

Report No. 2016-058  
December 2015

# STATE OF FLORIDA AUDITOR GENERAL

## Operational Audit

### UNIVERSITY OF FLORIDA



Sherrill F. Norman, CPA  
Auditor General

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Notes: <sup>a</sup> Board member served beyond the end of the term, January 6, 2015.  
<sup>b</sup> Faculty senate chair.  
<sup>c</sup> Student body president.

The audit team leader was Debra L. Hulse, CPA, and the audit was supervised by Philip B. Ciano, CPA.

For the information technology portion of this audit, the audit team leader was Vikki S. Mathews, CISA, and the supervisor was Heidi G. Burns, CPA, CISA.

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

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# UNIVERSITY OF FLORIDA

## **SUMMARY**

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This operational audit of the University of Florida (University) focused on selected University processes and administrative activities and included a follow-up on findings noted in our report No. 2014-044. Our audit disclosed the following:

**Finding 1:** The University needs to enhance procedures for classifying students as Florida residents for tuition purposes in accordance with State law.

**Finding 2:** The University's procedures for canceling purchasing card privileges need improvement.

## **BACKGROUND**

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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 5 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.

This operational audit focused on selected University processes and administrative activities and included a follow-up on findings noted in our report No. 2014-044. The results of our financial audit of the University for the fiscal year ended June 30, 2015, 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, 2015, will be presented in a separate report.

## **FINDINGS AND RECOMMENDATIONS**

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### **Finding 1: Florida Residency**

State law<sup>1</sup> provides that, for tuition assessment purposes, universities classify students as Florida residents or nonresidents. State law<sup>2</sup> also requires universities to classify as Florida residents students

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<sup>1</sup> Section 1009.21, Florida Statutes.

<sup>2</sup> Section 1009.21(10)(e), Florida Statutes.

who are from Latin American and Caribbean countries and receive scholarships from the Federal or State Government.

During the 2014-15 fiscal year, the University collected \$522 million in tuition and fees. Selected tuition and fees rates for residents and nonresidents are shown in Table 1.

**Table 1**  
**Tuition and Fees for Residents and Nonresidents**  
**For the 2014-15 Fiscal Year**

<b>Tuition and Fees Category</b>	<b>Rate for Residents</b>	<b>Rate for Nonresidents</b>
Undergraduate	\$210 semester hour	\$953 semester hour
Graduate	\$528 semester hour	\$1,253 semester hour
Master of Laws in Taxation	\$814 semester hour	\$1,459 semester hour
Veterinary Medicine	\$14,348 semester	\$24,835 semester

Source: University records.

During the 2014-15 fiscal year, 686 students had residency status changes from nonresident to resident or were classified as temporary Florida residents. As part of our audit, we examined University records documenting the residency status for 30 of these students. We found that 3 students from a Latin American or Caribbean country were each awarded a \$500 academic scholarship from University State-appropriated educational and general or contracts and grants residual funds; however, the students had not received a scholarship from the Federal or State Government to qualify them for a Florida resident tuition rate.

We expanded our procedures and examined records for an additional 115 students classified as Florida residents. Our expanded procedures identified another 73 students who were from a Latin American or Caribbean country and received certain scholarships from the University. Specifically:

- 45 students received Latin American Caribbean scholarships from the University.
- 16 students received scholarships to pay for textbooks.
- 12 students received a Latin American Tax Scholarship from the College of Law.

However, none of the 73 students had received a scholarship from the Federal or State Government.

In response to our inquiry, University personnel indicated that, since universities are part of the State Government, funds paid from State-appropriated educational and general funds and contracts and grants residual funds should be considered State scholarships. However, as addressed in State law, State scholarships appear to be scholarships provided by the State of Florida, such as those set forth in Part III of Chapter 1009, Florida Statutes, and not scholarships paid from University funds, regardless of the funds' source. The classification of these 76 students as Florida residents for tuition purposes resulted in the University collecting \$691,000 less student fee revenue than it would have if the students had been classified as nonresidents for tuition purposes.

**Recommendation: If it is the University's intent to continue classifying students who are from a Latin American or Caribbean country as Florida residents for tuition purposes when such students are not awarded State scholarships but are awarded scholarships from University funds, the University should seek guidance from the Board of Governors as to whether this practice is allowable under State law.**

### **Follow-up to Management's Response**

*The University's response indicates that "the University has determined that the authority to use education and general funds and contracts and grant funds for student scholarship payments comes from Section 1009.21(10)(e) Florida Statutes." The legislative history of Section 1009.21(10)(e), Florida Statutes, however, makes clear that the State scholarships referenced therein were awarded under a scholarship program that was repealed by Chapter 2002-387, Laws of Florida, and no longer exists. Since the scholarships in question are not specifically authorized in statute, and University records did not evidence the documented basis for classifying the students receiving the scholarships as Florida residents for tuition purposes, we continue to recommend that the University seek guidance from the Board of Governors.*

### **Finding 2: Purchasing Cards**

The University administers a purchasing card (P-card) program that gives employees the convenience of purchasing items without using the standard purchase order process. The University established a P-card Administrative Team (P-card Team) that has responsibilities for issuing new P-cards, canceling P-cards of terminated employees, monitoring P-card transactions, and providing P-card training. The University's P-card policies and procedures require that cardholders separating from employment with the University stop using the P-card immediately and that the departments of separating employees e-mail the P-card Team as soon as possible and provide them with the employee's name, identification number, and reason why the P-card is being canceled. Additionally, department supervisors are to conduct exit interviews using employee exit checklists that instruct the employees to return their P-cards and remind supervisors to direct the P-card Team to cancel the P-cards whether or not the P-cards are returned. The agreement between the University and the bank that administers the P-card program allows the University 30 days to dispute fraudulent charges.

As of April 6, 2015, the University had 5,065 active P-cards and, during the period July 1, 2014, through April 6, 2015, 206 employees who had been assigned P-cards separated from University employment. We examined University documentation to determine whether the P-cards had been timely canceled upon the cardholders' employment separation and found that the University had not timely canceled the P-cards assigned to 46 of the former employees. Specifically, the P-cards for 42 former employees were not canceled until after our inquiry in April 2015, or 11 to 287 days after the employees' separation dates. The University had canceled the P-cards for the other 4 former employees prior to our inquiry; however, the P-cards were not canceled until 25 to 133 days after the employees' separation dates. University personnel attributed the untimely P-card cancellations, in part, to department delays in notifying the P-card Team of cardholder employment separations and P-card Team oversights.

We also examined the P-card activity of the 46 former employees who did not have their P-cards timely canceled and identified 21 transactions totaling \$1,301 that were recorded after the employees' separation dates. The 21 transactions related to 7 former employees' P-cards and were recorded 9 to 168 days after the employees' separation dates. Further inquiry and review disclosed that appropriate personnel had approved the transactions and that the transactions were for appropriate uses of University funds, such as automatic charges for the monthly rental of oxygen cylinders, and field supplies for postgraduate students who were no longer employed by the University but continued to perform research

for their professor. While our tests of P-card transactions did not disclose any inappropriate charges or fraud, untimely cancellation of P-card privileges increases the risk that such privileges could be misused by former employees or others, and the University's ability to satisfactorily resolve disputed charges may be limited.

**Recommendation:** We recommend that the University strengthen procedures to ensure that P-card privileges are timely canceled upon a cardholder's separation from University employment.

## ***PRIOR AUDIT FOLLOW-UP***

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The University had taken corrective actions for the findings included in our report No. 2014-044.

## ***OBJECTIVES, SCOPE, AND METHODOLOGY***

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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 April 2015 to September 2015 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of this operational audit were to:

- Evaluate management's performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse, and in administering assigned responsibilities in accordance with applicable laws, rules, regulations, contracts, grant agreements, and other guidelines.
- Examine internal controls designed and placed in operation to promote and encourage the achievement of management's control objectives in the categories of compliance, economic and efficient operations, reliability of records and reports, and safeguarding of assets, and identify weaknesses in those controls.
- Determine whether management had taken corrective actions for findings included in our report No. 2014-044.
- To identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

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

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

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

Our audit included the selection and examination of records and transactions. Unless otherwise indicated in this report, these records and transactions were not selected with the intent of statistically projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

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

In conducting our audit we:

- Reviewed the University's written information technology (IT) policies and procedures to determine whether the policies and procedures addressed certain important IT control functions.
- Reviewed University procedures for maintaining and reviewing access to IT resources to determine the appropriateness and necessity of the access based on the employees' job duties and user account functions and whether the access prevented the performance of incompatible duties. We also examined administrator account access privileges granted and procedures for oversight of administrator accounts for the operating system, database, and application to determine whether these accounts had been appropriately assigned and managed. Specifically, we:
  - Reviewed the adequacy of all operating system administrative access privileges (43 accounts).
  - Reviewed the adequacy of all database administrator roles for the enterprise resource planning (ERP) finance (4 accounts) and human resource (3 accounts) application databases.
  - Reviewed the adequacy of all administrator access privileges for the ERP applications (2 accounts).
- Made inquiries and reviewed University documentation to determine whether the University provided for an alternate disaster recovery site.
- Evaluated operating system, database, network and application security settings to determine whether authentication controls were configured and enforced in accordance with IT best practices.
- Reviewed procedures and reports related to the capture and review of system activity that were designed to ensure the appropriateness of access to and modification of sensitive or critical resources.

- Examined Board, committee, and advisory board minutes for evidence of compliance with Sunshine Law requirements (i.e., proper notice of meetings, ready access to the public, and maintenance of minutes).
- Examined University records to determine whether the University had informed students and employees at orientation and on its Web site of the existence of the Florida Department of Law Enforcement sexual predator and sexual offender registry Web site and the toll-free telephone number that gives access to sexual predator and sexual offender public information, as required by Section 1006.695, Florida Statutes.
- Examined University records to determine whether the University had developed an anti-fraud policy and procedures to provide guidance to employees for communicating known or suspected fraud to appropriate individuals. Also, examined University records to determine whether the University had implemented appropriate and sufficient procedures to comply with its anti-fraud policies.
- Analyzed the unencumbered available balances in the education and general funds of the University Board of Trustees' approved operating budget to determine whether the balance was below 5 percent of the total available fund balance at June 30, 2015. Performed analytical procedures to determine whether financial transactions in other funds required resources from other unrestricted funds that would cause a significant reduction in available unencumbered balance in the education and unrestricted State appropriated funds.
- From the population of 175 payments totaling \$9.2 million made by the University to its direct-support organizations during the period July 1, 2014, through March 31, 2015, selected 19 payments totaling \$8.6 million for verification that the payments, transfers, and loans were authorized by Section 1004.28(1)(a)2 and (2), Florida Statutes.
- Examined University accounting records and documentation to determine whether student receivables were properly authorized, adequately documented, properly recorded, and complied with Section 1010.03, Florida Statutes, and Board Regulation No. 3.037. Specifically, we examined:
  - From a population of 22,448 student receivables totaling \$47.3 million as of May 22, 2015, documentation relating to 30 student receivables totaling \$392,370.
  - From the population of 1,778 delinquent student receivables totaling \$3 million as of May 22, 2015, documentation relating to 25 delinquent student receivables totaling \$282,000 to determine whether collection efforts were adequate, and whether restrictions on student records and holds on transcripts and diplomas were adequate and enforced.
- From a population of 797 student fee deferments totaling \$1.2 million, evaluated whether 10 deferments totaling \$130,000 were properly authorized, documented, and within limits required by Section 1009.27, Florida Statutes, Board of Governors Regulation 7.002(2), and University Regulation 3.037(7).
- Evaluated whether the University had adequate procedures to document Florida residency in compliance with Sections 1009.21 and 1009.24, Florida Statutes, and Board of Governors Regulation 7.005.
- 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.
- From the population of 426 distance learning courses with fee revenue totaling \$4.1 million during the 2014-15 fiscal year, we examined 25 distance learning courses with fee revenue totaling \$77,250 to determine whether distance learning fees were properly assessed and collected and were separately accounted for and retained by the University as provided by Section 1009.24(17), Florida Statutes.

- From 129 decentralized locations with total collections of \$683 million, selected 4 locations with total collections of \$6.7 million and tested the locations' daily cash collections to evaluate the effectiveness of the University's collection procedures.
- Reviewed University procedures for monitoring contracts for auxiliary operations, including commission revenues, and performed analytical procedures to determine whether the operations were self-supporting.
- Evaluated University policies and procedures regarding textbook affordability for compliance with Section 1004.085, Florida Statutes. From a population of 200 educational departments, applied analytical procedures to determine whether the textbooks for 18 departments with 1,761 class sections were timely listed on the University's Web site during the 2014-15 fiscal year.
- Reviewed the University's policies and procedures for payment of accumulated annual and sick leave (terminal leave pay) to determine whether the policies and procedures promoted compliance with State law and Board regulations. From the population of 1,395 former employees who were paid \$10.1 million for terminal leave pay during the period July 1, 2014, through June 30, 2015, we selected and examined terminal leave payments totaling \$249,000 made to 5 former employees and evaluated the payments for compliance with Section 110.122, Florida Statutes, and Board Regulation No. 1.201.
- Reviewed the severance pay provision in the President's contract to determine whether the provision complied with Section 215.425(4), Florida Statutes.
- From a population of 46 severance payments totaling \$523,304 made to employees during the period July 1, 2014, through May 31, 2015, selected and examined severance payments totaling \$283,854 that were made to 21 former employees to determine whether the payments complied with State law and Board policies.
- Reviewed administrative employees' compensation to determine whether the amounts paid did not exceed limits provided in Sections 1012.975(3) and 1012.976(2), Florida Statutes.
- Reviewed the University's policies and procedures for obtaining background screenings for University employees. Examined University records to determine whether employees in sensitive positions, such as positions in direct contact with minors, had undergone the appropriate background screenings.
- Reviewed the University's policies and procedures to evaluate whether the University's processes ensured health insurance coverage was provided only to eligible employees, retirees, and dependents and that such insurance was timely canceled upon employee termination. Also, determined whether the University had procedures for reconciling health insurance costs to employee, retiree, and Board-approved contributions.
- Reviewed the University's policies and procedures for supervisory approval of time worked and leave used by noninstructional and administrative employees to evaluate whether compensation payments were appropriate and leave balances were accurate.
- Examined University expenditure documentation to determine whether expenditures were reasonable, correctly recorded, adequately documented, for a valid University purpose, properly authorized and approved, and in compliance with applicable State law, rules, contract terms, and Board policies, and applicable vendors were properly selected and carried adequate insurance. From the population of expenditures totaling \$407 million, during the period July 1, 2014, through March 31, 2015, we examined:
  - Documentation relating to 30 payments for general expenditures totaling \$98,000.
  - Documentation relating to 15 purchasing card transactions totaling \$83,000.
  - Documentation relating to 20 payments totaling \$5.6 million related to 20 agreements for contractual services totaling \$10.3 million.

- Scanned purchasing card (P-card) transactions to identify P-card transactions that may not have been made in accordance with University policies and procedures.
- Applied analytical procedures and examined University records to determine whether the P-cards for former employees were timely canceled when the cardholders separated from University employment.
- From a population of 12,557 payments totaling \$2.8 million made to employees for other than travel reimbursements during the period from July 1, 2014, through March 31, 2015, selected and examined documentation for 12 payments totaling \$100,000 to determine whether such payments were reasonable, adequately supported, and for valid University purposes. For payments made to an additional 30 employees, we examined documentation to determine whether such payments related to employees doing business with the University, contrary to Section 112.313, Florida Statutes.
- Reviewed University policies and procedures related to identifying potential conflicts of interest. For selected University officials, reviewed Department of State, Division of Corporation records; statements of financial interest; and University records to identify any potential relationships that represent a conflict of interest with vendors used by the University.
- From 11 major construction projects in progress during the 2014-15 fiscal year with contract amounts totaling \$362 million, selected and examined 10 payments totaling \$15.7 million related to 4 projects with contract amounts totaling \$195 million to determine whether the payments were made in accordance with contract terms and conditions, University policies and procedures, and provisions of applicable State laws and rules.
- Reviewed documentation related to two construction projects with construction costs totaling \$118 million to determine whether the University adequately monitored the selection process of design professionals, construction managers, and subcontractors.
- From the population of Public Education Capital Outlay and other restricted capital outlay payments totaling \$95.6 million during the period July 1, 2014, through March 31, 2015, selected and examined documentation supporting 10 payments totaling \$15.7 million to determine whether expenses complied with restrictions imposed on the use of these resources.
- Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.
- Prepared and submitted for management response the findings and recommendations that are included in this report and which describe the matters requiring corrective actions. Management's response is included in this report under the heading **MANAGEMENT'S RESPONSE**.

## ***AUTHORITY***

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Section 11.45, Florida Statutes, requires that the Auditor General conduct an operational audit of each University on a periodic basis. Pursuant to the provisions of Section 11.45, Florida Statutes, I have directed that this report be prepared to present the results of our operational audit.



Sherrill F. Norman, CPA  
Auditor General

## MANAGEMENT'S RESPONSE

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Office of the Vice President  
and Chief Financial Officer

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November 20, 2015

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

Dear Ms. Norman:

Attached are responses to the University of Florida's preliminary and tentative operational audit findings for the fiscal year ended June 30, 2015.

Your staff's assistance is greatly appreciated.

Sincerely,

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

Michael V. McKee  
Vice President and Chief Financial Officer

### Attachments

cc: Dr. Kent Fuchs, President, University of Florida  
University of Florida Board of Trustees  
Dr. Joseph Glover, Provost and Sr. Vice President for Academic Affairs  
Ms. Jamie Lewis Keith, Vice President and General Counsel  
Ms. Paula Varnes Fussell, Vice President, Human Resource Services  
Mr. Alan West, Asst. Vice President and University Controller  
Mr. Brian Mikell, Chief Audit Executive

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**Florida Residency**

**Recommendation 1:** If it is the University's intent to continue classifying students who are from a Latin American or Caribbean country as Florida residents for tuition purposes when such students are not awarded State scholarships but are awarded scholarships from University funds, the University should seek guidance from the Board of Governors as to whether this practice is allowable under State law.

**University's Response:** The University has determined that the authority to use education and general funds and contracts and grant funds for student scholarship payments comes from Section 1009.21(10)(e) Florida Statutes. Similar to other SUS Universities, our interpretation is that the State Statute supports that a Federal or State government can fund these scholarships. Therefore, our scholarship funds qualify under the Latin American and Caribbean provision in this residency section of the Statute.

In addition, the SUS Board of Governors is working to adopt a regulation that would support this practice.

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

**Purchasing Cards**

**Recommendation 2:** We recommend that the University strengthen procedures to ensure that P-card privileges are timely canceled upon a cardholder's separation from University employment.

**University Response:** The University has already re-established long standing procedures to identify terminated employees that have active P-cards for a timely cancelation of those cards. The University continues to enhance internal controls to reasonably ensure timely cancelation of P-cards by improving direction education efforts with departments responsible for notifying the Purchasing Division when a cardholder terminates employment.

**Responsible Auditee:** Michael V. McKee, Vice President and Chief Financial Officer