

STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

Report No. 2019-095
January 2019

UNIVERSITY OF CENTRAL FLORIDA



Sherrill F. Norman, CPA
Auditor General

Board of Trustees and President

During the period January 1, 2017, through December 31, 2017, Dr. John C. Hitt served as President of the University of Central Florida and the following individuals served as Members of the Board of Trustees:

Marcos R. Marchena, Chair	Nicholas Larkins from 5-5-17 ^a
Robert A. Garvy, Vice Chair	John Lord from 6-22-17
Kenneth Bradley	Alex Martins
Clarence H. Brown III, M.D.	Beverly J. Seay
Chris Clemente through 5-4-17 ^a	Dr. William Self from 4-20-17 ^b
Joseph D. Conte	John R. Sprouls
Ray Gilley through 6-21-17	David Walsh
Dr. Keith Koons through 4-19-17 ^b	William E. Yeargin

^a Student Body President.

^b Faculty Senate Chair.

The team leader was Jeffrey M. Brizendine, CPA, and the audit was supervised by Brenda C. Racis, CPA.

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

This report and other reports prepared by the Auditor General are available at:

FLAuditor.gov

Printed copies of our reports may be requested by contacting us at:

State of Florida Auditor General

Claude Pepper Building, Suite G74 • 111 West Madison Street • Tallahassee, FL 32399-1450 • (850) 412-2722

UNIVERSITY OF CENTRAL FLORIDA

SUMMARY

This operational audit of the University of Central Florida (University) focused on selected University processes and administrative activities and included a follow-up on findings noted in our report No. 2017-057. Our operational audit disclosed the following:

Finding 1: The University used \$29.1 million in Education and General appropriation carryforward funds to construct the Trevor Colbourn Hall after the Legislature directed that non-appropriated sources be used for the construction. In addition, the University misreported the funding source for the construction of the Trevor Colbourn Hall in the capital outlay budget for each of the 2015-16 through 2018-19 fiscal years, obscuring government transparency of the budget process and misinforming the public of how the construction was being funded.

Finding 2: University records did not document the reasonableness of the former President's salary for his new position as President Emeritus.

Finding 3: The University needs to enhance controls over payments for contractual services.

Finding 4: University records supporting University overhead charges to and reimbursements from University direct-support organizations could be improved.

Finding 5: University textbook affordability procedures continue to need improvement.

BACKGROUND

The University of Central 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 (University 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 5-year terms. The Faculty Senate Chair and Student Body President also are members.

The BOG establishes the powers and duties of the University Trustees. The University 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 University Trustees and confirmed by the BOG. The University President serves as the Executive Officer and the Corporate Secretary of the University Trustees and is responsible for administering the policies prescribed by the University Trustees for the University.

FINDINGS AND RECOMMENDATIONS

Finding 1: Education and General Appropriation Carryforward – Construction Funding

Board of Governors (BOG) regulations¹ provide that, unless otherwise expressed by law, Education and General (E&G) funds are to be used for E&G operating activities only, such as, but not limited to, general instruction, research, public service, plant operations and maintenance, student services, libraries, administrative support, and other enrollment-related and stand-alone operations of the universities. BOG regulations² also provide that any unexpended E&G appropriation carried forward to the fund balance in a new fiscal year shall be utilized in support of E&G operating activities only except where expressly allowed by law.

State law³ requires that:

- The University Trustees adopt a capital outlay budget for the ensuing year in order that the capital outlay needs of the board for the entire year may be well understood by the public.
- The capital outlay budget be a part of the annual budget and be based upon and in harmony with the University Trustees capital outlay plan.
- The capital outlay budget designates the proposed capital outlay expenditures by project for the year from all fund sources.
- The University Trustees not expend any funds on any project not included in the budget, as amended.

The University Associate Vice President for Facilities and Safety prepared a capital outlay budget each year based on the University Trustees capital outlay plan and the Vice President for Administration and Finance and Chief Financial Officer submitted the budget to the University Trustees for approval.

Our discussions with University personnel related to Colbourn Hall and our examination of University records supporting the funding and construction of the Trevor Colbourn Hall disclosed the following sequence of events:

- In 1974, the Colbourn Hall academic facility was constructed.
- During the 2012-13 fiscal year, the University decided to postpone maintenance activities on Colbourn Hall and began setting aside E&G carryforward funds for deferred maintenance⁴ on that facility.
- In May 2014, the Vice President for Administration and Finance and Chief Financial Officer presented information regarding the proposed renovation process for Colbourn Hall to the University Trustees, and the University Trustees agreed to construct the Trevor Colbourn Hall to replace the Colbourn Hall. University management informed the University Trustees that “in the absence of PECO [Public Education Capital Outlay] funding and considering the need to move forward expeditiously, construction costs will be paid from UCF non-recurring funds.”

¹ BOG Regulation 9.007(3)(a)1., *State University Operating Budgets*.

² BOG Regulation 9.007(6), *State University Operating Budgets*.

³ Section 1013.61, Florida Statutes.

⁴ University management indicated that there is no Florida-specific authoritative guidance that defines deferred maintenance; however, the University considers deferred maintenance to be maintenance postponed due to a lack of funds.

- In the General Appropriations Acts⁵ for the 2015-16, 2017-18, and 2018-19 fiscal years, the Legislature provided authorization⁶ for the Trevor Colbourn Hall to be constructed from “non-appropriated sources.” According to University records, the project had an estimated cost of \$38,194,000, including projected design and construction service costs as well as furniture and equipment and other miscellaneous costs.
- For the period July 2014 through August 2018, University records indicated that \$38,546,787 in E&G carryforward funds were transferred to the Trevor Colbourn Hall Project Construction Fund. Through August 2018, expenses for the Trevor Colbourn Hall project funded with the transferred E&G carryforward funds totaled \$30,679,854, including \$29,130,214 for construction costs and \$1,549,640 for furniture and equipment and other miscellaneous costs.

Since BOG regulations require that E&G funds, including carryforward funds, be used exclusively for University operating activities and the Legislature required the Trevor Colbourn Hall project to be constructed from non-appropriated sources, no authority existed for the University to expend E&G carryforward funds to construct the Trevor Colbourn Hall. In response to our inquiry, University management indicated that the lack of PECO funding led to the University’s use of funds earmarked for renovation to construct the new facility. However, notwithstanding the lack of PECO funding, E&G carryforward funds were not an allowable funding source for the Trevor Colbourn Hall project.

Our examination of University records also disclosed that, for each of the 2015-16 through 2018-19 fiscal years, the University capital outlay budget failed to disclose E&G carryforward funds as the funding source for the Trevor Colbourn Hall project and instead listed the project in the category “Projects Funded by PECO.” Although we requested, University personnel could not explain why the funding source was misreported but did note that the budget template did not include a category that fit this project. Misreporting project funding sources in capital outlay budgets obscures government transparency in the budget process and misinforms the public of how construction projects will be funded.

According to University management, the Operating Budget – Beginning Carryforward Fund Balance Composition Reports for the 2012-13 through the 2016-17 fiscal years included amounts for Colbourn Hall and the Trevor Colbourn Hall project in the total commitments for deferred maintenance projects, although the Composition Reports did not identify the specific projects by name. Composition Reports are submitted to the BOG as part of the annual operating budget submission and are subsequently updated as requested by the BOG. The Finance and Accounting Department prepared the Composition Reports using input from various campus departments and, according to University management, the BOG uses the report information to update legislative staff about the University’s planned use of carryforward funds. Therefore, University management asserted in response to our inquiry that the planned use of carryforward funds for deferred maintenance was disclosed in the University annual operating budget provided to the BOG. University management also indicated that BOG staff had allowed the University to “lump deferred maintenance and capital renewal together under one label.”

Subsequent to our inquiries, in September 2018 the Board approved a transfer of auxiliary funds totaling \$38,226,787 to replenish the E&G carryforward funds. The remaining \$320,000 of E&G carryforward

⁵ Chapter 2015-232, Laws of Florida, General Appropriations Act, Section 16; Chapter 2017-70, Laws of Florida, General Appropriations Act, Section 10; and Chapter 2018-9, Laws of Florida, General Appropriations Act, Section 10.

⁶ Pursuant to Section 1013.78, Florida Statutes, no university shall construct facilities for which the State will be asked for operating funds unless there has been prior approval for construction granted by the Legislature.

funds transferred to the Trevor Colbourn Hall Project Construction Fund were used for University personnel salaries to monitor that project, which were allowable uses of these funds. University management indicated that the source of the replenished funds included:

- \$16,910,886 from unrealized gains⁷ on University investments in a mutual fund,
- \$4,316,014 from sales and leases of excess broadband,
- \$3,774,325 from continuing education and market rate program proceeds, and
- \$13,225,562 from various other University auxiliary funds.

Furthermore, our examination of University records in September 2018 disclosed that the University posted several other journal entries to “correct funding” for 11 other construction projects. These journal entries transferred another \$46.5 million to replenish the E&G funds and resulted in deficit fund balances totaling \$655,828 for certain auxiliary funds.⁸ According to University management, of the \$46.5 million replenished to E&G funds, \$13.8 million was to reimburse E&G funds that had already been spent and \$32.7 million represented E&G funds transferred but not yet spent. University management also indicated that the University may have overcorrected the reimbursement of E&G carryforward funds and that the University is awaiting further guidance from the BOG.

The appropriate use of E&G funds requires an adequate understanding of the restrictions associated with the use of those funds, a commitment to observe those restrictions, and effective controls to monitor E&G funds use. Absent such understanding, commitment, and controls, the risk is increased that fraud or errors could occur without timely detection and that the E&G carryforward funds will be used for unallowable purposes.

Recommendation: The University should:

- **Document to the BOG that the E&G funds misused for the Trevor Colbourn Hall project and any other construction projects have been fully restored from appropriate sources.**
- **Document the University Trustees approval of any auxiliary fund deficit fund balances that were caused by restoration of the E&G funds and provide such documentation to the BOG.**
- **Enhance procedures to ensure and demonstrate that E&G carryforward funds are only used for authorized purposes. Such enhancements may include appropriate training to ensure that University management responsible for approving the use of E&G funding understand the restrictions for such use and documenting support for allowable uses of the funding.**
- **Enhance procedures to ensure that the capital outlay budgets presented to and approved by the University Trustees properly and accurately specify the anticipated funding sources for all capital projects.**

⁷ *The Interinstitutional Committee on Finance and Accounting, Financial Statement Guide for Fiscal Year 2017* provides that unrealized gains represent the moneys that would have been made if investments had been sold at year-end (market value adjustment). Unrealized gains fluctuate as the market fluctuates and may decrease in value before the relevant investments are sold.

⁸ BOG Regulation 9.013, *Auxiliary Operations*, provides that each university may determine whether its auxiliary services will be self-supporting on an individual or collective basis, except for intercollegiate athletics, which must be self-supporting.

Finding 2: President Emeritus Position

BOG regulations⁹ provide the University Trustees with the authority to establish a personnel program for all employees of the University. The personnel program includes the President's compensation and other conditions of employment. In October 2017, the University Trustees approved a President Emeritus Employee Agreement with the University President, who announced his resignation as President effective June 30, 2018. The term of the Employment Agreement was for 1 year commencing July 1, 2018, and may be extended for additional 1-year terms upon mutual agreement of the parties.

The Employment Agreement provides that the President Emeritus is to be employed in a .25 full-time equivalent (FTE) position and receive an annual salary of \$300,000. This amount is to be paid with appropriate deductions for taxes and benefits as applicable to administrative and professional employees. The Employment Agreement also requires the President Emeritus to telecommute from his permanent residence in Wisconsin and to be reimbursed for his travel expenses, meals, and lodging (including first-class airfare and premium rental car) when necessary for the President Emeritus to travel in person to Orlando for business purposes. Any expenses not allowed by State regulations are to be paid from non-State sources. The President Emeritus is to be provided with an office for himself and a part-time assistant in the University's Research Park. Additionally, he is to be paid \$15,000 to cover any miscellaneous expenses not otherwise contemplated by the Employment Agreement.

Duties for the President Emeritus position include, but are not limited to, consultation and participation with the University of Central Florida Foundation, Inc. on major gift solicitations, appearances and presentations at significant University events, consultation with University Trustees and University staff regarding implementation of the University's strategic plan, consultation with the incoming University President regarding history and operations, and assistance with partnership projects. Pursuant to his University President agreement effective July 1, 2017, the outgoing President's job duties were to be consistent with those customarily performed by presidents of top-tier State universities comparable in size and type to the University and included educational leadership, faculty relations, budgeting, long-range planning, fundraising, public relations, student services, and personnel decisions related to all faculty and staff. Additionally, pursuant to the Board of Trustees bylaws, the President position serves as Chief Executive Officer of the University.

In response to our inquiry regarding how the President Emeritus salary was determined, University management indicated that the salary was negotiated between the University Trustees' Chair and the outgoing President and that it was expected that the President Emeritus would generate, and assist in generating, generous philanthropic gifts to the University that would far exceed his salary. University management also indicated that, because the President Emeritus would be working in a .25 FTE position, the salary was based on 25 percent of the President's compensation at the time. The President's total compensation for the 2017-18 fiscal year was \$1.2 million (salary and benefits, including a one-time \$491,000 retention bonus).

Notwithstanding University Trustees authority to establish employee positions and the related compensation, University records were not provided to demonstrate the reasonableness of the salary of

⁹ BOG Regulation 1.001(5), *University Board of Trustees Powers and Duties*.

the President Emeritus position at a rate equivalent to what the individual was compensated while serving as the University President. Based on the duties described in the Employment Agreement, the expected responsibilities for the President Emeritus appear to be indicative of an advisory and fundraising role and significantly less in scope than the duties and responsibilities of the University President, who is the University Chief Executive Officer. In addition, the incoming University President's employment agreement, for the 2018-19 fiscal year, provided for compensation of \$651,240, which was significantly less than the \$1.2 million basis used to calculate the President Emeritus' compensation. Absent records to support the basis for the President Emeritus' salary at a rate equivalent to his prior compensation as University President, including a one-time \$491,000 retention bonus, the public purpose served by the University Trustees' decision is not readily apparent.

Recommendation: The University Trustees should take official action to establish the reasonableness of the salary for the President Emeritus position based on the responsibilities assigned to the position and the foreseeable benefits the University will receive.

Finding 3: Contractual Services

Effective contract management requires and ensures that contract provisions delineate services and related costs and that procedures document that contracts and invoices agree before payments are made. The University routinely enters into contracts for services and has designed and implemented internal controls that generally ensure payments are consistent with contract terms and conditions. University procedures¹⁰ require that purchases in excess of \$75,000 for services or commodities be made by attempting to secure two or more formal competitive bids or proposals.

University contractual services payments totaled \$15 million during the 2017 calendar year. To determine the propriety of these payments, we requested for examination University records supporting 31 selected payments totaling \$1.2 million and identified control deficiencies for monitoring legal and executive search services and related payments. Specifically:

- 3 payments, totaling \$111,511, related to contracts with two law firms for legal services related to a new hospital for the College of Medicine. The contracts required the law firms to submit sufficiently detailed invoices for payment. In addition:
 - One contract dated January 2015 to a law firm specified hourly rates of \$682, \$616, and \$352, respectively, for the services of three attorneys. However, the University also issued to the same firm a \$250,000 blanket purchase order dated October 2016 for legal services for the new hospital for the College of Medicine, which did not detail the hourly service rates. The purchase order was subsequently increased on two occasions, the last being in April 2017, and totaled \$600,000. In June 2017, the University made a \$57,679 payment to the law firm based on an invoice with billed hourly service rates of \$814, \$748, \$475, and \$350, respectively, for the services of four attorneys who were not listed on the January 2015 contract.

In response to our request for documentation authorizing the \$57,679 payment, University personnel indicated that the invoiced services were based on the blanket purchase order and that the University General Counsel had approved the invoice for payment. Notwithstanding, the blanket purchase order established a maximum amount that could be paid to the firm and did not support the appropriateness of the payment for the four attorneys at hourly rates that

¹⁰ UCF Procurement Services Procedures Manual.

were not preapproved by the University. Absent preapproval, there is an increased risk that the University may obtain services by individuals who lack the expertise or experience to perform the services and make payments based on excessive hourly service rates.

- A contract dated September 2016 with a different law firm stipulated that billed rates would be discounted 15 percent from their regular rates and did not specify the attorneys by name, hourly service rates, or the total contract amount. The University made payments of \$24,688 and \$29,144 in January 2017 and May 2017, respectively, to the law firm based on invoices that described services provided by several attorneys, the attorneys' hourly service rates, and the numbers of hours associated with the services.

In response to our request for documentation authorizing the payments totaling \$53,832, University Accounting Department personnel provided a July 2016 purchase order that totaled \$195,000 but excluded the attorneys' names and hourly service rates. Subsequently, University Purchasing Department personnel provided a listing obtained from the law firm of the attorneys and their hourly service rates in effect during September 2016 that were charged to the University and their regular rates for the 2017 and 2018 calendar years as support for prior and future payments. Notwithstanding, although we requested, University records were not provided to evidence whether the listing was part of a contract, a contract addendum, or associated with a purchase order. Absent contract provisions that delineate the expected service costs and University records evidencing that those costs agreed with invoiced service costs, University records did not support the appropriateness of the payments.

- 1 payment of \$50,000, which represented one-third of a \$150,000 contract, was made by the University to a company that the University had selected without use of a competitive selection process. The contract was for executive search services to fill the University President position. University personnel indicated that, pursuant to BOG regulations,¹¹ the contract was exempt from the competitive selection process because the University used another contract that the company had with another State University System university. Notwithstanding, the other university's contract limited the professional fee to \$100,000. Given the different contract amounts in the two contracts, the authority for using the other university contract in lieu of a competitive selection process is not readily apparent.

Without effective contract procedures to ensure that contract provisions delineate services and related costs and that University records evidence that contract and invoice costs agree before payments are made, the risk is increased that overpayments may occur and that services received may not be consistent with University Trustees expectations. Additionally, absent use of the required competitive selection process or documentation to support an appropriate exemption from that process, there is an increased risk that the University may not obtain goods and services at the best price consistent with acceptable quality.

Recommendation: The University should enhance procedures to ensure that contract provisions delineate services and related costs and that, before payments are made, University records evidence that contract and invoice service rates agree. The University should also ensure that applicable procurements comply with the BOG-required competitive selection process or University records evidence an appropriate exemption from that process.

Finding 4: Direct-Support Organizations

To promote accountability over University property, facility, and personal services use, it is important that public records prescribe the conditions for such use, document appropriate approval before the use

¹¹ BOG Regulation 18.001(6)(c), *Procurement Regulation*.

occurs, and demonstrate appropriate use. Such records help document authorization for the use, demonstrate the reasonableness of the value associated with that use, and enhance government transparency.

State law¹² provides that a direct-support organization (DSO) is organized and operated exclusively to receive, hold, invest, and administer property and to make expenditures to, or for the benefit of the University. Additionally, State law¹³ authorizes the Board of Trustees (Trustees) to permit the use of University property, facilities, and personal services by a DSO, and requires the Trustees to prescribe by regulation any condition with which a DSO must comply for such use.

The University Trustees approved seven organizations as DSOs that are organized and operated to assist the University by providing supplemental resources from private gifts and bequests and education support services. University regulations¹⁴ require that, upon approval by the University Trustees, a DSO shall be certified and authorized to use University property, facilities, and personal services of the University with certain specified conditions.

According to University personnel, the UCF Athletics Association, Inc. (Association) was the only DSO that utilized University property or facilities and, according to a University memorandum copied to the Association, an overhead charge of \$100,000 was assessed for this support for the 2017-18 fiscal year. University personnel indicated that this charge was negotiated as a fixed fee in 2003. However, although we requested, University records were not provided to evidence an agreement between the Association and the University for this overhead charge, the Board of Trustees' approval of the anticipated DSO use and the estimated value of the associated University resources before the use occurs, or confirmations and other documentation from DSO management affirming that University resources were used only for purposes approved by the Trustees.

Our examination of University records also disclosed that five of the DSOs received University personal services during the 2017-18 fiscal year. Four of these DSOs utilized ten or fewer University employees; however, the University of Central Florida Foundation, Inc. (Foundation) received University personal services totaling \$13.8 million provided by 130 University employees and reimbursed the University \$1.5 million related to these costs. These employees, who devoted 100 percent of their time and effort to the Foundation, included, for example, the Foundation's Chief Executive Officer, Senior Associate Vice President of Advancement, and Senior Associate Vice President for Advancement and Administration. Although we requested, a Trustees-approved agreement or other University records were not provided to evidence the basis for the Foundation's reimbursement.

Recommendation: We recommend that:

- **When the University plans to assess an overhead fee or anticipates reimbursements from a DSO, the University Trustees enter into an agreement with the DSO to document the basis for the overhead charges or DSO reimbursements.**
- **The University document the Trustees' consideration and approval of DSO anticipated use of University resources, at least on an annual basis, before the use occurs. To enhance**

¹² Section 1004.28(1)(a), Florida Statutes.

¹³ Section 1004.28(2)(b), Florida Statutes.

¹⁴ University Regulation 4.034, *University Direct Support Organizations*.

government transparency, Trustees approval documentation should identify the square footage of the office space and related buildings that will be used by the DSO, and the value of such use.

- **The University obtain confirmations and other documentation from DSO management affirming that University resources were used only for purposes approved by the Trustees.**

Finding 5: Textbook Affordability

State law¹⁵ requires universities to post prominently in the course registration system and on its Web site, as early as feasible, but not less than 45 days before the first day of class for each term, a hyperlink to lists of required and recommended textbooks and instructional materials for at least 95 percent of all courses and course sections offered at the university during the upcoming term. In addition, State law¹⁶ requires universities to report to the Chancellor of the State University System (SUS Chancellor) no later than September 30, 2017, the number of courses and course sections that were not able to meet the textbook and instructional materials posting deadline for the previous fiscal year.

University procedures¹⁷ provide that a list of textbooks be posted on the University's Bookstore Web site. Our review of those procedures, the posted textbook lists, University records supporting the textbook information for the courses offered during the Fall 2016 and Spring 2017 Semesters, and discussions with University personnel disclosed that:

- On July 20, 2017, the University reported to the SUS Chancellor that textbooks and instructional materials for 1,480 (24 percent) of the 6,264 course and course sections and 673 (11 percent) of the 6,121 course and course sections for the Fall 2016 and Spring 2017 Semesters, respectively, did not meet the textbook and instructional materials posting deadline. However, our examination of University records disclosed 5,893 and 5,738 courses and course sections for the Fall 2016 and Spring 2017 Semesters, respectively, or 371 and 383 total course sections fewer than the numbers reported by the University.

In response to our inquiries, University personnel indicated that the difference in the information reported to the SUS Chancellor and University records was partly because the University reported duplicate courses and course sections that were available at both a bookstore at the Rosen College of Hospitality Management and the main bookstore.

- Textbook and instructional materials for 1,876 (32 percent) of the 5,893 course and course sections for the Fall 2016 Semester and 1,081 (19 percent) of the 5,738 course and course sections for the Spring 2017 Semester were not timely posted in the course registration system or on the University Web site. The textbook and instructional materials for these courses and course sections were posted from 43 days before the first day of classes to 86 days after the first day of classes. University personnel indicated that the delays were due to communication methods that were not fully effective at the time but that a new process, including a detailed timeline, was implemented in subsequent academic terms.
- As the University only timely posted the textbook and instructional materials for 4,107 (68 percent) and 4,657 (81 percent) of the courses and course sections, the University did not comply with the

¹⁵ Section 1004.085(6), Florida Statutes.

¹⁶ Section 1004.085(8), Florida Statutes.

¹⁷ UCF Regulation – *Textbook Affordability*.

State law requiring such information be timely posted for at least 95 percent of the courses and course sections.

Properly maintained University records to support the number of courses and course sections reported to the SUS Chancellor would provide assurance of the accuracy of the reported information. In addition, the timely posting of required textbook and instructional materials information on the University Web site is necessary for students to understand course textbook requirements, have sufficient time to consider textbook purchase options, and potentially limit their textbook costs. Absent evidence of the timely posting of textbook information on the University Web site, the University cannot demonstrate compliance with State law.

Similar findings were noted in our report Nos. 2017-057 and 2015-086.

Recommendation: The University should ensure that a hyperlink to lists of required and recommended textbooks and instructional materials for at least 95 percent of all courses and course sections offered at the University during the upcoming term is prominently posted in the course registration system and on its Web site, as early as feasible, but at least 45 days before the first day of class for each term. We also recommend that the University maintain accurate records to support the courses and course sections reported to the SUS Chancellor.

PRIOR AUDIT FOLLOW-UP

The University had taken corrective actions for findings included in our report No. 2017-057 except that Finding 5 was also noted in report No. 2017-057 as Finding 2. Deficiencies similar to those noted in Finding 5 were also noted in audit report No. 2015-086 as Finding 1.

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 March 2018 through September 2018 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. 2017-057.
- 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 transactions, as well as events and conditions, occurring during the audit period of January 2017 through December 2017, and selected University actions taken prior and subsequent thereto. 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 University information technology (IT) policies and procedures to determine whether the policies and procedures addressed certain important IT control functions, such as security, systems development and maintenance, and disaster recovery.
- Evaluated procedures for maintaining and reviewing access to IT resources. We examined access privileges over the database to critical roles within the finance and human resources applications during the audit period, for 75 and 20 employees, respectively, to determine the appropriateness and necessity of the access privileges based on employees' job duties and user account functions and adequacy with regard to preventing 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.

- Evaluated University procedures that prohibit former employees' access to University IT data and resources. From the population of 820 employees who separated from University employment during the audit period, we examined access privileges for 30 selected former employees to determine whether their access privileges had been timely deactivated.
- Reviewed operating system, database, network, and application security settings to determine whether authentication controls were configured and enforced in accordance with IT best practices.
- Evaluated the University data center's physical access controls, as of July 3, 2018, to determine whether vulnerabilities existed.
- Examined Board of Trustees (University Trustees), and committee minutes to determine whether Trustee approval was obtained for the policies and procedures in effect during the audit period and 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 for the audit period to determine whether the University 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.
- Evaluated University procedures for protecting student social security numbers (SSNs). From the population of 605 employees who had access to student SSNs during the audit period, we examined University records supporting the access privileges granted to 30 employees to evaluate the appropriateness and necessity of the access privileges based on the employee's assigned job responsibilities.
- Evaluated the adequacy of University records supporting the reasonableness of the costs associated with the anti-hazing course acquired by the University and offered to all State University System students pursuant to State law.
- Evaluated University compliance with specific appropriations included in the 2017 General Appropriations Act related to the Advanced Manufacturing Sensor Project.
- From the population of 12,385 course sections reported to the Chancellor of the State University System for the Fall 2016 and Spring 2017 Semesters, examined University records to determine whether University Trustees policies and University procedures for textbook affordability complied with Section 1004.085, Florida Statutes.
- Selected 40 of 18,975 total tangible personal property (TPP) items located on the main campus and at the College of Medicine to determine whether TPP items existed, was used consistently with requirements of controlling laws, and was accurately recorded in the subsidiary ledgers.
- Determined whether appraisals were obtained for a \$19.1 million land purchase, as required by Section 1013.14, Florida Statutes.
- From the population of 229 students who received an Out-of-State Waiver for Students Affected by Hurricanes Irma and Maria and enrolled as Florida residents during the 2017 Fall and 2018 Spring Semesters, examined University records for 25 selected students to determine whether the University correctly assessed tuition in compliance with Section 1009.21, Florida Statutes.
- Performed analytical procedures to determine whether University auxiliary services were self-supporting.
- From the population of 993 distance learning courses for the Fall 2017 Term, which generated fee revenues totaling \$3,766,158, examined University records for 30 selected distance learning

courses to determine whether the distance learning courses were included in the Statewide catalog of distance learning courses in accordance with Section 1009.24(17), Florida Statutes.

- Examined University records for 30 administrative employees who received compensation totaling \$7,556,056 during the audit period, to determine whether the amounts paid did not exceed the limits established in Sections 1012.975(3) and 1012.976(2), Florida Statutes. We also examined records supporting an estimate of the University President's compensation totaling \$691,629, effective July 1, 2018, for similar compliance.
- Reviewed the Employment Agreement for the President Emeritus to determine whether the amount of compensation was reasonable based on the duties for the position and whether the method for determining the compensation was documented.
- Examined severance pay provisions in the President's contract, effective July 1, 2018, to determine whether the provisions complied with Section 215.425(4), Florida Statutes.
- Evaluated University procedures for obtaining personnel background screenings to determine whether individuals in positions of special trust and responsibility, such as positions with direct contact with persons under age 18, had undergone the appropriate background screenings.
- Determined whether the University had procedures for reconciling health insurance costs to employee and Trustees-approved contributions.
- From the population of compensation payments totaling \$504,729,518 made to 21,448 employees during the audit period, selected 30 payments totaling \$152,233 and examined the related payroll and personnel records to determine the accuracy of the rate of pay, the validity of employment contracts, whether performance evaluations were completed, the accuracy of leave records, and whether supervisory personnel reviewed and approved employee reports of time worked.
- Examined University records to determine whether selected expenses were reasonable, correctly recorded, adequately documented, for a valid University purpose, properly authorized and approved, and in compliance with applicable laws, rules, contract terms, and University Trustees policies and applicable vendors were properly selected and carried adequate insurance. Specifically, from the population of expenses totaling \$253,129,815 for the audit period, we examined University records supporting:
 - 30 selected payments for general expenses totaling \$119,509.
 - 31 selected payments for contractual services totaling \$1,209,856.
- From the population of 97,894 purchasing card (P-card) transactions totaling \$38,230,948 during the audit period, examined University records supporting 30 selected P-card transactions totaling \$679,039 to determine whether the P-card program was administered in accordance with University Trustees policies and University procedures and transactions were not of a personal nature.
- Examined P-card records for 30 of the 61 cardholders who separated from University employment during the audit period to determine whether the University timely canceled the cardholders' P-cards.
- From the population of 14 major construction projects totaling \$214,789,195 and in progress during the audit period, selected 30 payments totaling \$8,747,049 related to three major construction projects with contract amounts totaling \$74,618,331 and examined University records 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 three major construction projects with total construction costs of \$61,927,169 during the audit period to determine whether the University selected design professionals and construction managers in accordance with State law and adequately monitored

the selection of subcontractors, the University Trustees had adopted a policy establishing minimum insurance coverage requirements for design professionals, design professionals provided evidence of required insurance, and construction funding sources were appropriate.

- Identified significant payments and transfers totaling \$56,123,030, made during the audit period from the University to or for its direct-support organizations (DSOs), and examined University records supporting payments totaling \$53,553,453 to determine whether the transactions were authorized by Section 1004.28(1)(a)2. and (2), Florida Statutes.
- Examined University records to determine whether the University Trustees had prescribed by rule, pursuant to Section 1004.28(2)(b), Florida Statutes, the conditions with which the DSOs must comply in order to use University property, facilities, and personal services and whether the University Trustees documented consideration and approval of anticipated property, facilities, and personal services provided to the DSOs and the related costs.
- 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.



Sherrill F. Norman, CPA
Auditor General

MANAGEMENT'S RESPONSE



UNIVERSITY OF CENTRAL FLORIDA

Office of the President
P.O. Box 160002
Orlando, FL 32816-0002

December 21, 2018

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

Dear Ms. Norman,

I appreciate the opportunity to respond to the preliminary audit findings you shared with UCF on Nov. 27. Speaking on behalf of our university's leadership, I appreciate the thorough report you and your team produced.

Finding No. 1

UCF accepts full responsibility for the improper use of E&G carryforward funds for the construction of Trevor Colbourn Hall. It is clear that proper controls were not in place at the institution.

More troubling, some staff knowingly and purposefully took actions that violated state statutes and Board of Governors' policy. This is not acceptable.

UCF's former vice president for Administration and Finance/Chief Financial Officer is no longer employed at UCF. When the Auditor General brought this to UCF's attention in August, the former vice president/CFO took full responsibility for the decision to fund the building with E&G funds and not advising the Board of Trustees and others that this was improper.

UCF is committed to fully reporting how this happened and holding to account those who knowingly violated state statutes and Board of Governors' policy.

With that in mind, the Board of Trustees hired Bryan Cave Leighton Paisner, a national law firm with substantial experience in higher education and financial investigations. UCF had not previously worked with this firm. Lead investigator Joseph Burby, a former federal prosecutor, subsequently hired Price Waterhouse Coopers to conduct a forensic audit.

Phone: 407.823.1823 • Fax: 407.823.2264
An Equal Opportunity and Affirmative Action Institution



UNIVERSITY OF CENTRAL FLORIDA

December 21, 2018
Page 2

The Board directed the firm to work closely with the Inspector General of the Florida Board of Governors to determine:

- Was anyone beside the former vice president and CFO involved in the decisions to use E&G funds for capital projects?
- Did anyone personally profit from these decisions?
- Were there additional capital projects beyond those identified to date in which E&G funds were improperly utilized?
- Were there internal controls that failed to prevent or detect this activity or that were circumvented?
- What additional controls should be put in place to ensure that this does not happen again at UCF?

The Bryan Cave investigation has been conducted together with the Board of Governors' Inspector General and the Chair of the Board's Audit and Compliance Committee, Governor Wendy Link. All investigative materials — including thousands of pages of financial records, emails and more — have been shared with the staff director and attorney for the Florida House Public Integrity and Ethics Committee.

The investigation is expected to produce a report no later than the next Board of Trustees meeting on January 24, 2019. The report also will be shared with the Board of Governors, which next meets January 30, 2019.

In addition to the external investigation, UCF leadership took the following actions to ensure this will never happen again and that students are not impacted:

- I immediately separated the position of vice president for Administration and Finance from the CFO position to ensure independence in fiscal oversight. Interim leaders from outside the division currently oversee those areas.
- I required real-time audits for all major capital projects, and issued a moratorium on new capital projects using more than \$2 million of university funds.
- UCF hired Accenture, an outside consultant, to review and make recommendations about structure for UCF's Division of Administration and

Phone: 407.823.1823 • Fax: 407.823.2264
An Equal Opportunity and Affirmative Action Institution



UNIVERSITY OF CENTRAL FLORIDA

December 21, 2018
Page 3

Finance to ensure proper checks and balances in the distribution of fiduciary responsibilities.

- To enhance procedures to ensure that the capital outlay budgets presented to, and approved by, the Board of Trustees properly and accurately specify the anticipated funding sources for all capital projects, the Board adopted a process to certify the source of funds for all major construction projects. Effective September 27, 2018, for all capital projects exceeding \$2 million that come to the Board of Trustees, the university president, vice president submitting the item, chief financial officer and general counsel must identify and certify the appropriate funding sources being used for the project.
- I retained a national consultant from the Association of Governing Boards (AGB) to work with university staff to ensure the Board is properly informed of all material matters.

The university knows change is needed and the actions taken above will clarify how the improper expenditures happened and improve financial and administrative controls to prevent or detect similar actions in the future. However, the university also understands that improper conduct does not happen in a vacuum.

Therefore, UCF is committed to creating a culture that encourages ethical behavior and empowers employees to report improper activity at any level. We are equally committed to ensuring that all funds are used for their highest purpose, and we will be taking a broader look at budgeting across the entire institution as part of our actions following Accenture's review.

In terms of auxiliary balances addressed in this finding, as permitted by BOG Regulation 9.013, Auxiliary Operations, UCF has determined that its auxiliary services will be self-supporting in the aggregate, and not on an individual basis. Accordingly, an auxiliary operation had a temporarily deficit fund balance due to the timing of when the correcting journal entries were posted; however, at no time was there a deficit in the collective fund balance for all auxiliary operations.

As to E&G expenditures, the university has corrected funding on the E&G dollars misspent on Trevor Colbourn Hall and inappropriately spent or allocated on additional capital projects in the amounts identified in the Auditor General's report. To enhance procedures to ensure E&G carryforward funds are only used for authorized purposes — including appropriate training to ensure that management understands the

Phone: 407.823.1823 • Fax: 407.823.2264
An Equal Opportunity and Affirmative Action Institution



UNIVERSITY OF CENTRAL FLORIDA

December 21, 2018
Page 4

restrictions for such use — UCF is in the process of developing materials that will be posted on the Finance and Accounting and Facilities Planning and Construction websites that will clearly define the appropriate uses of the various types of funding, including E&G, auxiliary, research and UCF Foundation funds.

Additional steps will be developed following receipt of the AGB and Accenture reports.

Finding No. 2

On October 27, 2017, the UCF Board of Trustees unanimously approved a one-year agreement for John Hitt to serve as “President Emeritus.” This action was taken to ensure a smooth transition from his 26-year tenure as president to a new administration.

Specifically, the agreement calls for President-emeritus Hitt to help advance important philanthropic, community and partnership goals on behalf of the university.

In his new role, President-emeritus Hitt is principally responsible — or a key team member — in generating more than \$8 million in private support for UCF. With President-emeritus Hitt’s direct involvement, the university currently is working on approximately \$10 million in additional private support.

We are continuously evaluating the return on investment of this agreement to ensure the university receives the best value for this one-year agreement.

Finding No. 3

The referenced agreement in January 2015 with law firm (“Firm A”) provides for a 12-percent discount in hourly rates and lists the primary attorney managing the UCF engagement and his fees. The UCF attorney managing this engagement and staff determined that for each invoice, the discount was applied.

The original agreement with Firm A provided that the Firm could revise its rates annually, which is standard practice for most law firms. UCF will revise its standard agreement to require firms to provide advance written notice of increases in hourly rates and a written amendment to the agreement to reflect such increase.

The referenced law firm contract dated September 2016 (“Firm B”) specifies a

Phone: 407.823.1823 • Fax: 407.823.2264
An Equal Opportunity and Affirmative Action Institution



UNIVERSITY OF CENTRAL FLORIDA

December 21, 2018
Page 5

15-percent discount from standard rates, but does not identify specific rates for any individual attorneys. However, the firm separately provided a list of regular and discounted rates for the attorneys working on UCF matters.

UCF will revise the agreement with Firm B to include this list in the agreement and require that any increases in firm rates be documented in an amendment to the agreement.

The university did initially utilize an existing SUS contract for search firm services for its presidential search. However, the university also sent a request to seven firms to submit proposals to provide the requested services.

In accordance with the presidential search policies that had previously been approved by the Board of Trustees, the search committee reviewed the proposals and selected three finalists for consideration by the chair of the university Board of Trustees. The chair selected Parker Executive Search as the successful proposer. The presidential search contract was then created.

The university recognizes the importance of ensuring that contracted services are consistent with expectations and that overpayments do not occur. UCF will improve procedures, including obtaining timely and appropriately detailed contract amendments, to ensure that contract and invoice rates agree. UCF will also strengthen procedures to ensure that applicable procurements comply with required competitive selection processes or appropriate exemptions from those processes.

Finding No. 4

Direct Support Organizations (DSOs) are organized exclusively to receive, hold, invest and administer property and to make expenditures to or for the benefit of a state university.

The Trustees will oversee the use of university properties, facilities and personal services by a DSO as follows:

- Review of the budget and expenditure plans of DSO;
- Review of annual independent audit of DSO;
- Approval of DSO articles and bylaws;
- Appointment of a representative to the DSO board;

Phone: 407.823.1823 • Fax: 407.823.2264
An Equal Opportunity and Affirmative Action Institution



UNIVERSITY OF CENTRAL FLORIDA

December 21, 2018
Page 6

- Review and certification of DSOs;
- Florida Statutes (including Section 1004.28 and 1012.976);
- Florida Board of Governors regulation (including Regulation 9.011);
- University of Central Florida regulations (including Regulation 4.034); and
- Written authority from the Board of Trustees to the president of the university.

Finding No. 5

UCF continually seeks ways to increase student access to affordable textbooks. Through ongoing improvements in communication, elimination of duplicate reporting and faculty innovations with e-texts and open educational resources, we continue to improve in this area.

These strategies have enabled UCF to meet the state requirement of making information about course and instructional materials for at least 95 percent of courses available to students by no later than 45 days prior to the start of the semester for the past three semesters (Spring 2018, Fall 2018 and Spring 2019), and will enable us to continue to do so moving forward.

The information supplied by academic departments regarding textbook adoptions is uploaded into our campus bookstore's site, where students can access it either directly or through UCF's online course registration system, the my.ucf portal. Through that portal, students can click on a prominent link within their registration page to access information about the required and recommended books and other items for their courses and can see both new and used purchase and rental options as available.

Thank you for the opportunity to provide the university's response. We are available if you have any further questions.

Sincerely,

Dale Whittaker
President

Phone: 407.823.1823 • Fax: 407.823.2264
An Equal Opportunity and Affirmative Action Institution