



Board of Trustees Audit & Compliance Committee

Tuesday, August 27, 2019

12:30 – 1:30pm

Tampa Campus - Marshall Student Center Room# 3707

Trustees: Nancy Watkins, Chair; Oscar Horton, Byron Shinn

A G E N D A

- I. Call to Order and Comments Chair Nancy Watkins
- II. Public Comments Subject to USF Procedure Chair Watkins
- III. New Business – Action Items
 - a. [Approval of February 12, 2019 Meeting Notes](#) Chair Watkins
- IV. New Business – Information Items
 - a. [USF System Audit Annual Report 2018/19](#) Executive Director, Virginia Kalil
 - b. [BOG Controls Review by Crowe](#) University Controller Jennifer Condon
 - c. [Construction Accounting and Controls Structure Status Update](#) Vice President/CFO Nick Trivunovich
 - d. [State of Florida Federal Awards Audit Update \(formerly A-133\)](#) Vice President/CFO Nick Trivunovich
- V. Adjournment Chair Watkins



**USF Board of Trustees
Audit & Compliance Committee
NOTES**

**Tuesday, February 12, 2019
Tampa Campus – Marshall Student Center Room# 3707**

I. Call to Order and Comments

The meeting of the Audit & Compliance Committee was called to order by Chair Nancy Watkins at 9:30am.

Committee members present: Nancy Watkins, Oscar Horton and Byron Shinn. A quorum was established. President Genshaft and Trustees Mike Carrere, Moneer Kheireddine, Brian Lamb, Deanna Michael, Hal Mullis, Les Muma, John Ramil, and Charles Tokarz were also present.

II. Public Comments Subject to USF Procedure

No requests for public comments were received.

III. New Business – Action Items

a. Approval of August 27, 2018 Meeting Notes

Upon request and receiving no changes to the draft meeting notes, Chair Watkins requested a motion for approval, it was seconded and the August 27th meeting notes were unanimously approved as written.

b. Acceptance of Performance Based Funding Data Integrity Audit & Approval of Data Integrity Certification

Virginia Kalil, Executive Director, USF System Audit, presented the results of the Performance-Based Funding Data Integrity Audit. This is the fifth year in conducting this audit pursuant to BOG request. The main objectives of the audit were to determine whether the processes and internal controls established by the university ensure the completeness, accuracy, and timeliness of data submissions to the BOG which support the PBF measures; and to provide an objective basis of support for the President and BOT Chair to sign the representations included in the Data Integrity Certification. The audit scope was to identify and evaluate any material changes to the controls and processes in place during the prior audit period, including prior year recommendations, BOG data definition changes, and data element and/or file submission changes; and to update PBF risk assessment, including fraud risks, to identify areas for detailed testing. The audit verified any data resubmissions to the BOG were necessary and authorized; performed detailed testing related to files submitted to the BOG for Measures 1-9 (by tracing samples to systems of record and verifying reasonableness, accuracy, completeness, and consistency with BOG expectations); and verified proper supporting documentation for Measure 10. The overall conclusion of the audit was that there were no high risk issues and there was an adequate system of internal controls in place. Two recommendations (medium priority risks) for improvement are included in the Management

Letter. The recommendations are 1) management review over SFA (student financial aid) coding and file changes needed strengthening (this has been completed); and 2) identification of some repeated coursework within the student information system and courses to degree file requires improvement (this is in process). Both recommendations for improvement did not have an impact on the performance measures.

A new representation was added to the Data Integrity Certification - a 12th item as to the scope of work for the audit. This is a slight change for USF as our BOT Chair already approves the scope; just have to add the President.

A motion was made to accept the Performance-Based Funding Data Integrity Audit results and to approve the Data Integrity Certification. The motion was seconded and approved by all Committee members present.

IV. New Business – Information Items

a. USF/DSO External Audit Findings

Fell Stubbs, University Treasurer, presented the University and DSO Outstanding External Audit Findings Report which describes audit findings and auditor recommendations, and management's responses and correction status. The University and DSOs will receive 15 audits from independent external auditors for the fiscal year ended June 30, 2018. Since June 30, 2018, 14 audits have been received, with no disclosed audit findings in the 5 University June 30, 2018 Audited Financial Statements; no audit findings in the 7 DSO June 30, 2018 Audited Financial Statements; and no findings in the USF Health and Education International Foundation's (related party of HPCC DSO) or the USF Health Support Services Organization June 30, 2018 Audited Financial Statements. One audit report has not yet been issued: State of Florida Federal Awards Audit (Formerly A-133) for fiscal year 2018. The Operational Audit of the University by the State Auditor General will not be issued for fiscal year 2018.

Of the eight previously disclosed external audit findings, all have been closed per management.

Mr. Stubbs also presented the Annual Compliance Certifications of DSOs. Each DSO and related entity under the control and direction of the BOT is expected to implement an internal control, reporting and governance structure consistent with best practices of USF, the DSO or related entity, as well as those detailed within National Association of College and University Business Officer's Advisory Report on the Sarbanes-Oxley Act of 2002. The Compliance Certification process is an important element of DSO oversight and governance.

All nine DSOs provided their Annual Compliance Certification Statements, signed by the DSO Chair, CEO and CFO, for the fiscal year ended June 30, 2018, consistent with the Annual Reporting Requirements for DSOs. There were no instances of non-compliance with the 20 requirements from five categories of compliance cited in the Annual Compliance Certification Statement.

b. USF System Compliance & Ethics Annual Report

Jeff Muir, Chief Compliance Officer, presented the USF System Compliance & Ethics

Program Annual Report for 2018. This report covers the period from January 1, 2018, to December 31, 2018. Compliance & Ethics Program (CEP) is responsible for the following:

- Form One Financial Disclosure
- Intercollegiate Athletics Document Review and GAP Analysis
- General Data Protection Regulation (complex law out of European Union)
- Compliance & Ethics Training for new employees system wide
- Higher Education Opportunity Act Oversight
- Florida Code of Ethics (eDisclose)
- EthicsPoint (anonymous hotline)

Mr. Muir reviewed the EthicsPoint reports for calendar year 2018. 98 unduplicated reports were received, which is consistent with recent reporting periods. Twenty-two percent of all reports were found to be “substantiated”, consistent with past reporting periods. HR and DIEO make up over half of the reports, also consistent with prior reporting. There were no surprises over the last 12 months and there was no significant financial fraud.

BOT Chair Lamb stated that the General Data Protection Regulation (GDPR) is a big issue. He asked if CEP has been looking at Athletics, Advancement, etc., to see if any of the marketing could be considered a solicitation. Mr. Muir responded that CEP is looking at this. This is very complex, as almost everything includes personal data. CEP is putting together an overall compliance plan and looking at where we need to implement notification and consent. Noting this is not a USF-specific issue, BOT Chair Lamb asked if this is a concern/issue for the BOG. Mr. Muir stated that SUS approaches to GDPR are varied and that he is advocating for a system-wide approach.

V. Adjournment

Chair Watkins stated that USF is now fully compliant with BOG regulation 4.003 relating to compliance (Audit and Compliance are to be separate) and we are getting great results (no audit findings; advocating for system-wide compliance). We are a model to be emulated. Chair Watkins thanked the BOG and BOT Chair Lamb for their leadership.

Having no further business, Chair Watkins adjourned the Audit & Compliance Committee meeting at 10:42am.

Agenda Item: IVa

**USF Board of Trustees
Audit & Compliance Committee
August 27, 2019**

Issue: USF System Audit Annual Report for 2018-19

Proposed action: Informational

Executive Summary:

The USF System Audit (Audit) Work Plan for FY 2019 and FY 2020 was approved by the Audit & Compliance Committee on May 22, 2018. This Annual Report describes the internal audit, consulting, and investigative activities and allocation of resources as compared to year one of the two-year Work Plan.

In FY 2019, the audit team completed nine audits, including four IT projects, two consulting projects, and 14 investigations. Project summaries will be included in the finalized Annual Report. Also, semi-annual reports were produced summarizing the status of management's implementation of Audit's recommendations.

As part of the department's Quality Assurance and Improvement Program (QAIP), internal assessments performed throughout the year confirmed Audit's conformance with the Institute of Internal Auditors' International Standards for the Professional Practices of Internal Auditing and Code of Ethics. Additionally, Audit completed implementation of the three recommendations for continuous improvement towards best practices included in the 2018 external assessment.

Financial Impact: N/A

Strategic Goal(s) Item Supports: Goal 4: Sound financial management to establish a strong and sustainable economic base in support of USF's continued academic advancement.

BOT Committee Review Date: 08/27/2019

Supporting Documentation Online (please circle):

Yes

No

2018-19 Annual Report Overview

USF System or Institution specific: USF System

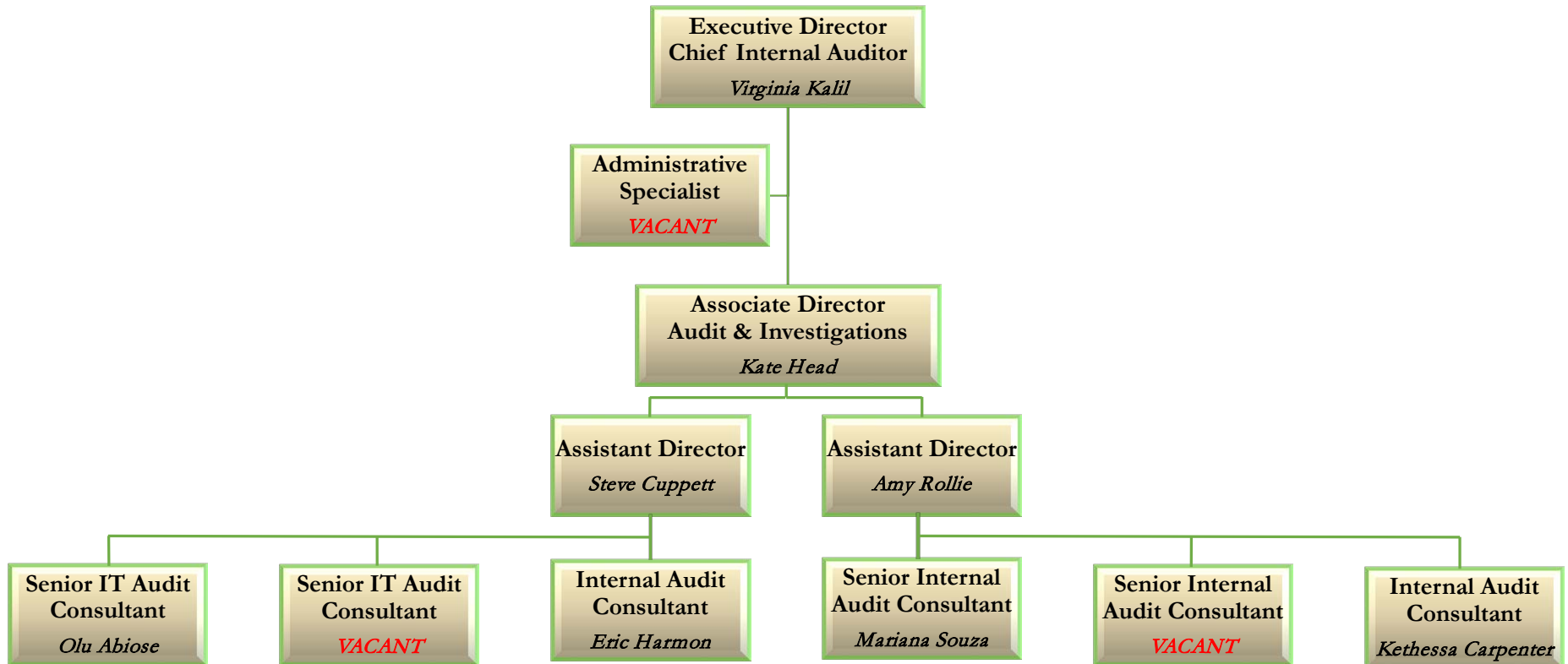
Prepared by: Virginia Kalil, Executive Director, USF System Audit

USF System Audit Annual Report FY 2018-19

Audit and Compliance Committee
August 27, 2019



Organizational Chart



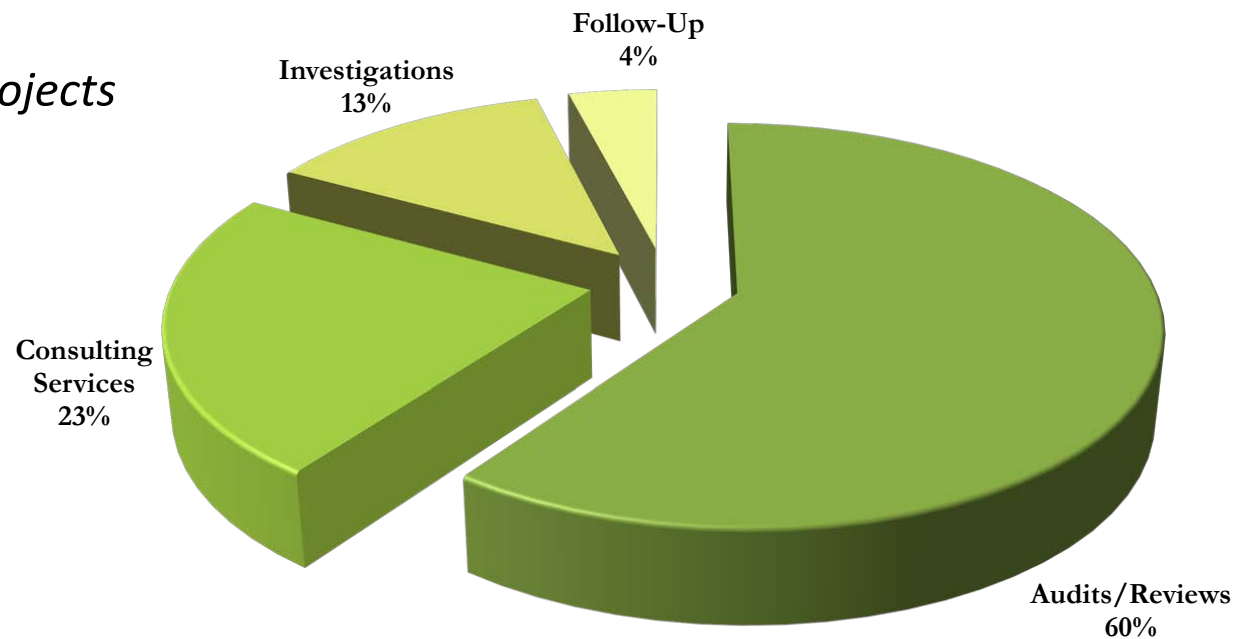
Direct Services Highlights

Completed

- 9 audits, including 4 IT projects
- 2 consulting projects
- 14 investigations

In Progress

- 1 audit
- 3 consulting projects
- 11 investigations



Audits – Core Processes & Academic Affairs

- Access Controls (Transfers)
- Time & Labor (Decentralized)
- Surplus Property & Asset Disposal
- Performance-Based Funding Data Integrity
- USF College of Public Health

Audits – Governance, Research & IT

- Delegation of Authority
- IT Change Management
- IT General Controls - USFSP
- IT General Controls - USFSM

Consulting

- Dr. Kiran C. Patel Center for Global Solutions Funding & Construction Project Funding Certification
- Current Construction & Accounting Control Structure

Recommendations

- 71% implementation rate of audit recommendations
- Categories:
 - *Assignment of Responsibility*
 - *Authorization: Adequacy & Timeliness*
 - *Compliance with Federal Laws*
 - *Compliance with State and Local Laws*
 - *Effective & Efficient Operations*
 - *IT: Confidentiality, Integrity, & Availability of Data/System*
 - *Reporting: Accuracy, Completeness, & Timeliness*
 - *Safeguarding of Assets*
 - *Separation of Duties*
 - *Training & Guidance: Accuracy, Completeness, & Timeliness*

Quality Assurance & Improvement Program (QAIP)

- Internal assessments confirmed conformance with IIA Standards
- External assessment confirmed conformance with IIA Standards & identified the following opportunities for improvement:
 - ✓ Revision of Audit & Compliance Committee Charter (ACC)
 - ✓ Communication of QAIP to ACC
 - ✓ Development of a formal strategic plan

Closing Remarks

Audit and Compliance Committee

August 27, 2019



Agenda Item: IVb

USF Board of Trustees
Audit & Compliance Committee
August 27, 2019

Issue: BOG Controls Review by Crowe LLP

Proposed action: Informational

Executive Summary:

The Florida Board of Governors engaged Crowe LLP to perform an Internal Management and Accounting Control and Business Process Review of the twelve universities in the State University System.

Jennifer Condon, Controller will provide an update on the progress of the USF review.

Financial Impact:

N/A

Strategic Goal(s) Item Supports:	Goal 4: Sound Financial Management
BOT Committee Review Date:	August 27, 2019
Supporting Documentation Online (<i>please circle</i>):	Yes <input type="radio"/> No <input checked="" type="radio"/>
USF System or Institution specific:	USF System
Prepared by:	Jennifer Condon, Controller (813)974-7696

Agenda Item: IVc

USF Board of Trustees
Audit & Compliance Committee
August 27, 2019

Issue: Construction Accounting and Controls Structure Status Update

Proposed action: Informational

Executive Summary: University Audit issued Audit 19-035 which included a risk assessment and an internal controls evaluation of the administrative and financial controls environment in place over major and minor construction projects accounting as of January 1, 2019. A presentation was made at the May 14, 2019 Board of Trustees meeting that provided information on the timing and methodology of the implementation of the recommendations in the report. A further update is being provided at this meeting prior to a presentation of these corrective actions at the August 2019 Board of Governors Audit Committee meeting.

Financial Impact: N/A

Strategic Goal(s) Item Supports: Goal 4: Sound Financial Management

BOT Committee Review Date: 8/27/19

Supporting Documentation Online (*please circle*): Yes

No

USF System or Institution specific: USF System

Prepared by: Nick J. Trivunovich

UNIVERSITY OF SOUTH FLORIDA
CONSTRUCTION ACCOUNTING AND CONTROL STRUCTURE
RECOMMENDATION STATUS
AUGUST 2019

	<u>Statement of Risk</u>	<u>Recommendation</u>	<u>Status</u>	<u>Comments</u>
1	Further guidance was needed regarding the allowable uses of Education & General (E&G) funds on construction projects.	The university should seek formal written clarification from the Board of Governors (BOG) as to exactly what types of E&G carryforward expenditures, and in what amounts, are viewed as allowable on construction projects by both the BOG and the legislature, and develop and implement procedures accordingly so that the university can ensure strict compliance with all requirements.	In Progress 10/1/19	The Chief Financial Officer has requested formal written clarification from the BOG and is awaiting finalization of an update to BOG regulation <u>9.007 State University Operating Budgets</u> . This update is expected to provide more guidance and clarity as to what types and amounts of E&G carryforward expenditures are viewed as allowable on construction projects by both the BOG and the legislature. Upon finalization of the updated regulation, the university will develop and implement procedures accordingly to ensure compliance with all requirements.
2	Financial Accounting System (FAST) functionality was not being utilized to associate related projects in the project costing (PC) module.	The university should implement a means of identifying and tracking all of a construction project's financial transactions within FAST.	Complete 7/1/19	All new capital projects are established using a singular FAST PC Project ID to associate related appropriations and alternate funding sources.
3	Tracking of costs by Activity ID and fund needs to be improved.	The university should develop and implement procedures for budget to actual tracking of all construction costs by both Activity ID and funding source.	Complete 7/1/19	Procedures for budget to actual tracking of all construction costs by both Activity ID and funding source have been developed and implemented.
4	Monitoring authorization of expenditure transfers, subject to USF System Policy 0-100, needs to be improved.	The university should ensure all expenditure transfers are subject to BOT approvals consistent with the intent of USF System Policy 0-100.	Complete 7/1/19	Procedures have been established and implemented to ensure expenditure transfers are subject to approvals consistent with the intent of USF System Policy 0-100.
5	Monitoring of expenditures outside of the Construction Fund should be performed to ensure a Project ID is associated with all construction expenditures.	The university should develop and implement procedures which require that all construction costs, regardless of funding source, be associated with an appropriate FAST PC Project ID. Monitor for compliance with this procedure.	Complete 7/1/19	The university has procedures that require all construction costs, regardless of funding source, be associated with an appropriate FAST PC Project ID. Compliance monitoring protocols have been developed.
6	There was no formal communication of roles and responsibilities for construction projects accounting among the various decentralized facilities units.	The university should establish a consistent control structure for construction accounting activities throughout the USF System.	Complete 5/1/19	The university has established a consistent control structure for construction accounting activities throughout the USF System. Each decentralized construction administration unit is responsible to ensure fiscal control in accordance with the established structure.
7	Financial controls over projects being managed by USF Health (USFH) Operations and Facilities Management needs to be improved.	The university should enhance the College of Medicine Business Office construction accounting control structure, or else transfer USFH construction accounting functions to ASBC.	Complete 5/1/19	Training on the consistent control structure referenced in recommendation 6 above was provided to the College of Medicine Business Office and other decentralized construction administration units in March, 2019. The College of Medicine Business Office will ensure fiscal control in accordance with the established structure.

Agenda Item: IVd

USF Board of Trustees
Audit & Compliance Committee
August 27, 2019

Issue: State of Florida Federal Awards Audit Update

Proposed action: Informational

Executive Summary: The State of Florida Federal Awards Audit (formerly known as the A-133 Audit) for fiscal year ending 6/30/2019 was issued March 28, 2019. The University of South Florida had one finding related to cash management which has since been resolved.

Financial Impact: N/A

Strategic Goal(s) Item Supports: Goal 4: Sound Financial Management

BOT Committee Review Date: 8/27/19

Supporting Documentation Online (*please circle*): Yes

No

USF System or Institution specific: USF System

Prepared by: Nick J. Trivunovich

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Finding Number	2018-037
CFDA Number	93.350 and 93.847
Program Title	Research and Development Cluster (R&D) National Center for Advancing Translational Sciences (93.350) Diabetes, Digestive, and Kidney Diseases Extramural Research (93.847)
Compliance Requirement	Cash Management
State Entity	University of South Florida (USF)
Federal Grant/Contract Number and Grant Year	CFDA No. 93.350 5U01TR001263-13/6163-1032, September 1, 2009 – June 30, 2019 CFDA No. 93.847 1UC4DK106993-01/6163-1008, September 30, 2015 – June 30, 2020 1UC4DK106955-01/6163-1007, August 15, 2015 – April 14, 2020 1UC4DK100238-01/6163-1017, January 1, 2014 – December 31, 2018
Statistically Valid Sample Finding Type	No Noncompliance and Significant Deficiency
Finding	The USF did not always ensure that invoices for which reimbursement was requested were paid prior to the date of the reimbursement request.
Criteria	2 CFR 200.305(b)(3) – <i>Payment</i> USF Letter of Credit Draw Process
Condition	During the 2017-18 fiscal year, the USF made 163 reimbursement requests (drawdowns), totaling \$48,003,948, for 4 R&D grant projects. The USF used the PeopleSoft Financial Accounting System (FAST) to complete the drawdown process. According to USF procedures, to initiate a drawdown, USF staff prepared a Letter of Credit (LOC) Report through FAST and Federal funds were requested to be reimbursed by the Federal agency in the amount indicated in the LOC Report. Upon approval of the drawdown request, the LOC Report was finalized, and the drawdown was processed. The FAST processed the drawdown request, verifying that the cumulative amount reimbursed did not exceed the award amount. Our review of USF expenditure documentation associated with 44 drawdowns totaling \$16,491,473 disclosed that, for 21 drawdowns totaling \$1,391,460, the USF did not pay the invoices for which the drawdowns were requested prior to the date of the drawdowns.
Cause	USF procedures did not require staff to verify that invoices had been paid prior to the date of the drawdowns. In addition, according to USF management, the payment term settings in FAST for particular vendors were set to pay on a net-30-day basis rather than paid immediately. As a result, the vendor invoices had not been paid at the time USF staff processed the drawdowns.
Effect	R&D expenditures were reimbursed for invoices that had not been paid under terms of the Federal grant.
Recommendation	The USF should revise their procedures to require staff to ensure that grant expenditure invoices are paid prior to the date of drawdown.
State Entity Response	The University of South Florida has revised the procedures to systematically ensure that grant expenditure invoices are paid prior to the date of drawdown.