AUDITOR GENERAL

DAVID W. MARTIN, CPA

UNIVERSITY OF SOUTH FLORIDA

Operational Audit

SUMMARY

Our operational audit for the fiscal year ended June 30, 2007, disclosed the following:

Finding No. 1: The University's controls over impress bank accounts needed improvement.

Finding No. 2: Improvements were needed in the University's procedures relating to accountability of tangible personal property.

Finding No. 3: The University did not adequately monitor compliance with auxiliary food service, vending, and bookstore contract provisions related to commission and rent income due, and insurance requirements. In addition, the snack vending contract did not establish a timeframe for submitting an annual certified accounting of sales and commission paid, and did not require that the certification be made by an independent certified public accountant.

Finding No. 4: The University did not adequately monitor compliance with credit union contract provisions related to commission due and insurance requirements. In addition, the contract did not address the required amount of general liability insurance.

Finding No. 5: The University did not always retain documentation required by State Board of Education Rule 6A-10.044, Florida Administrative Code, or adequately monitor student residency status for purposes of assessing and collecting student tuition.

Finding No. 6: The University's controls over decentralized collections needed improvement.

Finding No. 7: Improvements were needed in the University's procedures to ensure timely processing of termination pay for unused annual and sick leave.

Finding No. 8: The University's competitive procurement threshold exceeded the limit established by the Board of Governors.

Finding No. 9: Controls over the purchasing card program needed improvement. Our tests of purchasing card transactions disclosed several instances in which purchasing cards were used in a manner not consistent with purchasing card guidelines.

Finding No. 10: Because University procedures for monitoring cellular telephone (cell phone) usage were not in compliance with the United States Treasury Regulations substantiation requirements, the University was required to, but did not, report to the Internal Revenue Service the value of cell phone services as income for employees assigned cell phones. In addition, the University paid certain taxes on cell phone service for which it was exempt.

Finding No. 11: Employees were reimbursed for travel expenses at rates that exceeded those authorized by Section 112.061, Florida Statutes.

Finding No. 12: User sign-on accounts were not always timely removed for employees who terminated employment.

Finding No. 13: The University needed to improve controls relating to the application environment. Specific details of the needed improvement are not disclosed in this report to

avoid the possibility of compromising University data and information technology resources.

BACKGROUND

The University is a separate public instrumentality that is part of the State university system of public universities. The University Board of Trustees (Trustees) consists of 13 members. The Governor appoints 6 citizen members and the Board of Governors appoints 5 citizen members. These members are confirmed by the Florida Senate and serve staggered terms of five years. The faculty senate chair and student body president also are members. Trustees who served during the audit period are listed in Appendix A of this report.

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

The President of the University during the audit period was Dr. Judy Genshaft.

The results of our financial audit of the University for the fiscal year ended June 30, 2007, will be presented in a separate report.

An examination of expenditures of Federal awards administered by the University under contract and grant agreements to finance specific programs and projects is included in our Statewide audit of Federal awards administered by the State of Florida. The results of that audit, for the fiscal year ended June 30, 2007, will be presented in a separate report.

FINDINGS AND RECOMMENDATIONS

Finding No. 1: Impress Bank Accounts

Certain University departments use imprest bank accounts to make certain cash payments that need to be done in an expedient manner. Our review of controls over imprest bank accounts for the Office of Research and the Florida Mental Health Institute – Subject Payments disclosed that such controls needed improvement, as follows:

- In March 2007, the Office of Research opened a $50,000 imprest bank account to be used mainly for human subject experimentation fees and expenses for remote-site research. Our review, in June 2007, of the March and April bank account reconciliations disclosed that there was no evidence of supervisory approval. Subsequent to our inquiry, we were provided documentation evidencing that the March 2007 through June 2007 bank account reconciliations were approved by supervisory personnel in August 2007.
- The Florida Mental Health Institute – Subject Payments maintains a $12,000 imprest bank account for payments to research survey participants. Our review of the bank account reconciliations and related controls disclosed the following:
  - The custodian of the imprest bank account had access to blank checks, signed checks, and voided checks; had access to checks returned in the mail; and had the capability to change information in the management information system, such as recipients' names and addresses of mail survey participants. There was no independent review of changes made by the custodian in the management information system.

- Bank account reconciliations completed during the 2006-07 fiscal year were not signed or dated by the preparer. In addition, the reconciliations for July 2006 through October 2006 had no evidence of supervisory approval.

Under the above conditions, there is an increased risk of cash being misappropriated or used for unauthorized purposes.

Recommendation: The University should ensure proper separation of duties over cash. In addition, the University should ensure that bank account reconciliations are signed and dated by the preparer and include evidence of timely supervisory approval.

Finding No. 2: Tangible Personal Property

To ensure proper accountability and safeguarding of tangible personal property, the University should maintain an adequate record of each property item. University regulations provide for procedures governing the accountability, control, transfer, and ultimate disposal of tangible personal property.

Our selection of 30 tangible personal property items from the University's property records to verify their existence through inspection at their assigned locations disclosed 3 items totaling $9,084 (one laptop computer costing $2,769 and two projectors costing $6,315) that could not be located. Although the two projectors had been reported to the University police as stolen during the 2002-03 and 2003-04 fiscal years, the projectors had never been removed from the property records. Subsequent to our inquiry, the 3 property items were removed from the University's property records.

Our review of 10 tangible personal property items that were deleted from the University's property records disclosed the following:

- A laptop computer with a cost of $2,622 was stolen off-campus. University procedures require that a property off-campus permit be prepared to document the reason, and approval, for property being taken off campus. However, although requested, we were not provided with a property off-campus permit for the stolen laptop computer.
- Five tangible personal property items with a total cost of $33,950 consisting of a film digitizer, three computer monitors, and a printer were deleted from the property records in October 2006. Our review disclosed that these items were purchased with Federal funds and donated to a local hospital in May 2005 without the University's Office of Sponsored Research approval or Federal grantor approval.

Failure to maintain accountability over tangible personal property increases the likelihood that loss, theft, or unauthorized use of property could occur and not be detected in a timely manner.

Recommendation: The University should strengthen its procedures relating to accountability of tangible personal property.

Finding No. 3: Auxiliary Food Service, Vending, and Bookstore Contracts

The University contracted for the operations of its food services, snack vending, soft drink vending, and bookstore with five private contractors. Written agreements with the contractors contain numerous terms and conditions describing the responsibilities of the parties relating to commission and rent, insurance, accounting records, and audits. The University was paid commission and rent income totaling $4.4 million for the 2006-07 fiscal year for these operations.

Our review disclosed that the University had not established adequate procedures for monitoring contractor compliance with the terms and conditions of these written agreements, as follows:

- Three contractors' agreements provided that the University could review the contractors' records. However, for one of the food service contractors, the soft drink vending contractor, and the bookstore contractor (for three of the bookstores), University personnel only reviewed monthly financial reports provided by the contractors and did not examine contractors' records to determine the validity of the reports. As a result, the University could not demonstrate that it received the commission or rental income it was due. A similar finding was noted in our report No. 2006-054.

- The agreement for the snack vending operation required that the contractor submit an annual certified accounting of sales and commission paid to the University, and that a certified public accountant verify such annual accounting. However, the agreement did not specify a timeframe in which this information was to be provided to the University and did not specify that the annual certified accounting be done by an independent certified public accountant. At the time of our review in March 2007, the University had not obtained any such information from the contractor since the inception of the agreement in August 2002. Subsequent to our inquiry, the University obtained unaudited financial statements for the contractor for the 2004 and 2005 calendar years; however, the financial statements did not include sales information specific to the snack vending operation for the University. Also, subsequent to our inquiry, the University obtained a certification regarding sales and commission for the 2006 calendar year made by the contractor's chief financial officer, who is a certified public accountant. However, as this certification was not made by a certified public accountant independent of the contractor, it provides limited assurance as to the accuracy of reported sales and commission paid the University. Timely receipt of the required information, and evidence of an independent certified public accountant's verification of the information, is necessary to provide the University assurance that it has received the commission income it is due.

- The contractors' agreements provided that all required insurance policies shall name the University Board of Trustees (Board) as an additional named insured. One of the food service contractors and the snack vending contractor did not name the Board as an additional insured on their insurance policies. In addition, although the bookstore agreement provided that the Board be named as an additional insured with respect to liability arising out of operations, the contractor did not name the Board as an additional insured on the St. Petersburg bookstore's property damage and boiler and machinery policies.

- The snack vending agreement required $10,000,000 aggregate of commercial umbrella insurance. Although requested, we were not provided documentation evidencing that the contractor provided this coverage. Also, one of the food service agreements required comprehensive general liability, automobile liability, and workers compensation; however, although requested, we were not provided documentation evidencing that the contractor provided coverage for automobile liability and workers compensation.

Recommendation: The University should implement procedures to ensure that it is receiving the proper amount of commission and rent income and enhance its procedures for monitoring contractors' compliance with the terms of written agreements regarding required insurance. In addition, the University should pursue amending the snack vending agreement to establish a timeframe for submitting the annual certified accounting of sales and commission paid the University, and to require that the certification be made by an independent certified public accountant.

Finding No. 4: Auxiliary Credit Union Contract

The University entered into a written agreement with the USF Federal Credit Union (Credit Union) for the exclusive right to provide financial services related to the usage of USF Cards[1] on the University's Tampa campus. The agreement provided for a monthly rental fee to be paid the University, one dollar for each new USF Card account opened and activated as an ATM access devise at the Credit Union, and an amount each month based on the sum of the average daily share and share draft balances of eligible USF Card accounts. The Credit Union was to provide a monthly report of the number of activated cards, applicable deposit balances, and the calculations used to arrive at the payments made to the University. The agreement provided that the University could request additional information and supporting detail from the Credit Union.

Our review disclosed that the University had not established adequate procedures for monitoring the Credit Union's compliance with terms of the written agreement, as follows:

- During the 2006-07 fiscal year, the Credit Union paid fees totaling approximately $43,000 to the University. The Credit Union provided the University monthly statements showing the amount of total fees due to the University. However, the information provided by the Credit Union did not indicate the number of new USF Card accounts opened and the average daily balances of eligible USF Card accounts and, as such, was not in sufficient detail to allow the University to determine whether it received the proper amount of fees from the Credit Union. In response to our inquiry, University personnel advised us that additional information and supporting detail was not requested due to confidentiality concerns. However, it is not apparent why the University could not have required the Credit Union to provide more detailed nonconfidential information, such as the number of accounts opened, or verified that it received the proper amount of fees from the Credit Union through alternative means, such as University personnel examining pertinent Credit Union records or the Credit Union having an independent certified accounting firm attest to the propriety of the fees paid.

- The agreement required that the Credit Union provide an insurance certificate for workers compensation and general liability insurance with the University and University Board of Trustees (Board) as a named insured on the liability policies. However, the agreement did not address the amount of insurance to be provided. Subsequent to our inquiry, the University obtained from the Credit Union a certificate of insurance for workers compensation and general liability, but the University and the Board were not listed as a named insured on the liability policies.

[1] USF Cards can be used for various purposes, including use as an ATM card for students that are members of the USF Federal Credit Union, a debit card, and a library card.

Recommendation: The University should implement procedures to ensure that it is receiving the proper amount of fees from the Credit Union, and to ensure the Credit Union's compliance with the terms of the written agreement regarding insurance requirements. The University should also amend the agreement to include the required amount of general liability insurance.

Finding No. 5: Student Fees

Section 1009.21, Florida Statutes, provides, in part, that students shall be classified as residents or nonresidents for the purpose of assessing tuition. According to this Statute, to qualify as a resident for tuition purposes, legal residence must be established and maintained in Florida for at least 12 months immediately prior to qualification. Section 1009.21(3), Florida Statutes, provides that a university may require individuals to provide evidence related to legal residence and its duration to obtain the residency tuition rate. The University tuition rate for nonresidents is significantly higher than the rate for residents.

The Board of Governors requires universities to comply with State Board of Education Rule 6A-10.044, Florida Administrative Code, which establishes the documentation requirements for determining the classification or reclassification of students as Florida residents for tuition purposes. This Rule provides that student applicants who meet certain criteria shall be initially classified as "All Florida" residents for tuition purposes. Students not meeting all the criteria must be evaluated to determine residency status. Such students must provide at least two of the items that are acceptable for purposes of documenting Florida residency as prescribed by State Board of Education Rule 6A-10.044(7), Florida Administrative Code.

Our test of University records for 40 students who did not meet the criteria for being classified as "All Florida," but were paying resident tuition rates, disclosed the following:

- For 5 of the 40 students, the University had not retained copies of two or more of the items of documentation required by State Board of Education Rule 6A-10.044, Florida Administrative Code, to evidence Florida residency.
- Section 1009.21(10)(e), Florida Statutes, provides that students from Latin America and the Caribbean who receive Federal or state scholarships may be classified as residents for tuition purposes. We noted that 2 of the 40 students had previously received Latin American and Caribbean scholarships, but were not eligible for these scholarships during the 2006-07 fiscal year; however, the University had not reclassified these students to nonresident status for tuition purposes. Subsequent to our inquiry, the University changed the residency status for these students to nonresident status.

Absent retention of appropriate documentation evidencing Florida residency status and monitoring of special category Florida resident students, University personnel may not be properly assessing and collecting nonresident tuition.

Recommendation: The University should ensure that required documentation is obtained and retained evidencing Florida residency for purposes of assessing and collecting student tuition. In addition, the University should enhance its procedures for monitoring special category Florida resident students for changes that affect residency status.

Finding No. 6: Decentralized Collections

The University maintains various points of collections throughout the campus. During the 2006-07 fiscal year, the University Controller's Office conducted an assessment of each collection site and reduced the number of sites from 170 to 33. Collections are either remitted to the Central Cashier's Office or directly deposited at the University's bank. Effective controls over collections require adequate separation of duties and documentation from initial receipt to subsequent deposit.

During the 2006-07 fiscal year, collections at the Educational Research Child Care Development (ERCCD) Office, Student Publications Office, Office of the Registrar (Transcripts), and Division of Student Affairs – St. Petersburg totaled $865,204, $803,832, $205,943, and $59,845, respectively. As similarly noted in our report No. 2006-054, our review of controls over collections at these locations disclosed that such controls needed improvement, as follows:

- Collections transferred among employees at the ERCCD Office, Student Publications Office, and Office of the Registrar (Transcripts) were not evidenced by signed transfer documents. Without transfer documents, responsibility for collections could not be fixed to one individual should a loss occur.

- Certain duties at the ERCCD Office, Student Publications Office, and the Office of the Registrar (Transcripts) were not adequately separated, as follows:

  - At the ERCCD Office, an employee collected childcare fees, prepared deposits, recorded payments received to the Office's accounting records, and generated a report of fees due for childcare services. There was no independent verification that amounts that should have been collected based on service records agreed with collections recorded in the accounting records, and with amounts deposited.

  - Money was collected at the Student Publications Office for advertisements placed in The Oracle, the University's student newspaper. An employee collected payments, approved advertisers' credit applications, billed customers, processed invoices for payment, and recorded daily collections to the Office's publishing software system. There was no independent verification that amounts that should have been collected based on advertisements placed in The Oracle agreed with recorded collections and deposits.

  - At the Office of the Registrar (Transcripts) the same employee received mailed transcript fee collections, recorded the collections into the University's accounting system, mailed out the transcripts, and reconciled the collections to the transcript fee audit reports. There was no independent verification that calculated fees due based on transcripts issued agreed to recorded collections and deposits.

  Without adequate separation of incompatible duties, there is an increased risk that errors or fraud could occur without timely detection.

- Our review of collections at the ERCCD Office disclosed the following:

  - A $1,625 credit card payment for tuition for a semester was shown as a sale and a credit on the monthly statement provided by the bank that processes credit card transactions for the ERCCD Office. Inquiry of ERCCD Office personnel disclosed that the Office had received a new credit card machine and Office personnel had entered this transaction into the machine as a credit instead of a sale. Office personnel contacted the bank about this, and were advised that bank personnel would adjust the transaction; however, the transaction was not properly adjusted resulting in no charge for tuition being made to the customer's account. Subsequent to our inquiry, Office personnel indicated that they had contacted the customer regarding collection of the tuition payment.

- A receipt book containing 50 receipts could not be located at the time of our review. Our review of the Office's deposit reports disclosed that six receipts from this missing receipt book were not accounted for. Although requested, we were not provided evidence that these receipts had been voided.

➢ The Division of Student Affairs – St. Petersburg used a point of sale (POS) cash register system, which was implemented in September 2006, to produce receipts documenting collections. Our review disclosed that the reports generated from the POS system, which included receipt numbers and amounts, were not used to reconcile collections to deposits. Using this information from the POS system, University personnel could ensure that receipted amounts in the system agree with actual deposits.

Recommendation: The University should ensure that transfer documents are used to document the transfer of collections between employees and incompatible duties are properly separated. In addition, all receipt forms should be accounted for and an independent verification that amounts that should have been collected based on service records agree with recorded and deposited collections.

Finding No. 7: Termination Pay

Board of Governors Regulation 6C-5.920 and USF Regulations 6C4-10.104 and 6C4-10.203 provide for leave payout to terminated employees for unused annual and sick leave. Our test of termination pay for 15 employees who terminated during the 2006-07 fiscal year disclosed that 1 employee of USF Health[2] had not been paid for unused leave. Subsequent to audit inquiry, the employee was paid for 92 annual leave hours totaling $1,818, 134 days after their termination date.

A further review of USF Health records disclosed that as of June 8, 2007, an additional 12 employees who terminated between July 14, 2006, and March 19, 2007, had not been paid accumulated annual leave totaling $38,794. Of the 12 employees, 2 still had not been paid amounts due as of November 13, 2007. University management indicated that these termination payouts had not been timely processed due to employee turnover, incomplete verification of an employee's prior years of service, and failure to submit paperwork to payroll in a timely manner.

Recommendation: The University should enhance its procedures to ensure timely processing of termination pay.

Finding No. 8: Competitive Procurement

Pursuant to Section 1001.74(4), Florida Statutes, each university board of trustees may adopt rules to implement its powers, duties, and authority as granted by law. However, such rules must be consistent with State Board of Education Rules adopted by the Board of Governors[3] (referred to as Board of Governors Regulations).

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[2] USF Health includes the College of Medicine, College of Nursing, and College of Public Health.

[3] Pursuant to Section 1000.01(5)(a)2., Florida Statutes, all rules of the former Board of Regents became State Board of Education rules. Such rules were adopted by the Board of Governors by resolution on January 7, 2003.

University of South Florida Regulation 6C4-4.02030 requires that purchases of commodities and services in excess of $50,000 be awarded pursuant to competitive solicitation. However, during the 2006-07 fiscal year, this Regulation was in conflict with Board of Governors (BOG) Regulation 6C-18.045, which provided for a competitive solicitation threshold of $25,000.

According to BOG staff, they are in the process of developing proposed regulations setting the competitive solicitation bid threshold at no lower than $50,000, and plan to present them for BOG approval.

Recommendation: The University should ensure that its procurement regulations are consistent with BOG Regulations.

Finding No. 9: Purchasing Cards

The University established a purchasing card program, which gives employees the convenience of purchasing items without using the standard purchase order process. The University issued purchasing cards to 1,244 employees as of June 30, 2007. During the 2006-07 fiscal year, purchasing card charges totaled approximately $29 million.

The University developed specific guidelines providing guidance and instructions for all authorized purchasing card users and approvers. Our review of 84 purchasing card transactions during the period July 2006 through February 15, 2007, totaling $122,818, disclosed that improvements in controls over the purchasing card program were needed, as follows:

- Two transactions totaling $2,391 for software and a software license were split into two separate purchases to avoid the cardholder's $2,000 single purchase limit. There was no evidence that the employee requested a temporary increase in the limit or requested another appropriate employee with a higher single purchase limit to make the purchase.
- Four transactions totaling $17,905 were not recorded to the correct account code. Improper coding of expenses limits management's ability to accurately monitor the use of funds.
- One transaction totaling $1,936 was for a laptop although the University's purchasing card guidelines prohibit laptop purchases exceeding $999.
- Eight transactions totaling $3,180 were for items that are unallowable charges per the University's purchasing card guidelines. These included $1,679 for shredders and plaques, $1,440 for autograph books purchased for retiring faculty and staff, and $61 for flowers for an employee. Subsequent to our inquiry, the University was reimbursed for the $61 flower purchase.

In addition, purchasing cards for 11 of 15 terminated employees tested were not cancelled until 17 to 220 days after the date the employees terminated. Failure to timely cancel purchasing cards of terminated employees increases the risk of unauthorized charges.

Similar findings were noted in our report No. 2006-054. Although a purchasing card program is useful for expediting the payment of small purchases in an efficient manner with a significant reduction in overhead, without effective monitoring and control, such a program places the University at a greater risk that purchases will be undocumented or unauthorized. In such circumstances, it is important that effective training and monitoring procedures exist to ensure that purchases made with purchasing cards comply with University purchasing guidelines.

Recommendation: The University should improve controls over the purchasing card program to ensure compliance with spending limits, proper coding of expenses, and limitations regarding types of authorized uses as prescribed by the purchasing card guidelines. In addition, the University should timely cancel purchasing cards for terminated employees.

Finding No. 10: Cellular Telephones

The University provided cellular telephones (cell phones), and paid the related monthly invoices, for many of its employees for use in performing their official duties. Effective September 1, 2006, the University implemented a new procedure whereby employees were to be provided a monthly cell phone allowance to cover the cost of a personal cell phone plan instead of the University providing and paying for the cell phone service. Such allowances could be provided if recommended by the appropriate supervisor and approved in advance by the Dean or Director. The procedure limits monthly allowances to a maximum of $45 per employee. The procedure allows for certain exceptions (i.e., instances in which the University will continue to provide and pay for the employee's cell phone service in lieu of the employee receiving an allowance) that must be approved in advance by the University's Finance Council.

Pursuant to United States Treasury Regulations, Section 1.274-5T(e), an employee may not exclude from gross income any amount of the value of property listed in Section 280F(d)(4) of the Internal Revenue Code (IRC), unless the employee substantiates the amount of the exclusion in accordance with the requirements of Section 274(d) IRC, and United States Treasury Regulations, Section 1.274-5T. Because cell phones are listed property, their use is subject to the substantiation requirements of the United States Treasury Regulations, Section 1.274-5T(b)(6), which requires employees to submit records to the University to establish the amount, date, place, and business purpose for each business call (a notated copy of the employee's cell phone bill is an example of such a record). In addition, employers must review the employee's cell phone bills to confirm the cell phone was only used for business.

As of April 16, 2007, the University was still providing and paying for cell phone service for 167 cell phones provided to employees in 40 departments. For University provided cell phones, University procedures required employees to indicate on cell phone bills which calls were for business and which were for personal use, and to reimburse the University for personal calls. However, the procedures did not require an independent review of cell phone bills to ascertain any personal calls made and reimbursement thereof. As such, the procedures were not in compliance with the United States Treasury Regulations substantiation requirements. The University was required to report to the Internal Revenue Service (IRS) the value of cell phone services provided to each employee assigned a cell phone for which the United States Treasury Regulations substantiation requirements are not complied with. However, our review disclosed that the University had not included the value of these services in the income reported on these employees' 2006 calendar year W-2 forms.

In addition, although the University is exempt from certain Federal, State, and local taxes on telephone services, it was billed and paid such taxes on cell phone billings during the 2006-07 fiscal year.

Recommendation: The University, for employees assigned a cell phone in lieu of receiving a cell phone allowance, should provide for an independent review of cell phone bills. In the absence of such procedures, the University should report appropriate amounts in income to the IRS in accordance with Federal requirements. In addition, the University should request that the cellular telephone service providers remove exempt taxes from the University's bills, and seek credit for the exempt taxes previously paid.

Finding No. 11: Travel Expenses

Section 112.061, Florida Statutes, governs travel expenses of public agencies, including universities. The statute prescribes an $80 per diem rate and 44.5 cents per mile rate for mileage allowance.

The University's President's Cabinet approved the use of the United States General Services Administration (GSA) Domestic Per Diem Rate Schedule for the reimbursement of employee travel expenses incurred while traveling on USF business within the contiguous United States. The GSA per diem rates (which vary depending on the travel destination) and mileage rate (which increased to 48.5 cents per mile effective February 1, 2007) exceed the rates authorized by Section 112.061, Florida Statutes.

We requested the University's authority to reimburse employees at rates that exceed those authorized by Section 112.061, Florida Statutes. We were informed that: (1) an amendment to Article IX of the Florida Constitution established the Board of Governors, the state university system and their boards of trustees; (2) the Board of Governors was given full constitutional responsibility for the state university system; (3) the Board of Governors adopted a resolution giving the state universities the authority to establish a personnel program, which includes travel for university employees; and (4) within the scope of this delegation, the University established its current travel reimbursement procedures.

Section 112.061, Florida Statutes, does exempt certain agencies from compliance with Section 112.061, Florida Statutes; however, universities are not among those agencies specifically exempt. Consequently, the University has no authority to reimburse employees for per diem and mileage at rates other than those cited in Section 112.061, Florida Statutes.

In April 2007, the Florida Legislature amended Section 1001.74, Florida Statutes, to provide clarification that payment for travel and per diem for university employees may not exceed the level specified in Section 112.061, Florida Statutes. Effective July 1, 2007, the University changed its reimbursement rates for mileage and per diem to comply with Section 112.061, Florida Statutes.

Recommendation: The University should reimburse employees for travel expenses in accordance with Section 112.061, Florida Statutes.

Finding No. 12: Information Technology – Access Controls

The University's Enterprise Business System applications give employees administrative functions through roles (i.e., the roles of a user determine what menu items or task lists the user sees and what functions can be performed). Access to roles is granted to user sign-on accounts, which require each user to have a user identification (ID) and password. The University has written procedures addressing the removal of roles and the deletion of user sign-on accounts for employees who terminate employment.

User sign-on accounts were not always timely removed upon termination of employment. As of November 13, 2007, our review disclosed that user sign-on accounts remained active for 84 employees who terminated employment on dates ranging from July 1, 2000, through October 5, 2006. We were informed that this was due to a problem with the automated process, which identified terminated employees and eliminated access to the Enterprise Business System applications. Subsequent to our inquiry, the University informed us that IT access privileges for these former employees were removed.

In the absence of timely revocation of user sign-on accounts, there is an increased risk for unauthorized access to the University's information technology resources.

Recommendation: The University should ensure that access to administrative applications is revoked immediately when an employee terminates employment.

Finding No. 13: Information Technology – Application Environment

Security considerations for all components of a system environment, including the applications, operating system, and network, contribute to the reliability and integrity of the applications and the data processed therein. Our current review disclosed a certain deficiency in the application environment related to system logging. Specific details of the deficiency are not disclosed in this report to avoid the possibility of compromising University information. However, appropriate University personnel have been notified of the deficiency.

Recommendation: The University should strengthen its controls surrounding the application environment as noted.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of this operational audit were to obtain an understanding and make overall judgments as to whether University internal controls promoted and encouraged compliance with applicable laws, rules, regulations, contracts, and grant agreements; the economic and efficient operation of the University; the reliability of financial records and reports; and the safeguarding of assets. Specifically, we reviewed internal controls and administration of accounting records, cash and investments, capital assets, revenues and receivables, purchasing processes, selected expenditures and contractual arrangements, human resources and employee compensation, and selected information technology controls for the fiscal year ended June 30, 2007.

This audit was conducted in accordance with applicable Generally Accepted Government Auditing Standards.

PRIOR AUDIT FINDINGS

As part of our current audit, we determined that the University had taken corrective actions for findings included in our report No. 2006-054, except as noted in finding Nos. 3, 6, and 9 of this report.

AUTHORITY

Pursuant to the provisions of Section 11.45, Florida Statutes, I have directed that this report be prepared to present the results of our operational audit.

David W. Martin, CPA
Auditor General

MANAGEMENT RESPONSE

The University's response is included as Appendix B of this report.

This audit was coordinated by Alma E. Wade, CPA, and supervised by Karen J. Collington, CPA. Please address inquiries regarding this report to Ted J. Sauerbeck, CPA, Audit Manager, via e-mail at tedsauerbeck@aud.state.fl.us or by telephone at (850) 487-4468.

This report and other audit reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 487-9024; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

APPENDIX A
UNIVERSITY OF SOUTH FLORIDA'S BOARD OF TRUSTEES

Members of the University's Board of Trustees who served during the 2006-07 fiscal year are listed below:

Board Member

Rhea F. Law, Chair
John B. Ramil, Vice-Chair
Lee E. Arnold, Jr.
Dr. Michael Barber from 8-28-06 (1)
Richard A. Beard, III
Margarita R. Cancio, M.D.
Sonja Garcia
Susan Greenbaum, Ph.D., to 8-27-06 (1)
Barclay Harless from 5-07-07 (2)
Frank Harrison to 5-06-07 (2)
Kiran C. Patel, M.D.
Debbie Nye Sembler
Jan E. Smith
Robert L. Soran
Sherrill Tomasino

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

APPENDIX B
MANAGEMENT RESPONSE

USF
UNIVERSITY OF
SOUTH FLORIDA

February 4, 2008

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

Dear Mr. Martin:

Enclosed is our response to the preliminary and tentative findings and recommendations for the Operational Audit of the University of South Florida for the fiscal year ended June 30, 2007. We will implement the recommendations identified during the audit in accordance with the enclosed schedule of responses.

We commend your staff for their professionalism and thank you for your continuing support. Please let me know if I can be of any further assistance.

Sincerely,

Dr. Carl Carlucci
Executive Vice President/CFO

Enclosures

cc: Dr. Judy Genshaft, President
Ms. Trudie Frecker, Associate Vice President for University Services
Ms. Debra Gula, Executive Director for Audit and Compliance
Mr. Nick Trivunovich, University Controller

OFFICE OF THE EXECUTIVE VICE PRESIDENT
University of South Florida • 4202 E. Fowler Avenue, ADM200 • Tampa, FL 33620-5950
(813) 974-4903 • FAX (813) 974-2989 • SunCom 574-4903

UNIVERSITY OF SOUTH FLORIDA

Responses To Preliminary and Tentative Findings Of The USF 2007 Operational Audit Conducted by the Auditor General's Office

Finding No. 1: Imprest Bank Accounts

Recommendation: The University should ensure proper separation of duties over cash. In addition, the University should ensure that bank account reconciliations are signed and dated by the preparer and include evidence of timely supervisor approval.

Response: The FMHI has modified its controls so that there is adequate segregation of duties over their imprest bank account. In addition, both the Division of Research and FMHI have implemented procedures to document the preparer's signature and date of preparation as well as timely supervisory approval.

Expected Implementation Date: January 2008

Responsible Party: Nick Trivunovich, 813/974-7696

Finding No. 2: Tangible Personal Property

Recommendation: The University should strengthen its procedures relating to accountability of tangible personal property.

Response: The property manual has been revised to strengthen property procedures. Procedures related to off-campus property permits and donation approvals will be updated. The University will revise the property training procedures to stress accountability.

Expected Implementation Date: June 30, 2008

Responsible Party: Jeff Mack, 813/974-2539

Finding No. 3: Auxiliary Food Service, Vending, and Bookstore Contracts

Recommendation: The University should implement procedures to ensure that it is receiving the proper amount of commission and rent income and enhance its procedures for monitoring contractors' compliance with the terms of written agreements regarding required insurance. In addition, the University should pursue amending the snack vending agreement to establish a timeframe for submitting the annual certified accounting of sales and commission paid the University, and to require that the certification be made by an independent certified public accountant.

Response: The University will take the following actions to implement this recommendation:

- Implement procedures to review the bookstore contractor's sales records more frequently to ensure the proper amount of commission is received,
- Review the contractor's sales records more frequently to ensure the proper amount of additional rent, as specified in the agreement, is received,
- Develop procedures to periodically review portions of the contractor's sales records to assist in the verification process,
- Review and update insurance certificates for auxiliary contracts to ensure compliance and
- Review the snack vending agreement and make any appropriate amendments to ensure further compliance.

Expected Implementation Date: June 30, 2008

Responsible Party: Jeff Mack, 813/974-2539

Finding No. 4: Auxiliary Credit Union Contract

Recommendation: The University should implement procedures to ensure that it is receiving the proper amount of fees from the Credit Union, and to ensure the Credit Union's compliance with the terms of the written agreement regarding insurance requirements. The University should also amend the agreement to include the required amount of general liability insurance.

Response: Additional information verifying fees due the University will be solicited from the Credit Union. The University will review and update contract and insurance requirements to ensure compliance.

Expected Implementation Date: June 30, 2008

Responsible Party: Jeff Mack, 813/974-2539

Finding No. 5: Student Fees

Recommendation: The University should ensure that required documentation is obtained and retained evidencing Florida residency for purposes of assessing and collecting student tuition. In addition, the University should enhance its procedures for monitoring special category Florida resident students for changes that affect residency status.

Response: The Office of the Registrar revised its procedures, documentation and web pages to require two legal ties with 12-month qualifying dates; these changes were implemented in the Fall of 2007. By March 31, 2008, the University will implement a tracking or monitoring system to determine when special category students are no longer eligible for in-state status. Students will undergo annual recertification. For students determined to have continued eligibility, their residency classifications will be updated to reflect Florida status.

Expected Implementation Date: March 31, 2008

Responsible Party: Leellen Brigman, 813/974-1572

Finding No. 6: Decentralized Collections

Recommendation: The University should ensure that transfer documents are used to document the transfer of collections between employees and incompatible duties are properly separated. In addition, all receipt forms should be accounted for and an independent verification that amounts that should have been collected based on service records agree with recorded and deposited collections.

Response: The University is continuing to reduce the number of areas that collect cash and checks, which will reduce the internal control risk associated with these areas. Cash collections training, procedures, and monitoring will be upgraded to further address the control issues raised in the audit.

Expected Implementation Date: April 30, 2008

Responsible Party: Nick Trivunovich, 813/974-7696

Finding No. 7: Termination Pay

Recommendation: The University should enhance its procedures to ensure timely processing of termination pay.

Response: The University will implement a comprehensive process to ensure the timely processing of termination pay. That process will include a strong initial training program that will be required for leave coordinators, a revised method for processing all final payments upon termination (within thirty days from the last day of employment), and an audit process to monitor payouts on a bi-weekly basis.

Expected Implementation Date: July 31, 2008

Responsible Parties: Michael Stephens, 813/974-5701
Nancy Wisgerhof, 813/974-3595

Finding No. 8: Competitive Procurement

Recommendation: The University should ensure that its procurement regulations are consistent with BOG Regulations.

Response: The Board of Governors is in the process of revising its Purchasing regulations, including setting the competitive threshold at $75,000. Upon final approval, USF will ensure compliance with the revised BOG regulations.

Expected Implementation Date: March 31, 2008

Responsible Party: Jeff Mack, 813/974-2539

Finding No. 9: Purchasing Cards

Recommendation: The University should improve controls over the purchasing card program to ensure compliance with spending limits, proper coding of expenses, and limitations regarding types of authorized uses as prescribed by the purchasing card guidelines. In addition, the University should timely cancel purchasing cards for terminated employees.

Response: The University is in the process of revising its p-card policies and procedures, which will improve controls and provide additional monitoring of the p-card program. Effective April 2007, the University revised procedures to ensure timely cancellation of p-cards for terminated employees. In addition, p-card training includes requirements that departmental staff notify p-card staff of any terminations.

Expected Implementation Date: June 30, 2008

Responsible Party: Jeff Mack, 813/974-2539

Finding No. 10: Cellular Telephones

Recommendation: The University, for employees assigned a cell phone in lieu of receiving a cell phone allowance, should provide for an independent review of cell phone bills. In the absence of such procedures, the University should report appropriate amounts in income to the IRS in accordance with Federal requirements. In addition, the University should request that the cellular telephone service providers remove exempt taxes from the University's bills, and seek credit for the exempt taxes previously paid.

> Response: The University will revise its procedure on the use of Cell Phones to comply with this recommendation. In addition, the University will request telephone service providers to remove exempt taxes from University bills and seek credit for exempt taxes previously paid.
>
> Expected Implementation Date: April 30, 2008
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> Responsible Party: Eric Walden, 813/974-4829

Finding No. 11: Travel Expenses

Recommendation: The University should reimburse employees for travel expenses in accordance with Section 112.061, Florida Statutes.

> Response: With clarification of Section 112.061, Florida Statutes provided by the Legislature, the University implemented this recommendation effective July 1, 2007.
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> Expected Implementation Date: July 2007
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> Responsible Party: Nick Trivunovich, 813/974-7696

Finding No. 12: Information Technology – Access Controls

Recommendation: The University should ensure that access to administrative applications is revoked immediately when an employee terminates employment.

> Response: As noted, privileges for all terminated employees who had not been properly revoked by the automated process have now been corrected. The automated program implemented to deactivate the accounts of terminated employees has been corrected and is believed to now operate properly. An independent process is in place to periodically ensure the automated program properly deactivates all accounts.
>
> Expected Implementation Date: Completed in January 2008
>
> Responsible Party: George Ellis, 813/974-8393

Finding No. 13: Information Technology – Application Environment

Recommendation: The University should strengthen its controls surrounding the application environment as noted.

Response: Information Technologies was advised by the Auditor General's Office on the details of the issue. A solution is being implemented and is in test mode at this time. Confidentiality prevents further disclosure of details.

Expected Implementation Date: March 31, 2008

Responsible Party: George Ellis, 813/974-8393