

UNIVERSITY OF FLORIDA

Operational Audit



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- Notes: (1) Student body president.
(2) Faculty senate chair.
(3) Position was vacant from May 4, 2013, through June 18, 2013.
(4) Position was vacant from January 10, 2013, through June 18, 2013.
(5) Board member served beyond the end of term, January 6, 2013.
(6) Position was vacant from January 7, 2013, through February 20, 2013.

The audit team leader was Micah E. Rodgers, CPA, and the audit was supervised by Philip B. Ciano, CPA. Please address inquiries regarding this report to James R. Stultz, CPA, Audit Manager, by e-mail at jimstultz@aud.state.fl.us or by telephone at (850) 412-2869.

This report and other reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 412-2722; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

UNIVERSITY OF FLORIDA

EXECUTIVE SUMMARY

Our operational audit disclosed the following:

STUDENT TUITION AND FEES

Finding No. 1: The University needed to enhance its procedures to ensure that tuition differential fees are used in accordance with Section 1009.24, Florida Statutes, and to ensure that tuition differential fee information reported to the Board of Governors is accurate and complete.

PERSONNEL AND PAYROLL

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

EXPENSES AND DISBURSEMENTS

Finding No. 3: The University needed to enhance controls over employee expense reimbursements.

RESTRICTED RESOURCES

Finding No. 4: The University did not allocate purchasing card and e-Payable program rebates generated from restricted resources to the appropriate University funds.

CASH COLLECTIONS

Finding No. 5: The University's controls over decentralized collections needed improvement.

INFORMATION TECHNOLOGY

Finding No. 6: The University needed to complete the disaster recovery capability of its alternate information technology processing facility.

BACKGROUND

The University of Florida (University) is part of the State university system of public universities, which is under the general direction and control of the Florida Board of Governors. The University is directly governed by a Board of Trustees (Trustees) consisting of 13 members. The Governor appoints 6 citizen members and the Board of Governors appoints 5 citizen members. These members are confirmed by the Florida Senate and serve staggered terms of five years. The faculty senate chair and student body president also are members.

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

The results of our financial audit of the University for the fiscal year ended June 30, 2013, will be presented in a separate report. In addition, the Federal awards administered by the University are included within the scope of our Statewide audit of Federal awards administered by the State of Florida and the results of that audit, for the fiscal year ended June 30, 2013, will be presented in a separate report.

FINDINGS AND RECOMMENDATIONS

Student Tuition and Fees

Finding No. 1: Tuition Differential Fee

Section 1009.24(16), Florida Statutes, states in part 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. Section 1009.24(16)(a), Florida Statutes, provides that 70 percent of revenues from tuition differential fees must be expended for certain specified purposes other than for student financial aid, which include increasing course offerings, improving graduation rates, increasing the percentage of undergraduate students who are taught by faculty, decreasing student-faculty ratios, providing salary increases for faculty who have a history of excellent teaching in undergraduate courses, improving the efficiency of the delivery of undergraduate education through academic advisement and counseling, and reducing the percentage of students who graduate with excess hours. This Section further provides that except as otherwise provided in Section 1009.24(16)(a), Florida Statutes, the remaining 30 percent of the revenues from tuition differential fees, or the equivalent amount of revenue from private sources, must be expended to provide financial aid to undergraduate students who exhibit financial need.

Board of Governors (BOG) Regulation 7.001(14), requires that, to establish an increase in the undergraduate tuition differential, the University must submit a proposal to the BOG as a component of the annual University Work Plan. Pursuant to BOG Regulation 7.001(14), the University submitted a 2012-13 Work Plan (Plan) to the BOG establishing an increase in the tuition differential fee from \$32 per credit hour to \$44 per credit hour. The Plan included required tuition differential supplemental information identifying the University's intended uses of the tuition differential fee revenue as funding the salaries and benefits of instructors teaching undergraduate courses and advisors who assist undergraduate students.

For the 2012-13 fiscal year, the University recorded \$28.7 million in tuition differential fee revenue and \$28.2 million in expenses. The expenses were comprised of \$6.6 million for student financial aid and \$21.6 million for other purposes.

Our tests of the uses of tuition differential fee revenue during the 2012-13 fiscal year disclosed the following:

- The University allocated \$7,678,242 of tuition differential fee revenue to various colleges throughout the University. University management informed us that the allocation was to partially offset State budget reductions and produced an analysis showing, by college, that salaries expended on undergraduate instructional effort exceeded the amount of tuition differential fee revenue allocated. However, the University did not maintain documentation to demonstrate that the funds were used in accordance with Section 1009.24(16), Florida Statutes, nor did it indicate its intent to distribute the funds to various colleges in the Plan submitted to the BOG.
- Our test of 11 instructors whose salaries and benefits, totaling \$425,485, were fully funded from the tuition differential fee revenue disclosed the following:
 - Time-and-effort reports for 10 instructors who taught courses during the Fall 2012 term, with salaries and benefits totaling \$390,665, indicated that their time-and-effort for teaching undergraduate courses or advising undergraduate students ranged from 17 to 95 percent. Based on their actual time-and-effort for teaching undergraduate courses or advising undergraduate students, only \$189,170 of their salaries and benefits should have been paid from tuition differential fees. The remaining \$201,495 of their salaries paid from tuition differential fees was related to time and effort spent on various other responsibilities

such as University governance, externally-funded research, departmentally-funded research, and other instructional activity, none of which related to teaching undergraduate courses or performing other activities, contrary to Section 1009.24(16), Florida Statutes.

- The time-and-effort report for one instructor for the Spring 2013 term, whose salary and benefits totaled \$34,820, indicated the employee's responsibilities included other assignments not related to the undergraduate students and acting as an undergraduate advisor. University records did not evidence the percentage of this instructor's time-and-effort devoted to undergraduate advising. Subsequent to our inquiry in June 2013, funds totaling \$34,820 were restored to the tuition differential fee account for the salary and benefits payments to this employee.

University management indicated that all University faculty members' assigned duties impact the direct delivery of undergraduate instruction, the quality of undergraduate instruction, and the undergraduate experience both in- and out-of-class and were therefore paid, at various times during the year, entirely from differential tuition fee revenues. However, absent documentation that the University expended funds in accordance with the provisions of Section 1009.24(16), Florida Statutes, and the Plan submitted to the BOG, the University has not demonstrated tuition differential fee revenue was used to promote improvements in the quality of undergraduate education. Also, because the tuition differential fee information in the Plan is used by the BOG when considering requests for assessing the tuition differential fee, and is included in the Annual Accountability Report to the BOG, it is important that such information represent actual expected uses.

Recommendation: The University should establish procedures to ensure that tuition differential fees are expended in accordance with Section 1009.24(16), Florida Statutes, and that tuition differential fee information reported to the BOG in its annual Work Plan reflects the intended use of the tuition differential fee revenue. Additionally, the University should document in its records how the above uses of the tuition differential fee revenue complied with Section 1009.24(16), Florida Statutes, or otherwise restore the \$7,879,737 of questioned costs to the appropriate tuition differential fee account.

Personnel and Payroll

Finding No. 2: Remuneration of Administrative Employees

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

Our review of the remuneration paid to 34 employees totaling \$10,283,021 (\$8,965,028 from appropriated State funds), disclosed 5 employees whose remuneration totaling \$1,319,421 was paid from appropriated State funds during the 2012-13 fiscal year. Collectively the amount paid exceeded the remuneration limitation by \$319,421, in amounts ranging from \$20,079 to \$170,089, as follows:

- Provost and Senior Vice President for Academic Affairs (Provost) – Responsible for the allocation of resources in academic areas, improvement of instruction, coordination of instructional activities, development

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

and improvement of research activities, evaluation of University academic activity, and all academic personnel appointments and policies. The Provost is the chief academic officer and the second ranking officer of the University, acting for the President in his absence. Excess remuneration paid from appropriated State funds totaled \$170,089.

- Director and Invertebrate Paleontology Curator of the Florida Museum of Natural History - Excess remuneration paid from appropriated State funds totaled \$53,881.
- Dean of the College of Education - Excess remuneration paid from appropriated State funds totaled \$46,253.
- Dean for Research and Director of the Florida Agricultural Experiment Station as well as Director of Ordway-Swisher Biological Station - Excess remuneration paid from appropriated State funds totaled \$29,119.
- Associate Vice President and Dean of the Graduate School - Responsible for oversight of graduate school academic areas. Excess remuneration paid from appropriated State funds totaled \$20,079.

Based on our review of these employees’ actual responsibilities, none of the employees served as teaching faculty with classroom contact hours pursuant to the provisions of Section 1012.945(2), Florida Statutes, or medical school staff at any time during the 2012-13 fiscal year. In response to our inquiries, the University informed us that these employees serve an educational role as teaching faculty and are exempt under Section 1012.976(3), Florida Statutes. However, the University’s records did not evidence that these individuals served as teachers, faculty, or medical school staff, nor did University records indicate that these individuals were acting in other than an administrative capacity. Accordingly, it is not clear on what basis these employees would be exempt from the remuneration limitation applicable to administrative employees as provided in Section 1012.976(2), Florida Statutes.

A similar finding was noted in our report No. 2013-027, and we questioned \$288,418 in remuneration to four administrative employees that were paid in excess the amount allowed pursuant to Section 1012.976(2), Florida Statutes. The University has not restored these amounts to appropriated State funds from other University resources.

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

Expenses and Disbursements

Finding No. 3: Employee Travel and Expense Reimbursements

The University allows reimbursements to employees for expenses incurred in connection with authorized University business. All expenses must follow appropriate University Controller’s Office directives and procedures for disbursements (University directives and procedures), regardless of the source of funds, unless specifically exempted by an external agency, grantor, or donor. Expense reimbursements to employees, including travel, totaled \$22.5 million during the 2012-13 fiscal year. We selected expense reimbursements totaling \$176,105 to six employees who received over \$10,000 for expense reimbursements during the period July 1, 2012, through January 31, 2013, and noted the following:

- An employee requested and received expense reimbursements of \$45,000 on May 3, 2012, and \$11,000 on July 10, 2012, to cover travel costs of foreign participants visiting the University from June 10, 2012, through July 21, 2012. The employee deposited the funds in a personal bank account and withdrew funds as needed. According to University management, these expense reimbursements should have been accounted for as travel advances. University directives and procedures for travel advances provide that advances not be given

greater than 10 days prior to when expenses are incurred, be accounted for within a reasonable time (60 days), and excess reimbursement returned within 30 days of when the last expense was incurred. Consequently, \$45,000 was provided to the employee 38 days prematurely and reconciliations of the use of the \$45,000 and \$11,000, as well as actual receipts supporting use of the funds, were not submitted by the department to University Disbursement Services until after our March 2013 inquiries.

- We reviewed two expense reimbursements to an employee and noted the following:
 - In August 2012 this employee received an expense reimbursement totaling \$16,659 for audio visual and computer equipment. This reimbursement included duplicate reimbursements for two transactions totaling \$4,309. Subsequent to our inquiry, the University set up a repayment program with the employee to recover the overpayments. Effective monitoring would include verifying that requests for reimbursements were adequately supported by detailed purchasing receipts to ensure duplicate receipts were not submitted.
 - In September 2012 this employee received an expense reimbursement totaling \$13,510, which was comprised of vehicle rentals (\$4,058), fuel purchases (\$5,243), airfares (\$2,716), hotel rooms (\$652), and meals (\$841) that included alcoholic beverages (\$448). The purchase of alcoholic beverages does not meet a valid public purpose and is not an appropriate use of public funds. Effective monitoring of expense reimbursements would decrease the risk of reimbursing an employee for personal expenses that do not serve a public purpose.
 - Our test disclosed that many of the reimbursements paid to this employee were for expenses paid by the employee using the employee's personal credit card (the employee received reimbursements totaling \$220,000 for a two-year period ending January 31, 2013). The University receives a rebate from its P-card provider based on volume of purchases (see discussion in finding No. 4). As a result of the employee using a personal credit card and seeking reimbursement, the University was not able to benefit from rebates for these purchases. Further, if the employee had used a University P-card the purchases would have been tax exempt and the University could have saved this additional expense.
- University directives and procedures require that purchases of gift cards may only be made with a voucher, and payments to research assistants must go through the University's payroll or accounts payable systems because such payments may be subject to Federal income tax. Contrary to University directives and procedures, our tests disclosed four employees received expense reimbursements for payments to research assistants or for the purchase of participant gift cards, as follows:
 - An employee received six expense reimbursements totaling \$22,535 for research program participant gift cards.
 - An employee received expense reimbursements totaling \$10,856 consisting of \$6,856 for computer equipment and software, and \$4,000 for research program participant gift cards. The expense reimbursement of \$4,000 for gift cards was incorrectly recorded as miscellaneous supplies instead of payments to non-employees. Documentation supporting the gift cards used the same \$2,000 receipt attached to two different reimbursement requests and, as a result of submitting the same invoice twice, the University overpaid for the gift cards. Subsequent to our inquiry, the University recovered the overpayment from the employee in May 2013.
 - An employee received an expense reimbursement of \$13,500 for payments to research assistants performing activities outside of the United States, and the expense amount was incorrectly recorded as miscellaneous supplies instead of compensation payments to employees.
 - An employee received three expense reimbursements totaling \$9,600 for payments to research assistants performing activities outside of the United States, and the expense reimbursements were incorrectly recorded as miscellaneous supplies instead of compensation payments to employees.

When purchases are not made using established University policies and procedures, there is limited assurance that the University will pay the best price for goods or services, sales taxes may be paid resulting in additional costs to the University, the potential for duplicate payments increases, and income paid to individuals may not be reported for

Federal tax purposes as required. Further, because some credit card companies offer rebates and incentives for making purchases, employees using personal credit cards and then being reimbursed by the University limits the University's opportunities to benefit from rebates. Requiring employees to use the University's P-cards would ensure that rebates would accrue to the benefit of the University and not the employee. Subsequent to our review, University Disbursement Services changed their methodology for review of expense reimbursements.

Recommendation: The University should improve the monitoring of expense reimbursements to ensure employees follow University directives and procedures. Also, given the nature and number of exceptions disclosed by our limited test, the Board should consider directing its internal audit staff to determine the extent to which additional unsupported or inappropriate expense reimbursements, or overpayments to employees, may have occurred.

Restricted Resources

Finding No. 4: E-Payable and Purchasing Card Rebates

The University maintains a purchasing card (P-card) program, provided through a financial institution, as an available procurement option for its purchasing process. The University also maintains an e-Payables program with the financial institution as a convenient option for vendors to receive payments. As an incentive, the University receives annual rebates from the financial institution for each program, with the amounts determined based on the dollar amount of P-card purchases and e-Payables payments during the calendar year. During the period January 2012 through December 2012, the University had P-card purchases totaling \$87,048,195 and e-Payables payments totaling \$15,154,169, resulting in receipt as of February 1, 2013, of rebates of \$1,583,814 and \$252,476, respectively.

The \$1,836,290 million in rebates received by the University included approximately \$750,000 in rebates generated by purchases using restricted University funds. However, the rebates were not allocated to the various restricted University funds from which the P-card purchases and e-Payables payments were made. Instead, the rebates were recognized as revenue and applied to the UF Strategic Fund, which is used to budget and track expenditures from miscellaneous cash-based funds allocated by the President and Senior Vice Presidents for strategic programs. Based on the restricted nature of the funds used to generate the \$750,000 of rebates, including restricted Federal funds, the rebates related to restricted University funds should be accounted for as a credit used to offset or reduce expense items allocable to restricted funds as direct or indirect costs.

University management provided several reasons why they do not believe it is appropriate to allocate the rebated amounts to the various University funds from which the P-card purchases and e-Payables payments were made, including: (1) There is no requirement in law, regulation, policy, etc.; (2) Rebates do not relate directly to, and cannot be determined at the time of, the transaction since the amounts are determined annually based upon the monetary amount of transactions processed; (3) Rebates are from a third party unrelated to the purchase or payment transaction; and (4) Rebates are similar to bank fees incurred with every transaction, which are not required to be allocated against the various University funds. Notwithstanding the University's justification, as certain Federal and State resources are typically restricted by Federal or State law, rebates generated by expenditures of those funds would be subject to the same restrictions. Without procedures to allocate for rebates to the appropriate funding source, there is an increased risk that rebates generated by restricted sources may be used for purposes inconsistent with the restrictions on these resources.

Recommendation: The University should consult with the appropriate Federal cognizant agency and the Board of Governors for resolution on the use and allocation of rebates received on P-card purchases and e-Payables payments.

Cash Collections

Finding No. 5: Decentralized Collections

Effective controls over collections require documentation from receipt through timely transfer to the University Cashier's office for deposit at the bank. University personnel collect moneys at various decentralized locations then remit these collections to the University Cashier's office. University directives and procedures provide standard control procedures for cash collections, which include transferring collections to the University Cashier within one business day whenever collections exceed \$500, or whenever collections include credit card or debit/ATM card payments; restrictively endorsing checks immediately upon receipt; and maintaining appropriate separation of incompatible responsibilities (e.g., persons with the responsibility for maintaining and billing accounts receivable should not have responsibilities for receipting and remitting the collections to the University Cashier).

Our review of collection procedures at nine locations outside of the University Cashier's office, with collections totaling \$41.2 million during the 2012-13 fiscal year, disclosed controls could be improved at four locations, as follows:

- College of Veterinary Medicine reported collections totaling approximately \$18 million. An employee accepting payments recorded checks received into an on-line check log system, and the check log was subsequently used to verify amounts received were deposited. However, other employees could make changes in the system, including employees responsible for preparing and remitting the collections to the University Cashier. Although the system maintains a record of changes, the record was not reviewed by someone independent of the collection process. Without the use of a secured record of receipts at the point of collection, or an independent review of changes to the record by someone not involved in the collection process, there is an increased risk that loss or theft of collections could occur without timely detection.
- Civil and Coastal Engineering Department reported collections totaling approximately \$550,000. Responsibilities for collections were not adequately separated in that one employee was responsible for maintaining and billing accounts receivable, and receiving and remitting the collections to the University Cashier. Without an adequate separation of incompatible duties, there is an increased risk that loss or theft of collections could occur without timely detection. Additionally, checks in excess of \$500 were not always remitted to the University Cashier in a timely manner. For example, our test of collections totaling \$184,860 from October 2012 through January 2013 disclosed three instances in which daily collections ranging from \$12,600 to \$56,362 were submitted to the University Cashier from three to six business days late. Untimely remittance of collections to the University Cashier increases the risk of loss or theft of collections.
- Office of University Relations reported collections totaling approximately \$38,000, which included the Photography Department collections totaling \$3,213. Responsibilities within the Photography Department were not adequately separated in that one employee was responsible for setting up appointments, billing customers, and collecting cash and checks. Additionally, checks were not restrictively endorsed at time of receipt to limit negotiability should they become lost or stolen. Upon inquiry, University personnel informed us that budget cuts eliminated positions that provided for adequate separation of responsibilities and that, since our review, the Department was working with Treasury Management to identify other ways to provide better controls. Without an adequate separation of incompatible duties, there is an increased risk that loss or theft of collections could occur without timely detection.
- Transportation and Parking Services Department (Department) collections totaled \$4.5 million. Operations included six parking booths at which collections totaled approximately \$500,000. Drivers using the parking

facilities paid by cash (\$10, or a reduced rate of \$4 for authorized individuals accessing facilities on a nonrecurring basis for business purposes), or received complimentary parking by presenting a voucher obtained at the University’s medical facilities. In the interest of providing a more patient-friendly parking experience, if a driver claimed to be a visitor or patient of the medical facilities and did not obtain a voucher, the parking attendants were instructed by management to let the driver exit for free via the attendant using a “free-out” button on the register. The Department indicated that approximately 40,000 out of 600,000 transactions, or approximately 7 percent of the parking facilities’ usage, were recorded by the “free-out” button. Since there is no accountability of a collection when using the “free-out” button, the Department could not ensure that all cash collected from customers was remitted to the University Cashier’s office for deposit.

Recommendation: The University should enhance controls to ensure that decentralized collection locations follow University directives and procedures, including providing for an adequate separation of duties, use of restricted endorsements, timely remittance of collections to the University Cashier, and accountability for all collections.

Information Technology

Finding No. 6: Disaster Recovery

Disaster recovery is an element of information technology (IT) controls established to manage the availability of valuable data and IT resources in the event of a processing disruption. Its main objective is to provide the organization a plan for continuing critical IT operations in the event of a disaster in which the organization’s IT processing facilities become disabled. The University has its primary and alternate processing facilities, each with back-up power; however, both facilities are in close proximity to each other.

In our report No. 2013-027, we reported on the University’s progress in establishing an alternative data processing facility and, as of June 30, 2013, the University had completed the construction phase of an alternate data center. The alternate data center is operational as a redundant secondary site with back-up power, air conditioning, chillers, generators, and dual network connections back to the primary processing facility. University management informed us that the University remains on schedule to complete its disaster recovery capability by the end of calendar year 2013 for all mission-critical University systems except those modules of the student system, which will be implemented with the conversion to a new student system operating system.

Recommendation: The University should continue its efforts to complete its disaster recovery plan for all mission-critical systems.

PRIOR AUDIT FOLLOW-UP

The following table provides information on recurring audit findings for the University:

Current Fiscal Year Finding Numbers	Preceding Fiscal Year Audit Report and Finding Numbers	Second Preceding Fiscal Year Audit Report and Finding Number
2	2013-027, Finding No. 4	NA
6	2013-027, Finding No. 7	2012-072, Finding No. 7

NA - Not Applicable

OBJECTIVES, SCOPE, AND METHODOLOGY

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

We conducted this operational audit from February 2013 to October 2013 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, safeguarding of assets, and identifying weaknesses in those controls.
- Determine whether management had taken corrective actions for findings included in our report No. 2013-027.
- 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, deficiencies 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.

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.

The scope and methodology of this operational audit are described in Exhibit A. Our audit included the selection and examination of records and transactions occurring during the 2012-13 fiscal year, and selected actions taken prior thereto. Unless otherwise indicated in this report, these records and transactions were not selected with the intent of 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 agency management, staff, and vendors, and as a consequence, cannot be relied upon to identify all instances of noncompliance, fraud, waste, abuse, or inefficiency.

AUTHORITY

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



David W. Martin, CPA
Auditor General

MANAGEMENT'S RESPONSE

Management's response is included as Exhibit B.

EXHIBIT A
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Information technology (IT) logging, monitoring, and user authentication.	Determined the status of the University’s implementation of IT logging, monitoring and user authentication controls in accordance with IT best practices.
IT disaster recovery plan.	Determined whether a comprehensive disaster recovery plan was in place. Also reviewed progress on implementation of an alternate processing facility.
Board and committee meetings.	Reviewed Board and committee minutes to determine whether Board approval was obtained for policies and procedures in effect during the audit period and for evidence of compliance with Sunshine Law requirements (i.e., proper notice of meetings, ready access to public, and maintenance of minutes).
Textbook affordability.	Examined supporting documentation to determine whether the University’s procedures regarding textbook affordability were in accordance with Section 1004.085, Florida Statutes.
Internal audit function (Office of Internal Audit).	Reviewed the internal audit function to determine whether the University followed professional requirements and provided for peer review of reports issued.
Investments.	Determined whether the Board established investment policies and procedures as required by Section 218.415, Florida Statutes, and whether investments during the fiscal year were in accordance with those policies and procedures.
Student receivables.	Determined whether student receivables were properly authorized, documented, and properly recorded. Determined adequacy of collection efforts and whether uncollectible accounts written-off were properly approved. Determined whether restrictions on student records and holds on transcripts and diplomas were adequate and enforced for delinquent accounts.
Annual physical inventory of property.	Reviewed rules and procedures related to performing annual inventory counts of property. Examined supporting documentation of the University’s annual physical inventory of property.
Florida residency determination and tuition.	Tested student registrations to determine whether the University documented Florida residency and correctly assessed tuition in compliance with Sections 1009.21, 1009.24, and 1009.286(2), Florida Statutes, and Board of Governors Regulation 7.005.
Tuition differential fees.	Reviewed payments from tuition differential fees collected to determine whether the University assessed and used tuition differential fees in compliance with Section 1009.24(16)(a), Florida Statutes.
Distance learning fees.	Determined whether distance learning fees were assessed and collected as provided by Section 1009.24(17), Florida Statutes.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Cash collection procedures at decentralized collection points.	Reviewed collection procedures at selected locations and tested daily cash collections to determine the effectiveness of the University's collection procedures.
Auxiliary operations contract compliance.	Examined selected auxiliary operation contracts to determine whether the University was properly monitoring compliance with the contract terms regarding fees.
Terminal pay.	Reviewed the University's policies and procedures for terminal pay to ensure consistency with Florida law. Tested former employees to determine appropriateness of terminal pay.
Severance pay.	Reviewed severance pay provisions in selected contracts to determine whether the University was in compliance with Florida Statutes.
Administrative employees' compensation.	Reviewed administrative employees' compensation to determine whether compensation did not exceed limits provided in Florida law.
President's compensation.	Determined whether the President's compensation was in accordance with Florida law, Board of Governors Regulations, and University policies.
Bonuses.	Determined whether employee bonuses were paid in accordance with Section 215.425(3), Florida Statutes.
Sabbatical and professional development leave.	Reviewed the University's policies and procedures for employee sabbatical and professional development leave; determined whether employees returning from such leave filed the required reports.
Procurement of goods and services.	Reviewed University policies and procedures related to the procurement of goods and services to ensure a competitive vendor selection process. Tested disbursements to determine whether purchase orders were issued prior to the University incurring an obligation for the goods or services. Tested purchases subject to competitive bids/proposals to determine compliance with bid requirements.
Electronic payments.	Reviewed University policies and procedures related to electronic vendor payments.
Purchasing card transactions.	Reviewed University procedures for monitoring purchasing card transactions. Tested transactions to determine whether University procedures were operating as designed. Tested purchasing card rebates to determine whether rebates were allocated to the correct funds.
Rebate revenues.	Determined whether rebate revenues received from purchasing card and e-Payable programs were allocated to the appropriate University funds.
Travel expenses.	Tested executive travel expenses for foreign and out-of-state travel to determine whether the travel was reasonable, adequately supported, and for University purposes.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Contractual agreements.	Determined whether contractual services were supported by Board-approved contracts. Also, examined and tested the aforementioned contracts to ensure they were properly awarded and executed, and contract terms were adequately supported.
Construction administration.	For selected major construction projects, tested payments and supporting documentation to determine compliance with University policies and procedures and provisions of laws and rules. Also, for construction management contracts, determined whether the University monitored the selection process of architects and engineers, and construction managers.
Direct-support organizations – conflicts of interest.	Determined whether the University had established policies and procedures to avoid potential conflicts of interest with vendors who were doing business with the University and made donations to the University’s direct-support organizations.
Service organization report.	Reviewed University procedures for requesting and obtaining a service organization report.

**EXHIBIT B
MANAGEMENT'S RESPONSE**



Office of the Vice President
and Chief Financial Officer

1 Tigert Hall
P O Box 113240
Gainesville, FL 32611-3240
352-392-2402 Telephone
352-846-3546 Fax

November 21, 2013

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

Dear Mr. Martin:

Attached are responses to the University of Florida's preliminary and tentative operational audit findings for the fiscal year ended June 30, 2013.

Your staff's assistance is greatly appreciated.

Sincerely,

A handwritten signature in black ink, appearing to read 'Matthew Fajack', written over a printed name.

Matthew Fajack
Vice President and Chief Financial Officer

Enclosures

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

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

University of Florida
Responses to Preliminary & Tentative Audit Findings
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Tuition Differential Fee

Recommendation 1: The University should establish procedures to ensure that tuition differential fees are expended in accordance with Section 1009.24(16), Florida Statutes, and that tuition differential fee information reported to the BOG in its annual Work Plan reflects the intended use of the tuition differential fee revenue. Additionally, the University should document in its records how the above uses of the tuition differential fee revenue complied with Section 1009.24(16), Florida Statutes, or otherwise restore the \$7,879,737 of questioned costs to the appropriate tuition differential fee account.

University's Response: As the Auditor references, the University believes all University of Florida faculty members' assigned duties impact the direct delivery of undergraduate instruction, the quality of undergraduate instruction, and the undergraduate experience both in- and out-of class. Accordingly, the University believes that tuition differential fees were expended in accordance with Section 1009.24(16), Florida Statutes. There is no question that by using massive accounting effort, all tuition differential funds could be explicitly assigned to undergraduate instruction before any other State money is allocated, but this accounting process would pose an unreasonable burden.

Given the size and complexity of the University, it is difficult to specify all possible uses of tuition differential in the BOG annual Work Plan; however, the University will make all reasonable efforts to enhance its Work Plan in the future.

The University had documentation in its records that substantiated that the use of the \$7,879,737 was for colleges where the cost of undergraduate teaching far exceeded the amount provided. This documentation was provided to the Auditor General's Office and we believe demonstrated compliance with Section 1009.24(16), Florida Statutes.

Consequently, through a laborious accounting exercise, the \$7.9 M could have been allocated first to the cost of undergraduate teaching, with the remainder of the budget allocated afterwards.

However, the University will seek additional guidance from the Board of Governors on this issue.

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

University of Florida
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Responsible Auditee: Dr. Joseph Glover, Provost and Sr. Vice President for Academic Affairs
Matthew Fajack, Vice President and Chief Financial Officer

Remuneration of Administrative Employees

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

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

Consequently, the University does not believe any adjustment to appropriated State funds is required.

However, despite this opinion, the University will seek additional guidance from the Board of Governors on this issue.

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

Employee Travel and Expense Reimbursements

Recommendation 3: The University should improve the monitoring of expense reimbursements to ensure employees follow University directives and procedures. Also, given the nature and number of exceptions disclosed by our limited test, the Board should consider directing its internal audit staff to determine the extent to which additional unsupported or inappropriate expense reimbursements, or overpayments to employees, may have occurred.

University Response: The University has already taken steps to improve the monitoring of expense reimbursements to employees to verify that directives and

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

University of Florida
Responses to Preliminary & Tentative Audit Findings
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procedures are followed. The University was in the process of revising the procedures to review reimbursements to employees during the period under audit. These procedures were fully implemented in March of 2013. In addition, the University has created a Quality Assurance Coordinator position which will be reviewing charges on sponsored programs to verify that they are accurately recorded. Personnel in Purchasing and Disbursement Services have had several conversations with those involved in the identified transactions to review existing policies and procedures and to point out how adherence to them is most beneficial to the University.

Personnel in Disbursement Services will perform an additional review of reimbursements to employees for the period of July 2012-February 2013 to identify additional unsupported or inappropriate expense reimbursements, or overpayments to employees. The results of this review will be communicated to the University Office of Internal Audit.

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

E-Payable and Purchasing Card Rebates

Recommendation 4: The University should consult with the appropriate Federal cognizant agency and the Board of Governors for resolution on the use and allocation of rebates received on P-card purchases and e-Payables payments.

University's Response: The University disagrees with the recommendation for the following reasons:

1. The University is not aware of any Florida Statute, regulation, policy or other legal authority that would require the allocation of these funds back to specific funds, programs or transactions.
2. It is important to note that the term "rebate" as it relates to the PCard program is quite different from how that term is typically used. The use of the term "rebate" normally means that the recipient is being paid back some amount by a vendor to whom the recipient has made a payment (e.g., the purchase of an appliance for \$1,000, where the vendor provides a rebate of \$100 and the cost of the appliance is therefore less.) PCard vendors,

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

University of Florida
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however, do not return to the University any part of the purchase price of their goods or services. The annual "rebate" is paid to the University by the Bank. Even here, the term "rebate" is not applicable in the sense of a return of funds because the University has not made a payment to the Bank that can be returned. The PCard rebate arrangement does not cause any Federal or other award to be charged more than the appropriate vendor price for any item. Therefore, the term "rebate" as used in the OMB Circular A-21 examples of applicable credits is different in nature than the PCard rebate at issue here.

3. The fact that "rebates" are not allocated back to the individual funds is similar to bank fees which are charged by our Bank on every transaction (payment or deposit) that runs through our Banking Services contract. These fees are absorbed by the University and not charged back to the individual transaction.
4. Payments via PCard or e-Payables are made at a very different point-in-time than the calculation by the Bank of the incentive/rebates. The incentive/rebate is calculated based on total spend (not by individual transaction) annually after end of the calendar year and is based on a sliding scale of the PCard/e-Payables amount. Consequently, the incentive/rebate is not known at the date of the transaction. Because of this, it is not possible to determine what transaction triggers the rebate or the subsequent tiers of the rebate program. Therefore, the allocation could only be approximated to the appropriate project, fund or transaction.
5. The administrative costs of applying incentive/rebates against restricted funds would be significant and would raise a number of potential issues. For instance, if a grant closed in March of the year and the incentive/rebate is not known until the following January, how and where is that incentive/rebate applied.
6. For Federal grant funds, the University has considered the option of calculating a credit due back to the General Administrative cost pool in the F&A rate proposal; however, even if the amount was credited back, it would not change the Administrative cost rate which is capped at 26%.

With the above considerations in mind, the University believes that no action is necessary for this finding and recommendation. However, in an effort to resolve this finding, the University agrees to the following:

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

University of Florida
Responses to Preliminary & Tentative Audit Findings
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1. It will submit a revised DS-2 filing to its Federal cognizant agency describing the current treatment of the rebates for approval;
2. It will use the rebates to offset the cost funding of the University's Purchasing Department; and
3. It will consult with the Board of Governors on this issue.

Responsible Auditee: Matt Fajack, Vice President and Chief Financial Officer

Decentralized Collections

Recommendation 5: The University should enhance controls to ensure that decentralized collection locations follow University directives and procedures, including providing for an adequate separation of duties, use of restricted endorsement, timely remittance of collections to the University Cashier, and accountability for all collections.

University's Response: The University continues to enhance controls to reasonably ensure decentralized locations follow University directives and procedures. The University has done a number of things to enhance collection controls including:

1. Providing detailed instructions on processes and controls around cash handling on the Treasury Management website,
2. Sending an annual letter to all cash collectors reminding them of good internal controls over cash collections,
3. In October 2013, the University sent out an Administrative Memo reminding University departments about internal controls for cash collections,
4. Implementing additional online training on this topic that is required for employees to receive and maintain the deposit role,
5. There are multiple training guides on the University's HR Training website.
6. For each of the specific areas identified in the finding, Finance & Accounting personnel has conducted a site visit and helped to ensure changes were made to enhance controls.

Even with all these processes in mind, the University will continue to review ways to enhance controls in the cash collection area.

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

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

University of Florida
Responses to Preliminary & Tentative Audit Findings
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Disaster Recovery

Recommendation 6: The University should continue its efforts to complete its disaster recovery plan for all mission-critical systems.

University's Response: The University agrees with the recommendation.

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