

STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

Report No. 2016-133
March 2016

UNIVERSITY OF SOUTH FLORIDA



**Sherrill F. Norman, CPA
Auditor General**

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Notes: ^a Student body president.

^b System faculty council president (equivalent to faculty senate chair referred to in Section 1001.71(1), Florida Statutes).

The team leader was Vanessa C. Fernandez, CPA, and the audit was supervised by Karen J. Collington, CPA. For the information technology portion of this audit, the team leader was Rebecca Ferrell, CISA, and the audit was supervised by Heidi G. Burns, CPA, CISA.

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

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UNIVERSITY OF SOUTH FLORIDA

SUMMARY

This operational audit of the University of South Florida (University) focused on selected University processes and administrative activities and included a follow-up on findings noted in our report No. 2014-063. Our operational audit disclosed the following:

Finding 1: The University did not perform background screenings for certain individuals in positions of special trust and responsibility.

Finding 2: The University needs to enhance procedures for classifying students as Florida residents for tuition purposes in accordance with State law.

Finding 3: Certain employment agreements included severance pay provisions that were contrary to State law. In addition, as similarly noted in our report No. 2014-063, the University made severance payments that exceeded the limitations provided by State law.

Finding 4: University information technology (IT) access controls need improvement.

Finding 5: As similarly noted in our report No. 2014-063, University security controls related to IT user authentication and logging and monitoring of system activity need improvement.

BACKGROUND

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

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

This operational audit focused on selected University processes and administrative activities and included a follow-up on findings noted in our report No. 2014-063. 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

Finding 1: Background Screenings

Although not specific to universities, State law¹ provides that persons and employees in positions of special trust and responsibility must undergo background screenings. For example, a level 2 background screening² is required for owners, operators, employees, and volunteers working in summer camps providing care for children; personnel hired to fill positions requiring direct contact with students in any district school system or university lab school; and certain State employment positions.

University policy³ requires a level 1 background screening⁴ to be conducted for prospective employees as a condition of employment and also provides for a level 2 background screening when required by law or internal procedure. The University's Division of Human Resources (HR) procedures⁵ list certain sensitive or special trust duties that guide other departments in identifying the positions for which individuals must obtain a level 2 background screening. Once identified, HR coordinates with the departments and respective individuals to ensure that the individuals obtain the required background screenings. Examples of individuals required to obtain level 2 background screenings include those with direct access to, or control over, cash and access to sensitive, confidential, and personally identifiable information about students, faculty, or staff.

Based on our discussions with University personnel and review of University records, we found that:

- The University identified 1,012 employee positions that required a level 2 background screening because, although the positions did not have direct contact with persons under age 18, the positions were responsible for sensitive or special trust duties. However, according to University personnel, 113 of the employees in those positions had not obtained a level 2 background screening due, in part, to understaffing and high turnover in HR.
- Four additional employees (University Registrar, Assistant Director of the Controller's Office, Vice President of Financial Aid, and Associate Director of Financial Aid) had sensitive or special trust duties; however, University personnel did not identify these employees as positions requiring a level 2 background screening and, therefore, screenings of these employees had not been performed. University personnel indicated that these positions were overlooked because the identification of positions requiring level 2 background screenings was decentralized and completed at the department level.
- Individuals with direct contract with persons under age 18 did not always undergo a level 2 background screening. Upon our request, the University provided a list of 301 individuals who, during the 2014-15 fiscal year, had direct contact with persons under age 18 while working in the University's preschool and 19 academic and sports camps. From the list, we selected 30 individuals (19 employees, 10 contractor employees, and 1 volunteer) and reviewed applicable

¹ Sections 110.1127, 409.175, and 1012.32(2)(a), Florida Statutes.

² A level 2 background screening includes fingerprinting for Statewide criminal history records checks through the Florida Department of Law Enforcement (FDLE), national criminal history records checks through the Federal Bureau of Investigation, and may include local criminal checks through local law enforcement agencies.

³ University of South Florida System Policy Number 0-615, *Criminal History Background Checks*.

⁴ A level 1 background screening includes employment history checks and statewide criminal correspondence checks through the FDLE, a check of the Dru Sjodin National Sex Offender Public Web site, and may include local criminal checks through local law enforcement agencies.

⁵ The HR *Criminal History Background Check Procedures*.

University records. We found that the University did not ensure that level 2 background screenings were performed for 6 (4 contractor employees and 2 University employees) of the 30 individuals.

In response to our inquiry, University personnel indicated that required screenings were not performed for 4 of the 6 individuals because each of the 4 individuals worked less than 10 hours and, as a result, the University considered them exempt from the statutory requirement.⁶ However, State law only exempts volunteers who assist on an intermittent basis for less than 10 hours per month, not employees or contractor employees. For 1 of the remaining 2 individuals, University personnel indicated that, although a level 2 background screening was attempted, the fingerprinting obtained was not adequate to process the level 2 background screening and a reprint was not completed. For the other individual, University personnel informed us that documentation of a level 2 background screening could not be located. According to University personnel, beginning in August 2015, an audit of all camp documents would be conducted after the conclusion of each camp.

When University employees and other individuals in positions of special trust and responsibility are not required to have background screenings there is an increased risk that the individuals may have backgrounds that are not suitable for such positions.

Recommendation: The University should enhance its procedures to ensure that background screenings, including fingerprinting, are performed for individuals in positions of special trust or responsibility, including those that have direct contact with persons under 18 years of age.

Finding 2: Florida Residency

State law⁷ provides that, for tuition assessment purposes, universities classify students as Florida residents or nonresidents. State law⁸ also requires universities to classify as Florida residents students 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 \$382 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

Tuition and Fees Category	Rate for Residents	Rate for Nonresidents
Tampa Campus Undergraduate	\$211.19 semester hour	\$575.01 semester hour
Tampa Campus Graduate	\$431.43 semester hour	\$877.17 semester hour

Source: University records.

During the 2014-15 fiscal year, the University classified 338 students from Latin American or Caribbean countries as Florida residents for tuition purposes. As part of our audit, we examined University records documenting the residency status for 20 of the 338 students. We found that each were awarded scholarships ranging from \$500 to \$19,668 from State-appropriated educational and general funds,

⁶ Section 409.175(2)(i), Florida Statutes.

⁷ Section 1009.21, Florida Statutes.

⁸ Section 1009.21(10)(e), Florida Statutes.

Intercollegiate Athletics funds, or funds generated by the University from student fees. 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 found that another 272 of the 338 students each received scholarships, ranging from \$250 to \$17,736, from the University but had not 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, the University's Department of Intercollegiate Athletics, or student fees 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.

Additionally, our review of the 338 students disclosed 3 other students who did not receive scholarships from the Federal or State Government. The University awarded 1 of the 3 students a University scholarship but did not disburse the scholarship funds to the student; the University rescinded another student's University scholarship because the student did not provide immigration status documentation; and the other student's University scholarship was rescinded because the student did not cash the scholarship check. For the rescinded scholarships, University personnel indicated that, because of oversights, the University neglected to change the students' residency status to nonresident.

The classification of these 295 students as Florida residents for tuition purposes resulted in the University collecting \$2.9 million less student fee revenue than it would have had the students 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 Government 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.*

Finding 3: Severance Pay

State law⁹ provides that a unit of government that enters into a contract or employment agreement, or renewal or renegotiation of an existing contract or employment agreement, that contains a provision for severance pay must also include a provision in the contract or employment agreement that precludes severance pay from exceeding 20 weeks of compensation and prohibits the pay in instances of misconduct. State law defines severance pay as salary, benefits, or perquisites for employment services yet to be rendered that are provided to an employee who has recently been or is about to be terminated.

As part of our audit, we examined 17 University employment contracts and found that 4 of the contracts (for three coaches and an athletic director) provided for severance pay in excess of 20 weeks upon separation from employment. We also found that 2 of the 4 contracts did not prohibit severance pay in instances of misconduct. University personnel stated that the provisions in the coaches and athletic director contracts reflect the market reality for intercollegiate athletics, where the impact of a termination

⁹ Section 215.425(4), Florida Statutes.

tends to create reputational loss and reduces future hiring prospects and earning potential. Additionally, University personnel indicated that such contract provisions actually provide for pre-negotiated liquid damages rather than severance pay. Also, University personnel further clarified that the intent of the provisions in the 2 coaches' contracts, which allowed for one month salary to be paid in the event of termination due to misconduct, was to afford due process of notice of termination.

For the 2014-15 fiscal year, nine employees received severance payments totaling \$1,370,441. We reviewed severance payments for six of the employees who received \$1,058,579 (of which \$864,441 was paid during the 2014-15 fiscal year) and found that two of those employees received severance payments in excess of 20 weeks compensation. Specifically, we found that:

- On July 11, 2014, the University paid the former Athletic Director \$610,927, the equivalent of the employee's combined annual (\$510,927) and supplemental compensation (\$100,000) for the 2014-15 fiscal year, and exceeded 20 weeks of compensation by \$415,169. Payment was made pursuant to the employee's July 16, 2008, offer letter, which provided that, if the employee terminated for a reason other than just cause, the University would pay the prorated annual compensation for the remainder of the term of the employment agreement less any earnings from employment outside the University in a like position at another institution during the term of the employment agreement.

On June 22, 2012, the offer letter was amended, extending the term of the employment agreement through June 30, 2015. In response to our inquiries, University personnel stated that the severance payment was obligated under the July 16, 2008, offer letter, and the obligation was continued by the June 22, 2012, offer letter extension.

- On December 7, 2014, the University gave written notice of termination of employment, effective on that date, without cause to an assistant football coach (Assistant Coach). The notice stated that the University would pay, over a periodic basis, \$326,437 in accordance with Section 6 of the employment agreement effective January 20, 2014. That section of the agreement provided that, in the event the University terminated the employment agreement for reasons other than for cause, the University would continue to provide base salary to the Assistant Coach from the time of termination until January 20, 2016. As a result, the former Assistant Coach was paid \$211,494 in excess of 20 weeks of his annual base salary. As previously indicated, the University considered this a payment for liquidated damages, rather than severance pay, due to the impact of termination in intercollegiate athletics that tends to create reputational loss and reduces future hiring prospects and earning potential.

Although the University did not consider these payments to be severance pay, the payment amounts were based on salaries and were provided to employees whose employment had recently been terminated. Therefore, as the payments exceeded 20 weeks of compensation, the payments appear contrary to State law. A similar finding was noted in our report No. 2014-063.

Recommendation: *The University should ensure that future employment agreements contain provisions for severance pay that are consistent with State law. The University should also take appropriate action to amend existing employment agreements to appropriately address the provisions required by State law.*

Follow-up to Management's Response

The University's response indicates that "the contractual provisions in question include a pre-negotiated liquidated damages calculation intended to address equitable damages rather than payments for services to be rendered. This distinction is significant because the damages described herein do not meet the definition of severance pay in sec. 215.425(4)(d), F.S." Notwithstanding this response, as the payments

were conditioned upon the employee's termination of employment, and Attorney General Opinion No. 97-21 provides that extra compensation in the form of a lump-sum payment as an incentive to end employment without express statutory authority violates Section 215.425, Florida Statutes, it appears that the provisions for severance pay are prohibited by State law. Consequently, the finding stands as presented and we continue to recommend that the University ensure employment agreements contain provisions for severance pay that are consistent with State law.

Finding 4: Information Technology – Access Controls

Access controls are intended to protect University data and information technology (IT) resources from unauthorized disclosure, modification, or destruction. Effective access controls provide employees access to IT resources based on a demonstrated need to view, change, or delete data and restrict employees from performing incompatible functions or functions inconsistent with their assigned responsibilities. Effective periodic reviews of assigned IT access privileges are necessary to ensure that employees can only access those IT resources that are necessary to perform their assigned job responsibilities and that assigned access privileges enforce an appropriate separation of incompatible responsibilities.

University personnel perform periodic reviews of assigned IT access privileges to assess whether access privileges are appropriate. Our test of selected IT access privileges to the University's Enterprise Resource Planning (ERP) system finance and human resources (HR) applications and the supporting infrastructure (i.e., operating systems and databases) disclosed that some access privileges existed that could permit certain employees to perform incompatible functions or were unnecessary. Specifically, we found that:

- Two Database Administrators, four Data Security Analysts, and the Manager of Data Security Administration had the ability to update critical finance and HR transactions including, among other things, the ability to add and update vendor records and information, create and approve requisitions and purchase orders, receive goods, process vendor payments, add and update employee records and information, change rates of pay, update direct deposit information, and process payroll. These access privileges were contrary to an appropriate separation of IT ERP system technical support responsibilities and application end-user responsibilities.
- The two Database Administrators and two of the Data Security Analysts described above had been granted administrator access privileges to the ERP system's application servers and Web servers contrary to an appropriate separation of duties that restricts administrator access privileges to application servers and Web servers to only those employees who are responsible for performing administrator responsibilities.
- Two accounts that were unnecessary for University operations had been granted administrative access privileges to the host operating system for the ERP system finance application database. Restricting and managing accounts with administrative access privileges reduces the risk of compromise and unauthorized software or configuration changes. In response to our audit inquiry, University management indicated that the two accounts had not been used since their creation and would be deleted.

Although the University had certain established controls (e.g., periodic reviews of access privileges, department supervisory monitoring of actual and budgeted expenditures, including comparison of budgeted salaries to actual salaries) that partially mitigated the noted deficiencies, the existence of

inappropriate or unnecessary IT access privileges increases the risk that unauthorized disclosure, modification, or destruction of University data and IT resources may occur.

Recommendation: The University should ensure that IT access privileges granted enforce an appropriate separation of duties and are necessary and remove any inappropriate or unnecessary access privileges detected.

Finding 5: Information Technology – Security Controls – User Authentication and Logging and Monitoring of System Activity

Security controls are intended to protect the confidentiality, integrity, and availability of University data and IT resources. Our audit procedures disclosed certain University security controls related to user authentication and logging and monitoring of system activity needed improvement. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising University data and IT resources. However, we have notified appropriate University management of the specific issues. Without adequate security controls related to user authentication and logging and monitoring of system activity, the risk is increased that the confidentiality, integrity, and availability of University data and IT resources may be compromised. Similar findings related to user authentication were noted in our report Nos. 2012-132 and 2014-063.

Recommendation: The University should improve security controls related to user authentication and logging and monitoring of system activity to ensure the continued confidentiality, integrity, and availability of University data and IT resources.

PRIOR AUDIT FOLLOW-UP

The University had taken corrective actions for findings included in our report No. 2014-063, except as noted in Findings 3 and 5 and shown in Table 1.

Table 1
Findings Also Noted in Previous Audit Reports

Finding	2012-13 Fiscal Year Operational Audit Report No. 2014-063	2010-11 Fiscal Year Operational Audit Report No. 2012-132
3	7	Not Applicable
5	9	9

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 2015 to December 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 identifying weaknesses in those controls.
- Determine whether management had taken corrective actions for findings included in our report No. 2014-063.
- 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, as of August 6, 2015, to determine whether the policies and procedures addressed certain important IT control functions, such as security, systems development and maintenance, and disaster recovery.
- Reviewed University procedures for maintaining and reviewing access to IT resources, as of August 19, 2015, to determine the appropriateness and necessity of the access based on 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 network, 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 for the enterprise resource planning (ERP) finance (20 accounts) and human resource (37 accounts) databases.
 - Reviewed the adequacy of all database administrator roles (9 accounts) for the ERP finance and human resource databases.
- Evaluated the adequacy of the University's written security policies, procedures, and programs, as of August 6, 2015, governing the classification, management, and protection of sensitive and confidential information.
- Evaluated the University's comprehensive IT disaster recovery plan, as of May 27, 2015, to determine whether it was designed properly, operating effectively, and had been recently tested.
- Reviewed selected operating system, database, network, and application security settings, as of September 6, 2015, to determine whether authentication controls were configured and enforced in accordance with IT best practices.
- Examined procedures, and supporting documentation, as of June 3, 2015, to determine whether audit logging and monitoring controls were configured in accordance with IT best practices.
- Determined whether a comprehensive, written IT risk assessment had been developed, as of August 6, 2015, to document the University's risk management and assessment processes and security controls intended to protect the confidentiality, integrity, and availability of data and IT resources.
- Determined whether an adequate comprehensive IT security awareness and training program was in place as of August 6, 2015.
- Examined Trustees, committee, and advisory board meeting minutes for the 2014-15 fiscal year for evidence of compliance with Sunshine Law requirements (i.e., proper notice of meetings, meetings readily accessible to the public, and properly maintained meeting minutes).
- Examined University records, as of March 3, 2015, 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, as of April 20, 2015, 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, we determined whether the University had implemented appropriate and sufficient procedures to comply with its anti-fraud policies.
- Analyzed whether the unencumbered available balances in the education and general fund of the Trustees-approved operating budget to determine whether the balance was below 5 percent of

the total available fund balance at June 30, 2015. We also 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.

- Evaluated University policies and procedures, as of March 26, 2015, related to electronic funds transfers (EFTs) to determine whether adequate controls over EFTs had been established.
- From the population of 978 payments and EFTs totaling \$33.5 million made by the University to its direct-support organizations during the period July 1, 2014, through May 31, 2015, examined 29 selected transactions totaling \$8 million for verification that the payments and EFTs were authorized by Section 1004.28(1)(a)2. and (2), Florida Statutes.
- Performed analytical procedures to determine the adequacy of University collection efforts for the 2014-15 fiscal year. We also reviewed University policies and procedures to determine whether the policies and procedures provided for restrictions on student records and holds on transcripts and diplomas.
- Reviewed payments from tuition differential fees collected for the 2014-15 fiscal year to determine whether the University assessed and used tuition differential fees in compliance with Section 1009.24(16)(a), Florida Statutes.
- Evaluated whether the University had adequate procedures for the 2014-15 fiscal year to document Florida residency in compliance with Sections 1009.21 and 1009.24, Florida Statutes, and Board of Governors Regulation 7.005.
- Reviewed University procedures to determine whether distance learning fees, totaling \$7.9 million, for the 2014-15 fiscal year were assessed and collected and separately accounted for and retained by the University as provided by Section 1009.24(17), Florida Statutes.
- From the population of 9 auxiliary operations contracts with revenue totaling \$6.7 million during the 2014-15 fiscal year, examined 5 selected contracts, with revenue totaling \$5 million, to determine whether the University properly monitored compliance with the contract terms for fees, insurance, and other provisions. Also, we performed analytical procedures to determine whether the University's auxiliary services were self-supporting.
- Evaluated University policies and procedures for the 2014-15 fiscal year regarding textbook affordability for compliance with Section 1004.085, Florida Statutes. We also examined documentation for the 13,589 textbooks added during the 2014-15 fiscal year to determine whether the textbook information was timely listed on the University's Web site.
- From the population of 18,610 employees compensated a total of \$1.2 billion during the period July 1, 2014, through April 30, 2015, examined records related to 30 selected employees compensated a total of \$47,364 for a selected pay period to determine the accuracy of the rate of pay and validity of employment contracts.
- Reviewed the University's policies and procedures for the 2014-15 fiscal year and examined selected records for supervisory approval of time worked and leave used by noninstructional and administrative employees to evaluate whether compensation payments were appropriate.
- 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 terminal leave payments totaling \$1.5 million made to 260 employees during the period July 1, 2014, through December 31, 2014, we examined College records supporting selected terminal leave payments totaling \$323,000 and made to 4 former employees and evaluated the payments for compliance with Section 110.122, Florida Statutes, and Trustees regulation Nos. USF10.104 and USF10.203.

- Reviewed severance pay provisions in the President's contract and other selected employee contracts for the 2014-15 fiscal year to determine whether the provisions complied with Section 215.425(4), Florida Statutes. We also examined severance payments made to selected former employees to determine whether the payments complied with State law and Trustees policies.
- From the population of 85 administrative employees (including the President) who received compensation totaling \$24.4 million during the 2014-15 fiscal year, examined records for 25 selected employees (including the President) who received compensation totaling \$8.3 million 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 the 2014-15 fiscal year for obtaining background screenings to determine whether individuals in positions of special trust and responsibility, such as positions in direct contact with minors, had undergone appropriate background screenings.
- Reviewed the 14 hourly physician employment agreements for the 2014-15 fiscal year for overtime provisions and also examined payments made pursuant to those agreements to determine whether employees were paid overtime in accordance with the employment agreements.
- Examined University expenditure records to determine whether expenditures were reasonable, correctly recorded, adequately documented, for a valid University purpose, properly authorized and approved, and complied with applicable laws, rules, contract terms, and Board policies. From the population of expenditures totaling \$93 million, for the period July 1, 2014, through April 30, 2015, we examined:
 - Documentation relating to 30 payments for general expenditures totaling \$39,468.
 - Documentation relating to 29 agreements for contractual services totaling \$1.1 million.
- Examined purchasing card (P-card) transactions to determine whether the University's P-card program was administered in accordance with University policies and procedures and purchases were not of a personal nature. From the population of 87,653 P-card transactions totaling \$25.8 million during the period July 1, 2014, through February 28, 2015, we examined documentation relating to 42 selected transactions totaling \$504,229 to determine whether the P-card program was administered in accordance with University policies and procedures.
- From the population of 36 employees who had been assigned P-cards and separated from University employment during the period July 1, 2014, through April 7, 2015, examined documentation for 10 selected former employees to determine whether the assigned P-cards had been timely canceled upon the cardholders' separation from employment.
- Evaluated University policies and procedures related to identifying potential conflicts of interest for the 2014-15 fiscal year. For selected University officials, we reviewed Department of State, Division of Corporation records; statements of financial interests; and University records to identify any potential relationships that represent a conflict of interest with vendors used by the University.
- Reviewed documentation related to the University's three major construction projects during the 2014-15 fiscal year with construction costs totaling \$4.8 million to determine whether procedures used for the selection of design professionals and construction managers were adequate and fair.
- Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.

- Prepared and submitted for management response the findings and recommendations that are included in this report and which describe the matters requiring corrective actions. Management's response is included in this report under the heading **MANAGEMENT'S RESPONSE**.

AUTHORITY

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

A handwritten signature in blue ink that reads "Sherrill F. Norman". The signature is fluid and cursive, with "Sherrill" on the first line and "F. Norman" on the second line.

Sherrill F. Norman, CPA
Auditor General

MANAGEMENT'S RESPONSE



March 15, 2016

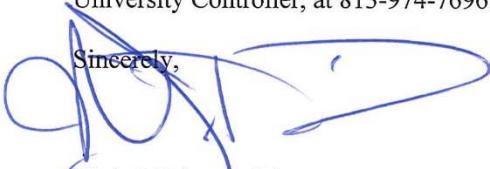
Sherrill F. Norman, CPA
Auditor General
3505 East Frontage Rd, Suite 350
Tampa, FL 33607

Dear Ms. Norman,

Please see enclosed the University of South Florida response for those audit findings related to the University that are included in the 2014-15 Operational Audit administered by the State of Florida.

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

Sincerely,



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

Enclosure

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

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University of South Florida
Responses to Preliminary and Tentative Findings of the USF 2015 Operational Audit
Conducted by the Auditor General's Office

Finding 1: Background Screening: The University did not perform background screenings for certain individuals in positions of special trust and responsibility.

Recommendation: The University should enhance its procedures to ensure that background screening, including fingerprinting, are performed for individuals in positions of special trust or responsibility, including those that have direct contact with persons under 18 years of age.

Management's Response: Management will perform level two background screenings for those individuals who were identified in the finding and are still employed with the University. Management has completed the designation of those positions identified in the findings as sensitive or special trust. Management is enhancing its procedures to ensure that positions identified as sensitive or special trust complete a level two background screening.

Expected Implementation Date: June 30, 2016
Responsible Party: Donna Keener, 813/974-5711

Finding 2: Florida Residency: The University needs to enhance procedures for classifying students as Florida residents for tuition purposes in accordance with State law.

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 Government 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.

Management's Response: The University believes that since the residents of a Latin American or Caribbean country were awarded scholarships from a fund that includes state appropriations and student generated fees (i.e. funds from a State University), the scholarships should be considered State scholarships as contemplated by Section 1009.21 (10)(e), Florida Statutes. As such, the University has requested guidance from the Board of Governors as to whether this practice is allowable under State law.

Implementation Date: June 30, 2015
Responsible Party: Billie Jo Hamilton 813/974-3039

Finding 3: Severance Pay: Certain employment agreements included severance pay provisions that were contrary to State law. In addition, as similarly noted in our report No. 2014-063, the University made severance payments that exceeded the limitations provided by State law.

Recommendation: The University should ensure that future employment agreements contain provisions for severance pay that are consistent with State law. The University should also take appropriate action to amend existing employment agreements to appropriately address the provisions required by State law.

Management's Response: The University's position is that it complies with section 215.425(4), F.S., and respectfully disagrees with this finding. The contractual provisions identified as inconsistent with sec. 215.425(4), F.S. reflect the market for individuals in intercollegiate athletics, which is relatively small and where the impact of a termination without cause tends to create damages that are difficult to quantify, such as reputational loss and reductions in future hiring prospects and earning potential. Therefore, the contractual provisions in question include a pre-negotiated liquidated damages calculation intended to address equitable damages rather than payments for services to be rendered. This distinction is significant because the damages described herein do not meet the definition of severance pay in. sec. 215.425 (4)(d), F.S.:

(d) As used in this subsection, the term "severance pay" means the actual or constructive compensation, including salary, benefits, or perquisites, for employment services yet to be rendered which is provided to an employee who has recently been or is about to be terminated. The term does not include compensation for:

1. Earned and accrued annual, sick, compensatory, or administrative leave;
2. Early retirement under provisions established in an actuarially funded pension plan subject to part VII of chapter 112;

On its face, this statutory definition only addresses compensation for employment services to be rendered and says nothing about reputational damages or reduced earning potential. The liquidated damages calculation also does not amount to actual or constructive compensation for services as defined in sec. 215.425(4)(d), F.S., because the liquidated damages calculation explicitly excludes stipends, bonuses, performance incentives and benefits, which are all tied to services to be rendered in the contracts in question. In fact, the liquidated damages calculation is less than the compensation for services to be rendered available under the contracts in question.

Absent these provisions, uncertainty and expense would likely and needlessly result in what would otherwise be a straightforward employment separation.

Finally, it should be noted that these payments are paid from USF Athletics' revenue sources and not public funds.

<u>Implementation Date:</u>	June 30, 2015
<u>Responsible Party:</u>	Donna Keener, 813/974-5711

Finding 4 Information Technology – Access Controls: University information technology (IT) access controls needs improvement.

Recommendation: The University should ensure that IT access privileges granted enforce an appropriate separation of duties and are necessary and remove any inappropriate or unnecessary access privileges detected.

Management's Response: Privileges to the University's Enterprise Resource Planning (ERP) system finance and human resources applications have been removed. Privileges to the underlying infrastructure are necessary to perform security related duties. Therefore, the administrative privileges to the underlying infrastructure have been further restricted to required personnel and mitigating controls are in place to monitor activities of the required personnel.

Implementation Date: February 26, 2016
Responsible Party: Alex Campoe, 813/974-1796

Finding 5 Information Technology – Security Controls – User Authentication and Logging and Monitoring of System Activity: As similarly noted in our report No. 2014-063, University security controls related to IT user authentication and logging and monitoring of system activity need improvement.

Recommendation: The University should improve security controls related to user authentication and logging and monitoring of system activity to ensure the continued confidentiality, integrity, and availability of University data and IT resources.

Management's Response: A detailed response to all issues raised by the State Audit with respect to the confidentiality, integrity and availability of the data residing in our systems will be submitted separately in order to maintain the need-to-know aspect of the report. The University believes that the current controls are adequate to establish a secure environment. However, the University will review the security settings and if necessary, make appropriate changes.

Expected Implementation Date: March 1, 2017
Responsible Party: Alex Campoe, 813/974-1796