

During the 2016 calendar year, the University recorded tuition differential fee expenses totaling \$26.3 million, including \$11.3 million for employee salaries and benefits. As part of our audit, we performed analytical procedures to determine whether tuition differential fees were used appropriately and found that, contrary to State law, fees totaling \$24,027 were used to fund the salaries and benefits of seven graduate teaching assistants.

In response to our inquiry, the University indicated that the payments from the tuition differential fees account occurred because incorrect account codes were inadvertently used when payroll costs were distributed. University personnel restored \$3,736 to the differential fee account for the 2015-16 fiscal year salaries and benefits of two graduate teaching assistants. However, the University did not restore \$20,291 relating to expenses incurred for the prior fiscal year because those accounts had been closed. Notwithstanding, University personnel indicated they would remind applicable budget officers to use the correct account codes when distributing graduate teaching assistant payroll costs.

Recommendation: The University should continue efforts to ensure graduate teaching assistant salaries and benefits are correctly coded and not paid from tuition differential fees. In addition, the University should restore the remaining \$20,291 questioned costs to the appropriate differential fee account.

Finding 2: Timely Deactivation of Access Privileges

Effective management of information technology (IT) access privileges includes the timely deactivation of employee IT access privileges when an employee separates from employment. Prompt action is necessary to ensure that the access privileges are not misused by former employees or others to compromise data or IT resources.

University procedures require departments to notify the Human Resource Services (HRS) Department of upcoming employment separations. Once notified, the HRS Department alerts departmental data security administrators to notify the IT Department to deactivate the access privileges for the employees upon employment separation. However, because the HRS Department is not always timely notified of employment separations, prompt deactivation of the individual's access privileges does not always occur.

¹ Section 1009.24(16), Florida Statutes.

The University uses role-based security to assign access. Based upon the roles assigned, a user is authorized to perform certain functions such as data entry; approval of purchase orders, invoices, and journal entries; and initiation of IT system program modifications. As part of our audit, we examined University records supporting the role access privileges of 28 individuals selected from the population of 9,214 individuals who separated from University employment during the 2016 calendar year. We found that the role access privileges of 9 employees (2 accountants, a fiscal assistant, an IT project manager, and 5 other employees) remained active 5 to 217 days, or an average of 21 days, after the individuals separated from University employment. These employees retained access to roles that allowed users to, for example, enter check requests, update payroll distributions at department levels, and access sensitive employee and student information. Without timely removal of role access privileges, the risk is increased that access privileges may be misused by the former employees or others.

Recommendation: The University should enhance procedures to ensure that access privileges are promptly deactivated upon a user's separation from University employment.

Finding 3: Purchasing Cards

The University administers a purchasing card (P-card) program, which gives employees the convenience of purchasing items without using the standard purchase order process. P-cards are designed to provide a cost-effective, convenient, and decentralized method for individuals to make certain business purchases on behalf of the University. The bank that administers the P-card program requires charge disputes to be made within 60 days of the transaction posting date.

The University established a P-card administrative team that had responsibilities for issuing P-cards, monitoring P-card transactions, providing P-card training, and canceling P-cards. The departments of cardholders are required to e-mail the administrative team to cancel P-cards, including those assigned to employees who separated from University employment, as soon as possible and provide the team with the employee name, identification number, and reason why the P-card is being canceled. Additionally, department supervisors are to conduct exit interviews using employee exit checklists. The checklists instruct employees to return their P-cards and remind supervisors to notify the administrative team to cancel the P-cards.

As of December 31, 2016, the University had 5,228 active P-cards and, during the 2016 calendar year, 368 cardholders separated from University employment. We compared University P-card records with records of employment separations and found that the University did not cancel the P-cards assigned to 19 employees until 8 to 337 days, or an average of 103 days, after cardholders' employment separation dates. According to University personnel, established policies and procedures to promptly cancel these 19 cards were not followed. University personnel also indicated that the P-card administrative team developed a report in October 2016 that should help the team enhance monitoring of employment separations and related P-card cancellations.

Our examination of University records supporting the P-card activity of the 19 former employees did not disclose any inappropriate charges; however, our procedures cannot substitute for the University's responsibility to implement adequate internal controls over P-card cancellations. The untimely cancellation of P-card privileges increases the risk that such privileges could be misused by former

employees or others, and may limit the University's ability to satisfactorily resolve disputed charges. A similar finding was noted in our report No. 2016-058.

Recommendation: The University should continue efforts to ensure that P-card privileges are timely canceled upon a cardholder's separation from University employment.

Finding 4: Direct-Support Organizations

To promote accountability over University property, facility, and personal service 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 law² 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 law³ requires the Board of Trustees (Trustees) to prescribe by rule any 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 17 DSOs that routinely provide supplemental resources and education support services to the University. A University internal operating memorandum⁴ established procedures for the creation, certification, operation, and decertification of University DSOs. For example, the established procedures require each DSO to:

- Qualify as a tax-exempt organization by making application to the Internal Revenue Service (IRS) as a tax-exempt organization.
- Have an established purpose wholly in support of University programs.
- Submit documentation such as articles of incorporation, by-laws, and the IRS Application for Recognition for Exemption Under Section 501(c)(3) of the Internal Revenue Code (Form 1023) to the University for approval.
- Prepare an annual budget approved by the DSO board and submit it to the President of the University or the President's designee for approval not later than 60 days after the first day of the fiscal year to which the proposed budget pertains.
- Have annual financial audits of the DSO's accounts and records conducted by an independent certified public accountant submitted to the President or President designee for approval no later than the end of the third month after the close of the DSO's fiscal year.

While the procedures specified certain conditions with which DSOs must comply, additional conditions may improve transparency and accountability for DSO use of University property, facilities, and personal services. Such conditions could restrict the DSO use of University resources to Trustee-approved public purposes consistent with the mission, vision, and values of the University and require the DSO to certify,

² Section 1004.28(1)(a)2., Florida Statutes.

³ Section 1004.28(3), Florida Statutes.

⁴ University of Florida Internal Operating Memorandum 07-20, *Direct Support Organizations*, Revised November 30, 2007.

before use, that University resources will only be used for such purposes and, after resource use, to validate that the resources were only used for those purposes.

According to University personnel, during the 2016 calendar year, the University provided personal services with related costs totaling \$24.2 million to 11 DSOs and the respective DSOs reimbursed the University for \$16.2 million of these costs. University personnel also indicated that these costs were based on the services of 328 University employees who provided up to 100 percent of their work efforts for the DSOs. In response to our request, University personnel provided a list of the University facilities used by DSOs during the 2016 calendar year. However, although we requested, University records were not provided to document the value of such use.

The University of Florida Foundation, Inc. (Foundation), is one of the University's DSOs. As part of our audit, we reviewed University records related to the Foundation. We found that the University Office of Advancement administratively manages the Foundation and the University Vice President, UF Advancement also serves as the Executive Vice President of the Foundation and is responsible for the development and fundraising activities of the University and for managing all activities and operations of the Foundation. Our review of University job descriptions and discussions with University personnel disclosed that, during the 2016 calendar year, approximately 260 University employees provided up to 100 percent of their work efforts for the Foundation. During that year, the personal services costs related to these 260 employees totaled \$19.9 million.

In response to our request for records supporting the 260 employees' time and effort, University personnel indicated that, since State law allows the University to provide personal services to the Foundation, the University did not have a business purpose for maintaining records supporting the employees actual time and effort for Foundation activities. Additionally, the Foundation reimbursed the University for \$12.2 million of the personal services costs based on the Foundation Funding of Development Programs Policy, which enumerates how development expenses are generally shared between the University and the Foundation. However, although we requested, Trustees-approved agreements were not provided to evidence the basis for the reimbursements. Without such agreements, there is an increased risk for misunderstandings between the University Trustees and the Foundation and for over or under reimbursements to occur.

According to University personnel, to help accomplish the Foundation mission, two of the University Trustees and the President are members of the Foundation Executive Board. University personnel indicated that the University was unaware of any requirement for the Trustees to document consideration and approval of DSO use of University resources, given that at least one Trustee serves, or appoints a designee to serve, on the executive board of each of DSO.

Notwithstanding the information provided by University personnel, we found that University records associated with DSO use of University resources could be improved by a Trustees-approved rule to prescribe the conditions with which each DSO must comply in order to use University property, facilities, and personal services; obtaining Trustees approval of anticipated DSO use of University resources before the use occurs; maintaining records to document when a DSO used University property and facilities and the purpose for and value of such use; and maintaining records to document University employee actual time and effort provided for DSO activities to support the purpose for and value of the

personal services. Absent such approvals and records, accountability for use of University resources is diminished, there is an increased risk that DSO use of University resources may not be consistent with Board intent, and University resources provided for DSO use are less transparent.

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 that the University monitor and document DSO compliance with such conditions.**
- **The Trustees enter into agreements with DSOs to establish the basis for any DSO reimbursements.**
- **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, Trustees approval documentation should identify the positions of the employees who will provide the personal services, the square footage of the office space and related buildings that will be used by the DSO, and the value of such use.**
- **The University document University employee actual time and effort provided to the DSOs to support the purpose for and value of such services and the distribution of applicable personal services costs among specific University and DSO activities for employees who work more than one activity.**

PRIOR AUDIT FOLLOW-UP

Except as noted in Finding 3, the University had taken corrective actions for findings included in our report No. 2016-058.

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 February 2017 through February 2018, 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. 2016-058.
- 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 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 written 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.
- Reviewed University procedures for maintaining and reviewing user access privileges to IT resources. We judgmentally selected 3 finance application roles that were assigned to a total of 32 employees to determine the appropriateness and necessity of their access based on the employees' job duties and user account functions and the adequacy with regard to preventing the performance of incompatible duties.

- Evaluated University procedures for protecting student social security numbers (SSNs). Specifically, we examined University records supporting the access privileges for 54 of the 195 employees who had access to student SSNs during the audit period to determine the appropriateness and necessity of the access privileges based on the employees' assigned job responsibilities.
- Reviewed University procedures to prohibit former employees' access to electronic data files. We examined the access privileges for employees who separated from University employment during the audit period to determine whether the access privileges had been timely deactivated.
- Evaluated Board of Trustees and committee meeting minutes to determine whether Trustee approval was obtained for the 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 internal audit function to determine whether the University followed professional requirements and provided for peer review of reports issued. For internal audits, we determined whether audit reports were properly completed and submitted to the Board.
- Examined University records to determine whether the University had developed anti-fraud policies to provide guidance to employees for communicating known or suspected fraud to appropriate individuals. Also, we determined whether the University had implemented appropriate and sufficient procedures to comply with its anti-fraud policies.
- Examined University records supporting 9 payments totaling \$8.2 million, selected from the population of 127 payments totaling \$10.9 million, made during the audit period from the University to its 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 Board had prescribed by rule the conditions with which DSOs must comply in order to use University property, facilities, and personal services.
 - The Board documented consideration and approval of the DSOs' anticipated use of University resources.
 - The University required and maintained University records to document when the DSOs used University property and facilities, the purpose of such use, and the value of that use.
 - The University maintained records to document the University employee actual time and effort provided for personal services to the DSOs, the purpose for such services, and the value of those services.
- Examined University records for 40 selected student accounts receivable totaling \$450,391 from the population of 1,961 student accounts receivable totaling \$4.3 million and recorded as of March 2017 to determine whether University collection efforts were adequate and restrictions on student records and holds on transcripts and diplomas were appropriate and enforced for students with delinquent receivable accounts.
- From the population of 609 student tuition and fee deferrals totaling \$1.5 million, examined University records for 10 selected student tuition and fee deferrals totaling \$130,858 to determine whether University procedures for recording deferrals were adequate and deferments of student tuition and fees were properly authorized, documented, and within established limits.

- From the population of 1,704 delinquent student accounts receivable totaling \$489,542 and written-off in June 2016, examined documentation supporting the 5 largest delinquent student accounts receivable totaling \$22,806 and determined whether the University's collection efforts were adequate and restrictions on student records and holds on transcripts and diplomas were appropriate and enforced for students with delinquent accounts. We also examined University records to determine whether uncollectible accounts written-off were properly approved.
- Analyzed payments from tuition differential fees collected during the audit period to determine whether the University assessed and used tuition differential fees in compliance with Section 1009.24(16)(a), Florida Statutes.
- From the population of 255 students whose residency status changed from out-of-State to in-State effective for the Fall 2016 Semester, examined University records for 30 selected students and determined whether the residency status changes complied with Section 1009.21, Florida Statutes.
- From the population of 1,421 distance learning courses, which generated fee revenue totaling \$6.2 million during the audit period, examined University records for 30 selected distance learning courses with fee revenue totaling \$22,283 to determine whether fees were assessed, collected, separately accounted for, and retained in accordance with Section 1009.24(17), Florida Statutes.
- From the population of 12 contracts for auxiliary operations, which generated revenue totaling \$6.5 million for the audit period, examined University records supporting 2 selected contracts, which generated revenue of \$232,928, 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.
- Evaluated University policies and procedures regarding textbook affordability for compliance with Section 1004.085, Florida Statutes. Specifically, from the population of 16 colleges with 192 total educational departments within the University, applied analytical procedures to determine whether the textbooks for 15 colleges with 30 total educational departments and 2,422 class sections were timely listed on the University's Web site during the 2016 calendar year. In addition, from the population of 1,522 class sections for the 2016 Fall Semester, we evaluated all required instructional materials to determine whether wide variances existed in course costs.
- From the population of payroll transactions totaling \$1.6 billion to 39,632 employees during the audit period, examined 30 payroll transactions totaling \$194,160 and the related payroll and personnel records to determine the accuracy of the rate of pay, whether performance evaluations were completed, the accuracy of leave records, and whether supervisory personnel reviewed and approved employee reports of time worked.
- 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. From the population of 1,437 employees who separated from University employment during the audit period and were paid \$13.9 million for terminal leave, we selected 30 employees with terminal payments totaling \$236,379 and examined the supporting records to evaluate the payments for compliance with Section 110.122, Florida Statutes, and University Regulation 1.201.
- From the population of 69 employees who received severance pay totaling \$959,296 during the audit period, examined University records for 23 selected employees paid severance pay totaling \$484,168 to determine whether the severance payments complied with State law and University policies.
- From the population of 41 administrative employees (including the President) who received compensation totaling \$12.8 million during the audit period, examined University records supporting 36 selected employees (including the President) who received compensation totaling

\$10 million to determine whether the amounts paid from State appropriated funds 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 individuals 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 expense documentation to determine whether the expenses were reasonable, correctly recorded, adequately documented, for a valid University purpose, properly authorized and approved, and in compliance with applicable laws, rules, contract terms, and University policies, and applicable vendors were properly selected and carried adequate insurance. From the population of expenses totaling \$1.3 billion for the audit period, we examined University documentation supporting:
 - 30 selected payments for general expenses totaling \$5,454.
 - 20 selected payments for contractual services totaling \$9 million.
- Inquired of University personnel and examined University records supporting a payment for security services associated with a public speaking engagement and the subsequent reimbursement of the payment.
- From the population of 388,755 purchasing card (P-card) transactions totaling \$93.3 million during the audit period, examined University records supporting 30 selected P-card transactions totaling \$33,557 to determine whether the P-card program was administered in accordance with University policies and procedures and transactions were not of a personal nature.
- Examined P-card records for 30 of the 368 cardholders who separated from University employment during the audit period to determine whether P-cards were timely canceled upon the cardholders' employment separation.
- From the population of 225 transactions totaling \$43,193 in travel expenses attributed to the President's and the Board of Trustees' departments during the audit period, examined 23 travel expense reimbursements totaling \$17,517 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 20,780 payments totaling \$4.7 million made during the audit period to employees for other than travel and compensation, examined 36 selected payments totaling \$326,376 to determine whether such payments were reasonable, adequately supported, and for valid University purposes, and whether such payments were related to employees doing business with the University, which is contrary to Section 112.313, Florida Statutes.
- Reviewed University policies and procedures related to identifying potential conflicts of interest. We also reviewed Florida Department of State, Division of Corporation, records; statements of financial interest; and University records for 23 selected University officials to identify any potential relationships that represented a conflict of interest with vendors used by the University.
- From the population of 237 construction projects with payments totaling \$146.7 million and in progress during the audit period, selected 10 payments totaling \$35.5 million related to 3 major construction projects with contract amounts totaling \$118.6 million and examined University records 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. Additionally, for the 3 major construction projects selected, we examined:
 - Documentation to determine whether the University process for selecting design professionals and construction managers was in accordance with State law, and whether the University adequately monitored subcontractor selection.

- Documentation to determine whether the University had adopted a rule establishing minimum insurance coverage requirements for design professionals, such as architects and engineers.
- Documentation to determine whether architects and engineers provided evidence of required insurance.
- From the population of Public Education Capital Outlay (PECO) and other restricted capital outlay expenses totaling \$30.7 million during the audit period, examined records supporting 25 selected expenses totaling \$10.5 million to determine whether these funds were expended in compliance with the restrictions imposed on the use of these resources.
- Examined documentation supporting a \$1.4 million payment from the population of payments totaling \$7.1 million during the audit period for new software applications, to determine whether the University evaluated the effectiveness and suitability of the software application prior to purchase and whether the purchase was made through the competitive vendor selections process and deliverables met the contract terms and conditions.
- From the population of 5,638 refunds issued from January 2016 through July 2017 totaling \$57.1 million, examined records supporting 30 selected refunds totaling \$102,562 to determine whether refunds were appropriately issued and supported.
- 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



Office of the Vice President
and Chief Financial Officer

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March 29, 2018

Sherrill F. Norman, CPA
Auditor General
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111 West Madison Street
G74 Claude Pepper Building
Tallahassee, FL 32399-1450

Dear Ms. Norman:

Attached are responses to the University of Florida's preliminary and tentative operational audit findings for the calendar year ended December 31, 2016.

Your staff's assistance is greatly appreciated.

Sincerely,

A handwritten signature in blue ink that reads "Michael V. McKee".

Michael V. McKee
Vice President and Chief Financial Officer

Attachments

cc: Dr. Kent Fuchs, President, University of Florida
University of Florida Board of Trustees
Ms. Amy Hass, Interim Vice President and General Counsel
Dr. Joseph Glover, Provost and Sr. Vice President for Academic Affairs
Mr. Alan West, Asst. Vice President and University Controller
Mr. Brian Mikell, Chief Audit Executive

The Foundation for The Gator Nation
An Equal Opportunity Institution

Finding 1 - Tuition Differential

Auditor Recommendation:

The University should continue efforts to ensure graduate teaching assistant salaries and benefits are correctly coded and not paid from tuition differential fees. In addition, the University should restore the remaining \$20,291 questioned costs to the appropriate differential fee account.

University's Response:

The University is aware of the rules related to funding requirements for tuition differential fees. The expenditures questioned above were the result of a clerical error against an internal flex code. Expenditures have been adjusted as recommended. The University has also instituted a quarterly review of accounting transactions posted to the tuition differential flex code.

Responsible Auditee:

Dr. Joseph Glover, Provost and Sr. Vice President for Academic Affairs
Michael V. McKee, Vice President and Chief Financial Officer

Finding 2 - Timely Deactivation of Access Privileges

Auditor Recommendation:

The University should enhance procedures to ensure that access privileges are promptly deactivated upon a user's separation from University employment.

University Response:

The University will implement short term and long term solutions to enhance procedures.

Short term solution:

- Communication to the current Department Security Administrators (DSA) to remove all IT access roles when an employee terminates or moves to another department.
- Educate the department administrators and supervisors to enter terminations timely, including non-employees, and notify the DSA's when an employee terminates or moves to a new department or position within the University.
- Weekly email report of who was terminated from the University or moves to a new department or position within the University to the DSA's, Identity Coordinators, HR department administrators, Procurement office and Financial Accountable Officers for a period of 4 weeks.

Long term solution:

- By end of calendar year 2019, automate a solution to monitor the employee terminations and remove their access privileges. Any roles required for a new position will need to be requested by the appropriate DSA.

University of Florida
Responses to Preliminary & Tentative Audit Findings
Operational Audit
For the Fiscal Year Ended June 30, 2015

- Report individuals that move from one role or department, all their appropriate access privileges will be reported to the appropriate DSA.

Responsible Auditee:

Elias Eldayrie, Vice President and CIO

Michael V. McKee, Vice President and Chief Financial Officer

Finding 3 – Purchasing Cards

Auditor Recommendation:

The University should continue efforts to ensure that P-card privileges are timely canceled upon a cardholder's separation from University employment.

University Response:

The University has established processes to help ensure P-card privileges are canceled in a timely manner by:

- Weekly email report of who was terminated from the University or moves to a new department or position within the University to the DSA's, Identity Coordinators, HR department administrators, Procurement office and Financial Accountable Officers for a period of 4 weeks
- P-card accounts are scrutinized for recent non-use and an inquiry sent to the department level to help determine cancellation

Responsible Auditee:

Michael V. McKee, Vice President and Chief Financial Officer

Finding 4 – Direct Support Organizations

Auditor 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 that the University monitor and document DSO compliance with such conditions.
- The Trustees enter into agreements with DSOs to establish the basis for any DSO reimbursements.
- 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, Trustees approval documentation should identify the positions of the employees who will provide the personal services, the square footage of

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the office space and related buildings that will be used by the DSO, and the value of such use.

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

University Response:

The University would like to clarify a statement in the finding to note that during the period in question, of 328 University employees, some provided up to 100 percent of their work efforts for the DSOs. Some others provided a lesser percentage of effort for the DSOs.

The University complies with applicable requirements of State law regarding accountability over University property, facility and personal service use. The University has an existing regulation governing such use. As noted in the finding, the University also established Internal Operating Memorandum 07-20 to further address this accountability. Some of the accountability procedures include, among others, the review and approval of DSO budgets, independent audits of the DSO operations, employee position descriptions allocating effort to DSOs, and supervisory review of personal service costs.

The Auditor General has suggested that additional conditions may improve transparency and accountability for DSO use of University property, facilities and personal services. While that could be true, it is incumbent on the University to evaluate the costs associated with these additional conditions against the potential benefits related to improved transparency and accountability. The University leadership will work with the Board of Trustees and the DSO leadership to review existing processes and procedures to determine if additional conditions are warranted.

Responsible Auditee:

Michael V. McKee, Vice President and Chief Financial Officer