




## MEMORANDUM

TO: Chair Jordan B. Zimmerman, USF Board of Trustees  
Trustee Nancy H. Watkins, USF Board of Trustees Audit & Compliance  
Committee Chair

FROM: Virginia L. Kalil, CIA, CISA, CFE, CRISC  
Executive Director/Chief Internal Auditor 

DATE: April 19, 2019

SUBJECT: 19-034 Report 1: Dr. Kiran C. Patel Center for Global Solutions (Patel Center)  
Funding

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In response to the Board Chair's request regarding the November 2, 2018 USF Certification with Exceptions, USF System Audit (Audit) conducted an independent review of the use of Education and General (E&G) carryforward (CF) funds in capital projects. The purpose of this review was to provide the Board of Trustees (BOT) with an independent, objective assessment of whether the certification was accurate and complete, including the population of projects reported and the utilization of E&G and E&G CF funds.

This review had three components: a) validate the population of projects included in the university's certification was complete and consistent with the Board of Governors' (BOG) definition of a new capital project; b) determine the projects which utilized E&G or E&G CF funds and validate utilization of these funds and other funding sources were appropriate; and c) verify the Patel Center project information disclosed was accurate and complete.

This report focuses on the use of E&G CF funds in the construction of the Patel Center. A separate report (19-034 Report 2: Construction Project Funding Certification) has been issued addressing the other components of the review.

The Patel Center project planning and construction occurred over the period of May 19, 2005 through December 10, 2010. Throughout the life of the project, there were significant changes in the project's scope resulting in a reduction in anticipated costs from \$40 million to \$21.7 million. A summary of the sources and uses of funds for the Patel Center is listed in [Attachment A](#). Since the Patel Center project was completed over eight years ago, there have been significant changes in key personnel including the Assistant Vice President for Budgets, University Controller, Chief Financial Officer, Director of Facilities Planning Design and Construction, and Vice President of Administrative Services (see [Attachment B](#)). Of the 27 individuals identified by Audit as relevant to

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the Patel Center project, only nine were currently employed by the university at the time of this review. All nine current employees were interviewed as well as one who recently retired. Additionally, one current member and one former member of the BOT, who served during the time of the Patel Center project, were interviewed.

Since testimonial evidence becomes less reliable over time, Audit relied more heavily on real evidence such as university and vendor financial and construction documentation including, but not limited to, project summaries, project budgets, purchase orders, invoices, journal entries, USF Foundation records, and other financial and costing reports. Some records were not available for review as the allowable retention period had expired. Additionally, Audit reviewed BOT, BOG, and Florida Department of Education records including, but not limited to, meeting agendas and minutes, Capital Improvement Plans, Capital Project Plans, and Facility Enhancement Challenge Grant Program requests.

For detailed information on Audit's review of the USF Certification with Exceptions regarding the Patel Center project, see [Attachment C](#).

Based on Audit's review of the Patel Center project, no evidence was found to indicate collusion, intentional misallocation of E&G CF funds, or that USF leadership made an overt attempt to conceal the use of or personally benefit from the misallocation. Rather, Audit identified several control deficiencies which directly contributed to the misallocation including a lack of transparency over the source of funds on the budget tracking sheet and periodic progress reports; the practice of transferring E&G CF funds to the Construction Fund (comingling funds); insufficient oversight and monitoring of fund use by source; and no formal executive review and approval of large dollar cash transfers.

Despite the control deficiencies, Audit's review determined that both the Provost's Office and Facilities Planning Design and Construction (FP-DC) should have been aware of the E&G CF funds allocated to the Patel Center project (See [Attachment D](#)). A total of \$10 million of E&G CF funds was transferred from the Provost's Office E&G CF fund (10009) to the Construction Fund (50000) managed by FP-DC. The Provost's Office had a responsibility to ensure the funds provided were allowable based on CF guidelines and the projected costs provided by FP-DC. FP-DC had a responsibility to ensure funds entrusted to them were spent consistently with projected costs and spending restrictions. While both transfers specified allowable intended uses for the funds, lack of controls as noted above led to misallocating \$5.7 million of the total \$10 million transferred.

Regarding the President's knowledge of the Patel Center Project funding, the President indicated she was briefed on the building's progress, changes in scope, and anticipated costs. The President indicated she relied upon her financial officers to ensure the funds were appropriate and she was not aware that there was anything inappropriate about the use of funds contributed by the Provost's Office. Audit's review found no evidence to indicate the President knew the specific sources of funds utilized in place of the unrealized donations and corresponding state match.

Regarding the BOT, Audit's interviews with BOT members, as well as review of BOT minutes and supporting documentation found no evidence to indicate the significant changes in project scope or sources of funds, including the specific use of E&G CF funds, was communicated to the BOT.

While Audit's review identified several control deficiencies which directly contributed to the misallocation of E&G CF funds in the construction of the Patel Center, many of these control deficiencies do not exist in the current control environment. Audit's separate review of the current construction accounting controls (19-035 Construction Accounting and Control Structure) has noted significant improvements to the control environment since 2010. Any remaining deficiencies and recommendations for improvement have been reported as part of 19-035 Construction Accounting and Control Structure.

cc: Marshall M. Criser, III, Chancellor, State University System of Florida  
 Ned C. Lautenbach, Chair, Board of Governors, State University System of Florida  
 Timothy M. Cerio, Chair, Board of Governors Audit and Compliance Committee, State University System of Florida  
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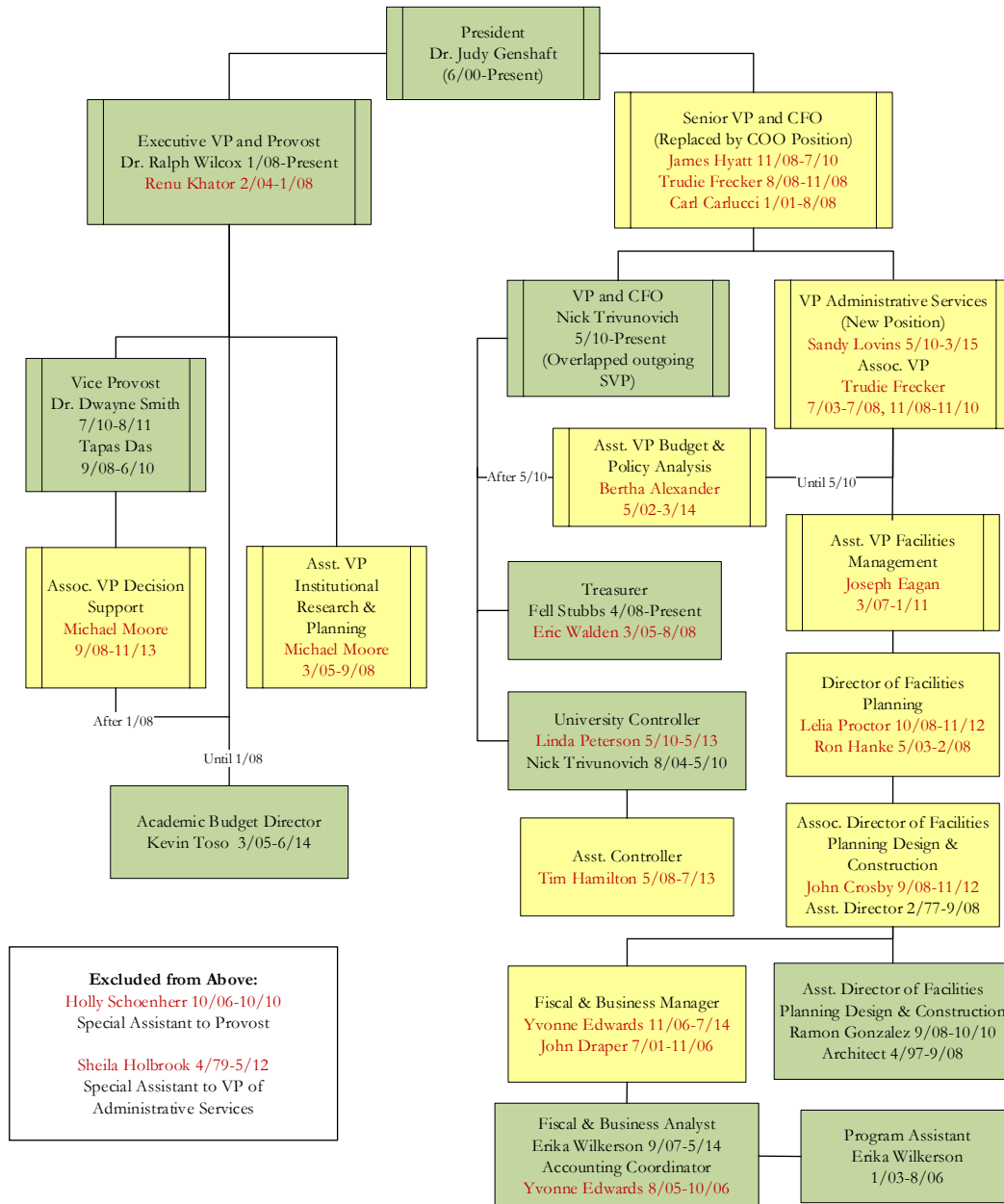
**ATTACHMENT A**  
**Patel Center Project PF**  
**Source of Funds**

<b>Source</b>	<b>Date Paid</b>	<b>Amount</b>
USF Foundation (USFF): Patel Donation	12/30/05	\$5,000,000
USFF: State Match	7/21/06	5,000,000
E&G CF: Provost's Office – Academic Affairs Minor Renovations	3/5/08	5,000,000
USFF: VP Administrative Services Operating Fund	7/27/09	740,000
E&G CF: Provost's Office – Academic Affairs	9/28/09	5,000,000
USFF: Executive Vice President (VP) Support Fund	4/20/10 8/26/10	447,064
Facilities Management: Interest earned on cash balances	Various	507,324
E&G CF: Senior VP Business and Finance	10/31/18	(6,423,299)
Auxiliary Funds: University-wide Reserves	10/31/18	6,423,299
<b>Total Sources</b>		<b>\$21,694,388</b>

**Patel Center Project PF**  
**Use of Funds**

<b>Use</b>	<b>Amount</b>
Planning & Design	(\$1,851,850)
Furniture, Fixtures and Equipment (FF&E)	(2,415,658)
Return Interest Earned on Donor Funds to USFF	(184,872)
Construction Costs	(17,242,008)
<b>Total Uses</b>	<b>(\$21,694,388)</b>

**ATTACHMENT B**  
**Organization Chart**  
**Patel Center Project**  
**Key Employees**  
**May 2005 - December 2010**

**Key:**

Green: Employees in black are currently employed by USF; employees in red are no longer employed by USF.  
 Yellow: Employees are no longer employees of USF.

SVP: Senior Vice President

VP: Vice President

Asst.: Assistant

Assoc.: Associate

COO: Chief Operating Officer

CFO: Chief Financial Officer

## ATTACHMENT C

### Review of USF Certification with Exceptions

The university's certification on November 2, 2018 contained the following information regarding the Patel Center: *"The Patel Project was approved by the USF Board of Trustees on June 1, 2006 as part of the USF's 2007-2008 Fixed Capital Outlay Projects (FCOP) at an estimated cost of \$21.7 million. The listed source of funds provided to USF Board of Trustees on June 1, 2006 was private donations. Construction commenced in 2008. An update was provided to USF's trustees in 2010 indicating the funding source was a private donation and state matching funds. The Patel Project was completed in 2010."*

Audit reviewed Board of Trustees (BOT) Committee meeting minutes and the minutes of the BOT Finance and Audit Workgroup meetings during the periods of May 1, 2006 through May 31, 2009 for evidence of BOT review and approval of the Fixed Capital Outlay Budget (FCOB) and Five-Year Capital Improvement Plan (CIP). Our review concluded that the BOT Finance and Audit Workgroup reviewed and approved the FCOB and CIP annually during the May workgroup meetings each year and then the FCOB and CIP were placed on the consent agenda for the following full BOT meeting each year. Audit also reviewed the FCOP dated April 25, 2006 which was presented to the BOT Finance and Audit Workgroup during the May 8, 2006 meeting and was included on the consent agenda at the full board meeting on June 1, 2006. The FCOP included the Patel Center at \$40 million to be funded by private donations and/or bonds with private donations pledged. The FCOB presented for BOT approval from May 2006 to May 2008 were consistent with the original FCOP. The CIP also included the Patel Center's projected state match, which ranged from \$5 million to \$10 million.

On December 2, 2010, during a BOT Finance and Audit Workgroup meeting, a construction update was provided to the BOT which included the Patel Center. The Patel Center's completion date was noted as December 10, 2010 and the sources of funds was "Private/State Match, University". While the update disclosed the use of "University" funds, there was no specific reference to the use of Education and General (E&G) carryforward (CF) funds. For further information on the BOT and BOG approvals of the Patel Center, see [Exhibit A](#).

The university's certification contained the following information regarding the E&G CF funding of the Patel Center: *"based on our review of all available records we identified that of the \$21.7 million dollar total project cost, approximately \$6.4 million of carryforward funds were inappropriately allocated to the Patel Project. The primary reason for the funding change appears to be that after the building was underway, significant, pledged private funds failed to materialize notwithstanding a signed and binding pledge for the same. Those funds are still outstanding since the signed pledge has yet to be honored."*

Audit reviewed the donor gift agreement originally signed on December 16, 2003 and modified on November 2, 2004 and December 5, 2006. The donor committed \$5 million to the construction of the Patel Center which was paid on December 30, 2005. In addition, the donor made a challenge pledge of \$5 million which was dependent upon USF raising additional funding from other donors. The challenge was never met by USF; therefore, the donor's challenge pledge was not paid. The failure to meet the challenge resulted in a loss of \$5 million in donations and the loss of \$5 million in anticipated state match. The donor met the construction commitment as outlined in the gift agreement. Contained within the same gift agreement were pledged endowment funds and operating funds. While not all pledged endowment and operating funds have been received, these

funds could not have been used for construction of the building. The donor continues to make periodic payments toward these additional pledges. For further information on the Patel Center pledge and matching funds, see [Exhibit B](#).

The Patel Center project design began on August 8, 2008 and the building was certified as substantially completed on December 10, 2010. The project was initially planned to be built in two phases: Phase I was to build the shell for the entire building, but only build out the first floor. Phase II was to build out the remaining three floors and the auditorium. Design of Phase II began on July 24, 2009.

Audit identified all sources of funds used to construct the Patel Center (see [Attachment A](#)). Our review concluded that the sources of funds were appropriate, except for the original use of E&G funds which exceeded the allowable use of these funds. After USF leadership discovered the error, USF repaid \$6.4 million on October 31, 2018 from eligible sources.

Audit also reviewed the use of funds on the Patel Center (see [Attachment A](#)). USF has been operating under the general understanding that new construction projects could only utilize E&G CF funds to fund project planning and design costs and costs associated with Furniture, Fixtures, and Equipment (FF&E). Our review of the university and vendor financial and construction documentation including, but not limited to, project summaries, project budgets, purchase orders, invoices, journal entries, and other financial and costing reports concluded that \$1,851,850 in planning and design costs and \$2,415,658 in FF&E occurred. As a result, the maximum allowable use of E&G CF funds was \$4,267,508. Since \$10 million was originally allocated to the Patel Center, Audit concluded \$5.7 million in E&G CF funds were allocated improperly, not \$6.4 million. The variance was due to an error in the calculation of FF&E by the University Controller's Office during the certification process.

The university's certification contained the following information regarding the cause of the misallocation of E&G CF funds, *"The use of carryforward funds at that time to complete the Patel Project is attributable to an administrative oversight and misunderstanding about the proper use of carryforward funds in capital projects."*

Audit reviewed supporting documentation for the two \$5 million dollar transfers of E&G CF funds (10009) from the Provost's Office to the Construction Fund (50000). At the time of the transfers in 2008 and 2009, it was an allowable practice at USF to transfer these funds from the E&G CF fund (10009) to the Construction Fund (50000). Once the funds were transferred to the construction fund, there was no matching of funds, by source, to expenditures. This practice was discontinued around 2013 to ensure full transparency of the use of E&G funds. In addition, the periodic progress reports and Facilities Management's (FM) Budget Tracking Sheet (BTS) did not include the sources of funds, which likely contributed to the inappropriate allocation.

Audit attempted to interview individuals involved in the transfers, or who may have been aware of the transfers; however, many of these individuals were no longer employed at the university. (See [Attachment B](#).) Of the 27 individuals identified by Audit as relevant to the Patel Center project, only nine were currently employed by the university at time of this review. All nine current employees were interviewed as well as one who recently retired. Additionally, one current member and one former member of the BOT, who served during the time of the Patel Center project, were



interviewed. For further information regarding key personnel and interviews conducted, see [Exhibit E](#).

Audit did not interview the following key individuals in place at the time of the transfers since they were no longer employed by USF: the former Chief Financial Officer (CFO), former Associate Vice President of Decision Support, former Vice President for Administrative Services, former Assistant Vice President of FM, or former Assistant Vice President of Budget, Policy and Analysis. Audit interviewed the current Vice President and CFO, serving as Controller during the time of the transfers, who indicated he was unaware of the transfers. At the time of the transfers, the University Controller's Office was not responsible for construction accounting or monitoring inter-cash transfers (see Exhibit C).

The Provost was new to his position at the time of the first transfer of E&G CF funds. While the Provost was aware of the need to identify alternative funding for the project other than USF Foundation (USFF) funds, the Provost indicated he did not recall either transfer of E&G CF funds for the Patel Center. The Provost indicated that he would not have authorized the use of E&G CF funds to be transferred directly for construction, but that it was possible that he may have authorized a swap of E&G CF funds for USFF funds or auxiliary funds which could have then been used for the building. The Provost also indicated he did not have "a clear line of sight into construction projects".

Audit interviewed the Academic Budget Director in the Provost's Office who indicated he would not have approved the transfer of funds without either the Provost or the former Associate Vice President of Decision Support's verbal approval. The Academic Budget Director recalled a conversation regarding the potential swapping of E&G CF funds for other funds (auxiliary or USFF) but does not recall why the swap never occurred. The Academic Budget Director indicated the swap likely did not occur since the Provost's Office would not have had enough auxiliary or unrestricted USFF funds to cover the swap.

Audit also interviewed the President who indicated she was briefed on the building's progress, changes in project scope, and anticipated costs of the Patel Center. The President was aware that donations for the building had not materialized and that Academic Affairs within the Provost's Office was contributing unspent funds to allow the building to be completed. The President indicated she relied upon her financial officers to ensure the funds were appropriate and she was not aware that there was anything inappropriate about the use of funds contributed by the Provost's Office.

Audit attempted to review email files of terminated employees, but email was only retained for two of the former employees. However, email files for these former employees were not retained for the entire period under review.

Based on our review of university and construction documentation including journal entry support, and relevant correspondence located in Facilities Planning Design and Construction (FP-DC) files, Audit was able to determine the following regarding the transfers:

The first \$5 million transfer from E&G CF to the Construction Fund was made on March 5, 2008 and followed the customary process for inter-fund cash transfers in place at the time. The Academic Budget Director in the Provost's Office authorized the transfer of funds. According to the



Academic Budget Director, funds would not have been transferred without the Provost's approval either directly or through the Associate Vice President of Decision Support. The transfer request was sent via email to Budget, Policy and Analysis (BPA) (now Resource Management & Analysis) for approval prior to the transfer request being sent to General Accounting in the Controller's Office for posting. A Budget Analyst in BPA approved the transfer as well as a Deputy Controller in the Controller's Office.

The supporting documentation indicated that the transfer was "to cover non-space project costs." Attached to the cash transfer request was a project cost estimate, which indicated that construction costs were estimated at \$13,173,187 and the total project costs were estimated at \$15,000,000. A note typed into the bottom of the document indicated that, "Total non-space project costs = \$5,000,398". According to FP-DC, the document is an overall project summary used by the FP-DC project managers which might not have been up-to-date. In order to validate the information on the project summary, audit reviewed a January 15, 2009 FP-DC BTS which reflected an estimated construction cost of \$12.4 million and a total budget of \$15 million which is not consistent with the estimated \$5 million in non-space costs. The Academic Budget Director indicated to Audit that he relied upon FP-DC assertion that the non-space costs of \$5 million dollars was an appropriate use of E&G CF funds.

The second E&G CF fund transfer of \$5 million occurred on September 28, 2009 and followed a similar process for approval and posting, except an Assistant Controller approved the posting of the journal entry. The Academic Budget Director in the Provost's Office authorized the transfer. At the time of the second transfer, the design of Phase II of the project was underway. Audit located a FP-DC BTS dated July 23, 2009 which indicated that an additional \$9,909,276 was needed to complete Phase II of the project. The BTS indicated the revised construction cost was \$20,022,520 with a total project budget of \$24,909,276. The non-construction costs were \$4,886,756. The BTS reflected the funding source of the additional \$5 million as "2009 funding" and the source of the prior \$5 million in funds as "USF Provost". The BTS did not indicate the transfers were E&G CF funds.

The last FP-DC BTS located by Audit was dated November 7, 2012, almost two years after the project was certified as completed by the construction manager. The final reconciliation does not indicate the source of the 2008 funds of \$5 million nor does it indicate the source of the 2009 funding which totaled \$6,187,064 (\$5 million in E&G CF and USFF funds of \$1,187,064).

For further information regarding departmental roles in the management and oversight of construction funds and the Patel Center project timeline including funding decisions, see [Exhibit C](#) and [Exhibit D](#), respectively.

**ATTACHMENT D**  
**Summary of Education and General (E&G) Carryforward (CF) Cash Transfers**

<b>Date of Transfer</b>	<b>March 5, 2008</b>	<b>September 28, 2009</b>
Amount of Request	\$5 Million	\$5 Million
Justification	Cover non-space project costs.	Cover furnishings and other build-out items for Patel Center.
Authorized By	Academic Budget Director Provost's Office <sup>1</sup>	Academic Budget Director Provost's Office <sup>1</sup>
Request Date	March 4, 2008 <sup>2</sup>	September 24, 2009
Requested By	Special Assistant to Provost	Academic Budget Director Provost's Office
Request Sent to	Budget Analyst Budget, Policy and Analysis	Budget Analyst Budget, Policy and Analysis
Copied on the Request	Email submitting the request was not located.	Asst. VP of Decision Support, Fiscal and Business Manager for FP-DC
Request Approved By	Budget Analyst Budget, Policy and Analysis	Budget Analyst Budget, Policy and Analysis
Journal Entry Prepared By	Staff Accountant University Controller's Office	Staff Accountant University Controller's Office
Journal Entry Approved By	Deputy Controller University Controller's Office	Assistant Controller University Controller's Office
Supporting Documentation and Verification of Transfer Sent to	Fiscal and Business Manager for FP-DC	Fiscal and Business Manager for FP-DC, Asst. VP of FM, Associate Director of FP-DC, Asst. Director of FP-DC

<sup>1</sup>While the Academic Budget Director had the authority to approve the transfer, he indicated it was also verbally approved by either the Provost or Associate Vice President (VP) of Decision Support.

<sup>2</sup>On March 4, 2008, the Fiscal and Business Manager for Facilities Planning Design and Construction (FP-DC) sent a completed cash transfer request via email to the Academic Budget Director which indicated E&G CF funds were being transferred. The Assistant (Asst.) VP of Facilities Management (FM), Asst. Director of FP-DC, Fiscal and Business Analyst in FP-DC and the Special Assistant to the Provost were all copied on the email.

See [Exhibit D](#) for Project Timeline including Key Funding Decisions.

**EXHIBIT A**  
**Board of Trustees (BOT) and Board of Governors (BOG) Approval**

[BOG Regulation 14.0025 Action Required Prior to Fixed Capital Outlay Budget Request](#) Section (3) effective March 27, 2008 states, “The university president shall have the responsibility for building program review and approval to assure compatibility with the institution’s approved strategic plan, master plan, educational plant survey and with space utilization criteria. Building programs approved by the university president, and budgets approved by the university board of trustees shall serve as the basic planning documents for development of plans and specifications for construction.”

[Florida Statutes 1013.61 Annual capital outlay budget](#) effective in 2002 states, “Each board shall, each year, 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. This capital outlay budget shall be a part of the annual budget and shall be based upon and in harmony with the board's capital outlay plan. **This budget shall designate the proposed capital outlay expenditures by project for the year from all fund sources. The board may not expend any funds on any project not included in the budget, as amended.**”(Emphasis Added)

Pursuant to Sections [216.0158](#), [216.043](#) and [1013.64](#), Florida Statutes, the submission of the State University System (SUS) annual Fixed Capital Outlay Budget (FCOB) Request requires that each college and university update its Capital Improvement Plan (CIP). Each institution’s CIP is used to select projects for inclusion within the SUS Three-Year PECO (Public Education Capital Outlay) Project Priority List, to prepare the SUS Five-Year Capital Improvement Plan, and to prepare the initial SUS Annual Alec P. Courtelis Facility Enhancement Challenge Grant Program (FECGP) Project List. Each university Board of Trustees must approve the CIP prior to submittal to the BOG.

The USF BOT’s Finance and Audit Workgroup (BOT-FAWG) reviewed and approved the FCOB and CIP each year in May. Once approved by the BOT-FAWG, the FCOB and CIP were approved by the full BOT via a consent agenda. The tables below list the dates of these meetings and information presented regarding the Patel Center project:

**BOT Meetings**  
**Annual Approval of FCOB and CIP**

<b>Finance &amp; Audit Workgroup Meeting</b>	<b>BOT Meeting</b>	<b>Fixed Capital Outlay Budget</b>	<b>Capital Improvement Plan</b>
05/09/05 <sup>1</sup>	05/19/05	Patel Center project was not listed.	Patel Center project was not listed.
05/08/06	06/01/06	Patel Center project: a \$40 million project requiring legislative approval to be financed and constructed by a direct service organization (DSO).	Patel Center project was in the FECGP section with a \$5 million match in both 2007-2008 and 2008-2009.

<b>Finance &amp; Audit Workgroup Meeting</b>	<b>BOT Meeting</b>	<b>Fixed Capital Outlay Budget</b>	<b>Capital Improvement Plan</b>
05/03/07	5/31/07	Patel Center project: a \$40 million project requiring legislative approval to be financed and constructed by a DSO.	Patel Center project was in the FECGP section with a \$5 million match in both 2008-2009 and 2009-2010.
05/29/08	06/12/08	Patel Center project: a \$40 million project constructed or acquired from the sale of bonds and/or by a DSO.	Patel Center project was in the FECGP section with a \$5 million match in 2009-2010.
05/28/09	06/25/09	Patel Center project was not listed.	Patel Center project was not listed.

<sup>1</sup>Workgroup on Fiscal Affairs & Executive Committee Meeting.

The CIP must be submitted to the BOG each year by August. During the September BOG meeting, the Facilities Committee reviewed and approved the Fixed Capital Outlay Legislative Budget Request including the FECGP Project List.

#### **BOG Facilities Committee Meetings Patel Center Approval**

<b>Date of Meeting</b>	<b>Patel Center Funding Request</b>
09/15/05	The FECGP list included the USF Globalization Research Center with an anticipated match of \$10 million.
09/21/06	The FECGP list included the USF Patel Center for Global Solutions Phase II with an anticipated match of \$5 million.
09/27/07	The FECGP list included the USF Patel Center for Global Solutions Phase II with an anticipated match of \$5 million.
09/25/08	The Patel Center was not on the list.

**EXHIBIT B**  
**Patel Gift Agreement and State Match**

A gift agreement between Drs. Kiran C. Patel and Pallavi Patel (the Patels), USF, and the USF Foundation (USFF) was originally signed on December 16, 2003. The gift agreement included funding for an endowment (\$4 million), operating support for the Patel Institute (\$2.5 million), and money to construct a facility to “house the research programs of the Patel Institute and related conference and meeting spaces” (\$5 million). In the gift agreement, the USFF agreed to apply to “the Florida Board of Education and state of Florida matching grant programs” for additional funding. The gift agreement also included a challenge gift for both endowment and construction funding. If USFF raised an additional \$5 million in gifts and pledges for the construction of the “Dr. Kiran C. Patel Pavilion” by December 31, 2005 then the Patels would contribute an additional \$5 million toward the construction. The original \$5 million was due by March 10, 2005.

There were two amendments to the gift agreement, on November 2, 2004 and December 5, 2006, respectively. The first amendment extended the due date of the \$5 million pledge for the building to November 1, 2005 and the challenge gift deadline to December 31, 2007. In addition, the amount to be raised from other donor sources was raised from \$5 million to \$10 million. The second amendment extended the due date of the challenge gift to June 30, 2010.

The combined gift summary prepared by the USFF reflected an estimated \$40 million in gifts and state match funds associated with the Patel building including: \$10 million from the Patels, \$10 million from other donors, and \$20 million in state match.

On December 30, 2005, the USFF received the \$5 million pledge for the construction of the building from the Patels. The Florida Department of Education \$5 million match was received on July 21, 2006. Both the Patels’ \$5 million donation and the \$5 million in state matching funds were transferred by the USFF to the USF Controller’s Office via electronic fund transfer. The funds were recorded in the Construction Fund (50000).

USF did not meet the Patels’ challenge to raise additional funds for the construction of the building; therefore, no additional funds for construction were due from the Patels.

## EXHIBIT C

### Role of University Departments in the Management and Oversight of Construction Funds

#### Facilities Management

Facilities Management (FM), a part of Administrative Services, has responsibility for campus planning, development, maintenance, enhancement, safety, and the operation of USF's buildings, grounds, and utilities. During the period under review, Facilities Planning Design and Construction (FP-DC) was a single unit within FM responsible for in-house project management. At that time, Administrative Services reported to the prior Senior Vice President and Chief Financial Officer (CFO).

Prior to 2016, FP-DC was also responsible for setting up project accounts and establishing budgets in the Financial Accounting SysTem (FAST), recording and tracking project funding, processing transactions on individual construction projects (purchase orders, invoice approvals, journal entries, etc.), and reconciling and closing out project accounts.

#### Budget, Policy and Analysis (Now Resource Management and Analysis)

Inter-fund transfers of cash are processed via a journal entry. Journal entry requests for Education and General (E&G), E&G carryforward (CF) funds or auxiliary funds need approval of either a requisition approver/manager or the accountable officer/accountable officer designee for the chartfield relinquishing the funds. At the time of the Patel Center transfers, journal entries to move cash were submitted to Budget, Policy and Analysis (BPA) for review and approval prior to submission to General Accounting, a department within the University Controller's Office (UCO), for posting to FAST. Prior to May 2010, BPA reported to Administrative Services, while UCO reported directly to the CFO.

Currently, as well as during the period under review, there is no established limit on the amount of cash funds which can be transferred by a requisition approver/manager or accountable officer/accountable officer designee; however, many USF units have established internal guidelines which require large transfer requests to be approved by senior leadership.

#### Prior Senior Vice President and CFO

Prior to July 11, 2011, there was no Chief Operating Officer at USF. Administrative Services, including FM and BPA, reported to the CFO. The CFO also had planned assigned space in the Patel Center and would have been a key stakeholder in the design of the space. The CFO and Administrative Services funded \$1.2 million associated with their space.

The CFO had delegated authority to approve and execute all contracts in excess of \$1 million. During the time under review, there was no requirement for USF Board of Trustees (BOT) oversight of expenditures in excess of \$1 million.

**USF Policy 0-100 Authority to Sign Contracts and Other Documents**, in effect as of January 22, 2009 stated, "The President has delegated to the Senior Vice President and CFO the authority to approve and execute all contracts in excess of \$1 million related to the acquisition of commodities,

goods, equipment, services, leases of real and personal property, and construction to be rendered by the USF System.”

Office of Provost

The Patel Center houses several academic efforts as well as the Office of the Provost; therefore, the Office of the Provost was a key stakeholder in the design of the space. The Provost’s Office contributed \$10 million.



## EXHIBIT D

### Project Timeline including Key Funding Decisions

Audit reviewed documents maintained by Facilities Management (FM) related to the approval to contract with the design/build firm and the approval of changes to the initial design via amendments to the construction management contract. The purpose of this review was to identify a timeline for construction of the building as well as when key decisions were made regarding the building's design and funding. Flowcharts visually depicting the key decisions and transactions relevant to the Educational and General (E&G) Carryforward (CF) transfers immediately follow the narrative below.

**Ⓐ December 1, 2006:** Accounts receivable is established for the Patel Center donation and match.

Facilities Planning Design and Construction (FP-DC) sets up an accounts receivable for the University of South Florida Foundation (USFF) funds, including the match, totaling \$10 million. The initial transfer of funds from the USFF to FM totaling \$5.1 million did not occur until November 29, 2007.

**Ⓑ February 25, 2008:** Sources of the Phase I funding is determined.

FP-DC Manager Fiscal and Business Administration (M-FBA) sent an email to the Assistant Director of FP-DC which states, "Patel Center the budget in FAST [sic] is \$10,000,000. \$5,000,000.00 Private, \$5,000,000.00 State matching. It is our understanding that there is an additional \$5,000,000.00 for Construction, \$1,000,000.00 FF&E [sic] and \$400,000.00 for Contingency to be provided by the Provost office. A total estimated project cost of \$16,400,000.00." (Financial Accounting SysTem) (Furniture, Fixtures & Equipment)

**Ⓒ March 3, 2008:** Initial \$5 million in Provost's Office funding is requested.

The Assistant Vice President of FM sent an email to the Special Assistant to the Provost regarding the revised Patel Center budget. The email states, "Holly, Here is the revised budget summary with \$5M identified for costs that do not increase square footage of the campus. The other items that were to be provided from the Provost's Office for this project ...already fall into that category so additional changes should not be necessary." The Special Assistant forwarded the email to the Academic Budget Director in the Provost's Office who responds, "I need a chartfield combination to complete the cash transfer for the \$5m referenced below."

**Ⓓ March 4, 2008:** FP-DC inquiries about the remaining \$1.4 million committed by the Office of the Provost.

The M-FBA sent email to Director of Academic Budgets and copied the Special Assistant to the Provost, Assistant Director of FP-DC, Assistant Vice President of FM, and the FP-DC Fiscal and Business Analyst. The M-FBA's email states, "Per your request concerning the cash transfer for the Patel Ctr. In the amount of \$5ml. attached is the cash transfer form with the chartfield string. I have been requested to inquire regarding the transfer of funds for FFE in the amount of \$1 ml and contingency in the amount of \$400,000.00".

- Ⓔ March 4, 2008:** Initial \$5 million in E&G CF fund (Fund 10009, Department 102600) is transferred to the FM project (PF151207390100, Fund 50000) via journal entry (JE).

An inter-fund cash transfer (ICT) of \$5 million in E&G CF funds was processed via JE by Budgets, Policy and Analysis (BPA). The ICT request indicates the request came from the Special Assistant to the Provost; however, it was prepared and sent by the Academic Budget Director in the Office of the Provost. The subject is “Cash Transfer. To cover non-space project costs.” The JE is supported by a FP-DC document, which indicates that the total non-space project costs were anticipated to be \$5,000,398. The JE was approved by BPA and sent to University Controller’s Office (UCO) for posting. The JE was approved on March 10, 2008 by the Deputy Controller.

- Ⓕ April 23, 2008:** The Chief Financial Officer (CFO) (Carl Carlucci) approves the selection of the design and build firm.

The request for approval, submitted by the Assistant Director of FP-DC, indicates that the project is funded through matching grant funds in the total amount of \$10 million and university funds in the amount of \$5 million for project costs, \$1 million for furnishing as and equipment (FF&E), and \$400 thousand for contingency.

- Ⓖ August 8, 2008:** The Assistant Director of FP-DC requests approval of the agreement between the USF Board of Trustees (BOT) and Charles Perry Construction for Design Services totaling \$590,582.

Acting CFO (Trudie Frecker) approved the agreement on August 14, 2008. The prior CFO resigned effective August 1, 2008. Prior to taking the interim role, Ms. Frecker was the Associate Vice President of Administrative Services. The original design contract was for the first phase only, which consisted of 17,500 gross square feet (gsf) of finished space (primarily offices, meeting rooms, and an auditorium) and 56,000 gsf of shell space.

- Ⓕ January 16, 2009:** The Associate Director of FP-DC (promoted from Assistant Director), requests approval for the initial Guaranteed Maximum Price (GMP) contract for the construction phase for Phase I of the Patel Center (Amendment 1).

The GMP contract total was \$10,161,708 including \$378,550 for design services and the remaining for construction. Attached to the request was a FP-DC Budget Tracking Sheet (BTS) dated January 15, 2009, which listed the funding sources as 06/07 matching funds of \$5 million, 06/07 grant funds of \$5 million, and \$5 million from the USF Provost’s Office. The source of the USF Provost’s Office funds was not listed. The January 22, 2009 amended agreement was approved by the new CFO (James Hyatt) who was hired on November 17, 2008.

- Ⓖ July 16, 2009:** Associate Vice President (AVP) of Administrative Services (Ms. Frecker had returned to this position) requests a funding update.

AVP email to the Director of FP-DC, Associate Director of FP-DC, and the FP-DC Project Manager which states, “Can you send me a current version of the budget – costs as well as identified funding sources?” On July 24, 2009, the Associate Director of FP-DC responded back to the FP-DC Project Manager copying the Assistant VP of FM, the Director of FM, and the Assistant Director of FP-DC.

The email from the Associate Director of FP-DC states, “The following and attached are being provided in response to the request for the current version of the budget – costs as well as the identified fund sources.

- 1) May 19, 2009 Project Update identifying the basis for additional funds in the amount of \$ 9,909,276 to facilitate project development (attached PDF 4716).
- 2) July 23, 2009 Budget Tracking Sheet (BTS) identifying fund source and distribution of funds based upon actual and projected costs to date (attached PDF 0147).
- 3) The status of the determination of the funding entities and fund sources for the “2009 Funding” in the amount of \$ 9,909,276 identified in the BTS is understood at this time to consist of:
  - a. Provost - \$ 7,000,000 (source TBD)
  - b. VP BF&CFO – \$1,700,000 (source \$ 740,000 Foundation Funds/Balance TBD)
  - c. TBD -\$1,209,276”

Auditor Note: The July 23, 2009 attachment did not actually have funding sources and indicated only “2009 Funding”.

**J July 24, 2009:** The Associate Director of FP-DC requests approval of an amendment (2) to the GMP contract to incorporate design and preconstruction services for the build out of the auditorium, 2nd, 3rd, and 4th floors of the Patel Center.

The request indicates that university funds totaling \$14,909,276 (an increase of \$9,909,276) will be used to fund the construction in addition to the \$10 million in matching grant funds. The design costs for Phase II were \$352,842, bringing total design costs to \$943,424. Attached to the request is a FP-DC BTS report dated July 23, 2009. The new funding source was listed as “2009 Funding” and there was no indication of the source of the funds. The construction costs budgeted was \$20,022,520 and non-construction costs totaled \$4,886,756. Amendment #2 was signed on August 19, 2009 by the CFO (James Hyatt).

**K September 11, 2009:** AVP of Administrative Services (Trudie Frecker) prepares for meeting with the Provost’s Office regarding the remaining \$7 million in commitments.

The AVP of Administrative Services sent an email to the Associate Director of FP-DC and Director of FM, which states, “I have a meeting this afternoon with Michael Moore on the Provost’s contribution. I have been asked if they can pay a portion this year and a portion next. Normally, I would have said probably, since we could “float” funds temporarily, but with the recent changes, I was not comfortable saying that. So, I am asking you who will know. Could the Provost pay a portion of their share (I think it’s about \$7M total?) this year and a portion next and if so, what is needed now for this year?” The same day the Associate

Director of FP-DC responds to the AVP copying the Director of FM, Assistant Vice President of FM, M-FBA, and Assistant Director-FP-DC. The email from the Associate Director of FP-DC states, “The total funds for construction ( approx. \$20,000,000) are required to be encumbered (under contract) by October 2009 based upon the approved budget in FAST which includes the commitment for the additional \$ 9,909,276 for project development (comprised of Provost funds, VP BF&CFO funds, etc.). Based upon information available at this time, the cash flow projection for the project anticipates construction expenditures from July 2010 to the completion of the project to be in the amount of approx. \$3,000,000. If the Provost funds were to fund that projected amount, current year cash requirements from the Provost allocation prior to July 2010 would be approximately \$ 4,000,000.”

- Ⓛ September 28, 2009:** The second \$5 million ICT request is received by BPA. The transfer moved \$5 million in E&G CF funds (Fund 10009, Department 109000 and Product AAW004) to the FM project (PF151207390100 Fund 50000).

This request was sent via email by the Academic Budget Director in the Provost’s Office. The transfer was sent to BPA for approval and then forwarded to UCO for posting. The JE was approved by the Assistant Controller.

- Ⓜ December 9, 2009:** The Associate Director of FP-DC requests a third amendment to the GMP.

The third amendment facilitated the build out of the auditorium, 2<sup>nd</sup>, 3<sup>rd</sup>, and 4<sup>th</sup> floors and increased the GMP to \$8,712,080. Attached to the request was a FP-DC BTS dated December 9, 2009, which listed the total project cost of \$24,909,276. The funding sources were the same as those attached to the second amendment. The CFO (James Hyatt) approved the amended contract on December 18, 2009.

**March 8, 2010:** Business and Finance contributes of \$1,187,064.27.

On March 8, 2010, the VP of Administrative Service sent an email to the Budget Analyst in Business and Finance, copying the Special Assistant to the VP and the CFO which states “We need to transfer the foundation funds to Facilities Planning & Construction, to complete our share of the Patel Center funding. I believe we have provided \$700K or \$750K to date (Sheila can confirm.). We need to reach a total of the \$1,187,064.”

In response to the VP of Administrative Services email, the Budget Analyst sent an email on August 23, 2010 to the Associate Director of FP-DC copying the CFO, the VP of Administrative Services, the Special Assistant, and the M-FBA which indicates that the paperwork to transfer USF Foundation funds in the amount of \$300,187 has been completed. The email indicated that \$146,247 was transferred by Business and Finance in March 2010 and Administrative Services had transferred \$740,000 in June 2009.

**September 13, 2010:** The balance of the funds owed from the Provost’s Office is requested.

The FP-DC M-FBA emailed the Academic Budget Director in the Provost's Office on September 13, 2010, "requesting the final \$2,000,000.00 promised by the Provost" for the Patel Center. A second email and third email were sent on September 15, 2010 and September 30, 2010, respectively, from the FP-DC M-FBA to the Academic Budget Director indicating FP-DC had not received a response.

Audit located an October 25, 2010 email from the Academic Budget Director to the FP-DC M-FBA which states, "I've discussed this with the Provost. He is going to follow up some discussions he has had regarding the funding and let me know. I've communicated the time sensitive nature of the decision."

**December 10, 2010:** The building is reported to the BOG as completed.

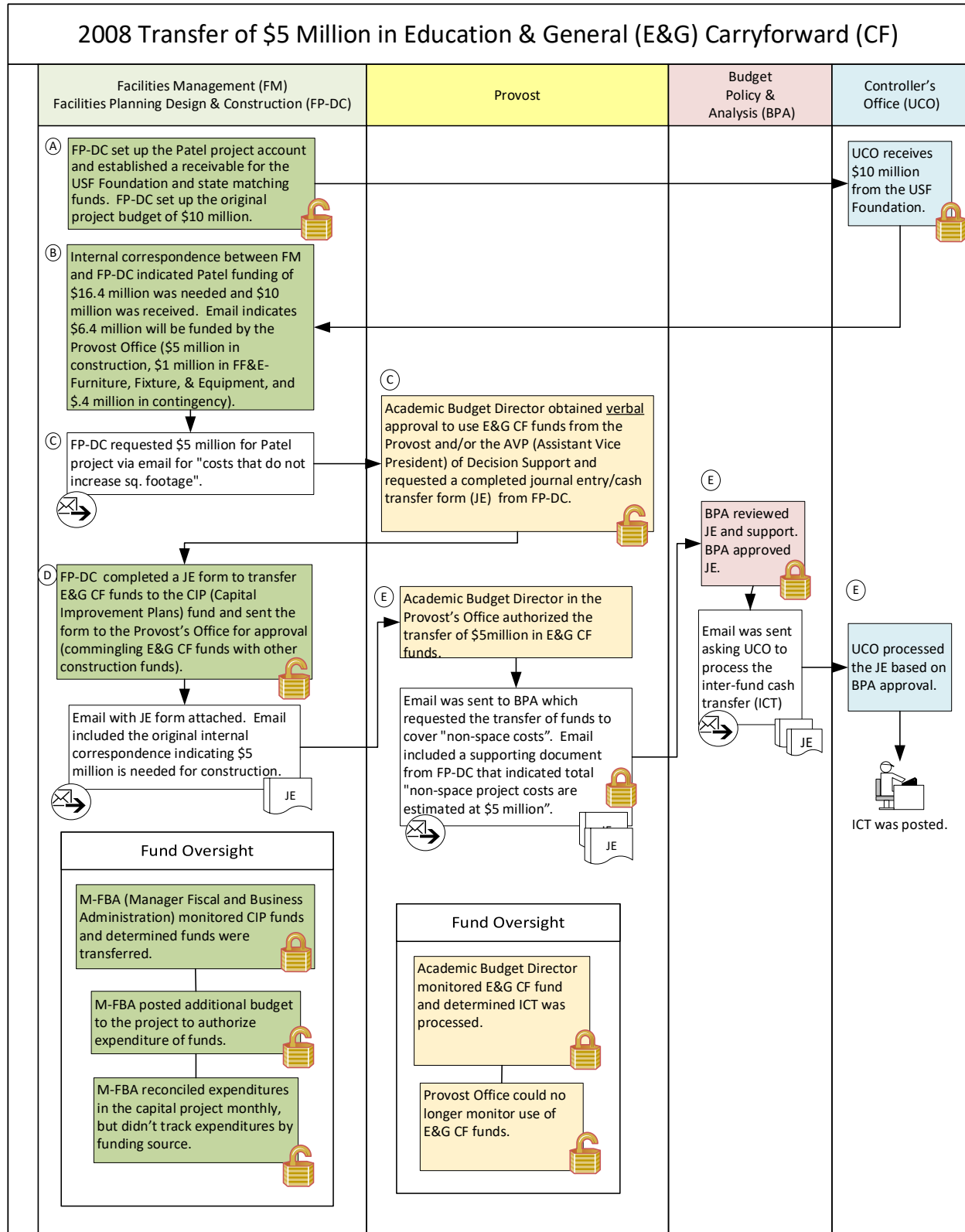
On December 10, 2010, the FP-DC Project Manager for the Patel Center sent an email to the FP-DC Director, and the FP-DC Assistant Directors which contained a Project Completion Summary. The summary was prepared at the request of the BOG facility staff. The Project Completion Summary contains the following information regarding the Patel building's financing:

- Funding Source: \$5 million Patel Gift, \$5 million Cortellis Match, \$5 million USF Provost.
- Build out Funding: \$7 million Provost, \$740,000 USF Foundation, \$447,064 Business and Finance Admin.
- Total Building Cost: \$22.034 million.

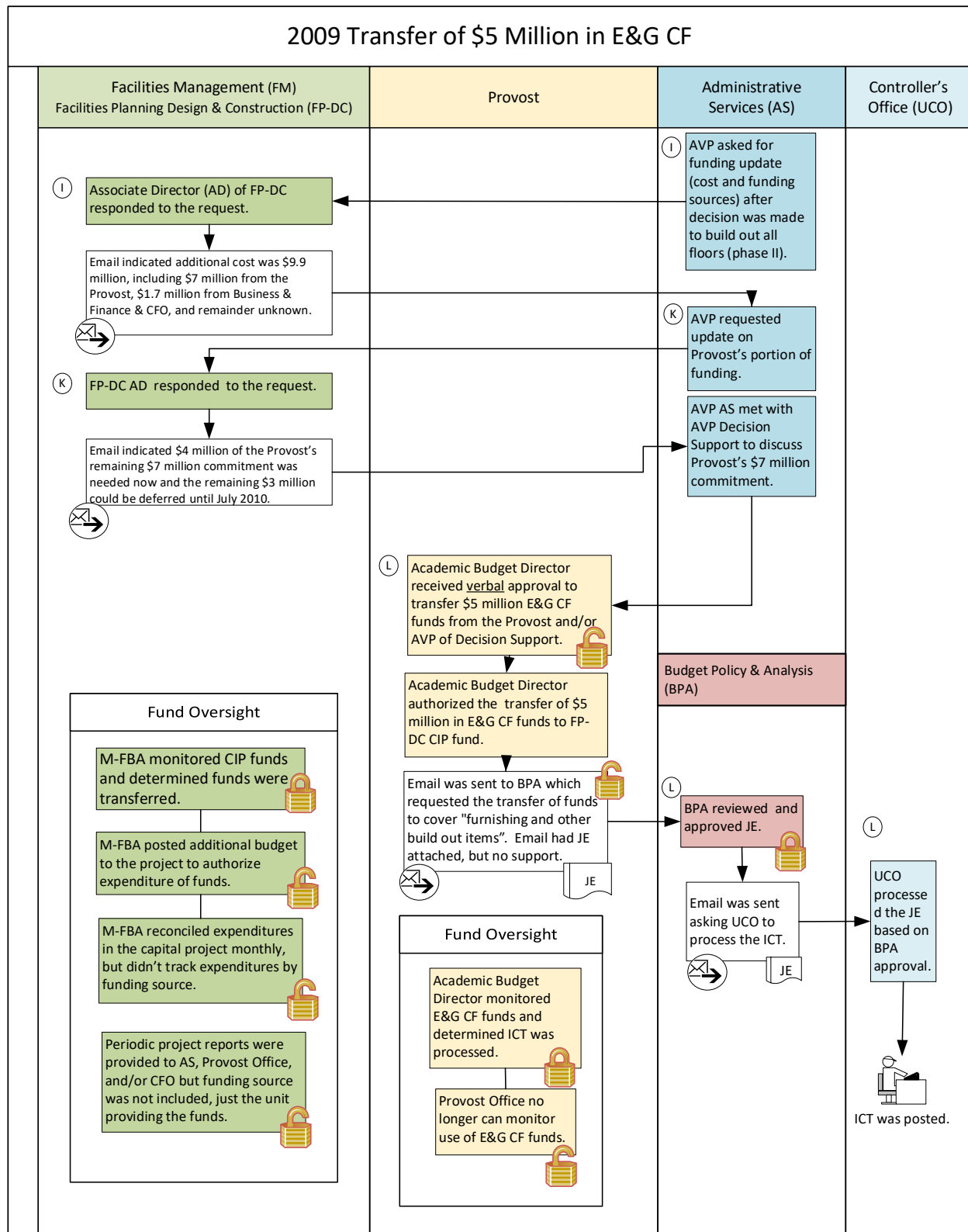
**February 28, 2011:** The balance of the funds owed from the Provost's Office is resolved.

The Associate Director of FP-DC sent an email to the Director of FP-DC and the FP-DC M-FBA regarding the outstanding funds due on the Patel Center. The email indicated that based on a discussion with the Academic Budget Director in the Provost's Office, the remaining funds would not be coming from the Provost's Office and the current CFO (Nick Trivunovich) would identify the source of the final funding.

Auditor Note: The final funding needs were \$0.5 million, not \$2 million. FP-DC interest earned on the Construction Fund (Fund 50000) were used to fund the remaining project costs.



(F) (G) Chief Financial Officer (CFO) approved design & build firm and agreement for design costs for Patel building shell and floor one build-out (\$591K) in 8/2008.



(H) (J) (M) CFO approved the GMP (Guaranteed Maximum Price) for Phase I construction in 1/09 and an increase in the GMP for Phase II design 7/09 and construction in 12/09.



**EXHIBIT E**  
**Summary of Relevant Individuals**  
**Not Interviewed**

<b>Name</b>	<b>Title(s)<sup>1</sup></b>	<b>Status</b>
Renu Khator	Former Provost	Left USF 01/08
Carl Carlucci	Former Chief Financial Officer (CFO)	Left USF 08/08
James Hyatt	Former CFO	Left USF 07/10
Trudie Frecker	Former Interim CFO Former Associate Vice President (VP) Administrative Services	Retired 11/10
Sandy Lovins	Former VP of Administrative Services	Left USF 3/15
Michael Moore	Former Associate VP of Decision Support	Retired 11/13
Bertha Alexander	Former Assistant VP of Budget Policy and Analysis	Left USF 3/14
Joseph Eagan	Former Assistant VP of Facilities Management	Left USF 1/11
Eric Walden	Former Treasurer	Retired 8/08
Linda Peterson	Former University Controller	Retired 5/13
Lelia Proctor	Former Director, Facilities Planning Design and Construction (FP-DC)	Left USF 11/12
Ron Hanke	Former Director, FP-DC	Retired 02/08
Yvonne Edwards	Former Manager Fiscal and Business Administration, FP-DC	Retired 07/14
John Draper	Former Business Manager, FP-DC	Left USF 11/06
Tim Hamilton	Former Assistant Controller	Left USF 7/13
Holly Schoenherr	Former Special Assistant to the Provost	Left USF 10/10
Sheila Holbrook	Former Special Assistant to the VP Administrative Services	Left USF 5/12

<sup>1</sup>For additional information, including length of service, see organizational chart in [Attachment B](#).

**Summary of Relevant Individuals**  
**Interviewed**

<b>Name</b>	<b>Title(s)<sup>1</sup></b>	<b>Comment</b>
Dr. Judy Genshaft	President	
Dr. Ralph Wilcox	Provost	
Nick Trivunovich	CFO, Former University Controller	
Dr. Dwayne Smith	Vice Provost	Former supervisor of Assoc. VP of Decision Support
Tapas Das	Former Vice Provost	Former supervisor of Assoc. VP of Decision Support

Name	Title(s) <sup>1</sup>	Comment
John Crosby	Former Associate and Assistant Director of FP-DC	Retired
Fell Stubbs	Treasurer	
Erika Wilkerson	Former Fiscal and Business Analyst, FP-DC	Currently employed by University Controller
Kevin Toso	Former Academic Budget Director	Currently employed by Resource Management and Analysis - Associate Director
Raymond Gonzalez	Assistant Director, FP DC	


<sup>1</sup>For additional information, including length of service, see organizational chart in [Attachment B](#).

Auditor Note: Additionally, one current member (John Ramil) and one former member (Jacqueline Reck) of the BOT, who served on the Finance and Audit Workgroup during the time of the Patel Center project, were interviewed.



## MEMORANDUM

TO: Chair Jordan B. Zimmerman, USF Board of Trustees  
Trustee Nancy H. Watkins, USF Board of Trustees Audit & Compliance  
Committee Chair

FROM: Virginia L. Kalil, CIA, CISA, CFE, CRISC  
Executive Director/Chief Internal Auditor 

DATE: April 19, 2019

SUBJECT: 19-034 Report 2: Construction Project Funding Certification

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In response to the Board Chair's request regarding the November 2, 2018 USF Certification with Exceptions ([Attachment A](#)), USF System Audit (Audit) conducted an independent review of the use of Education and General (E&G) carryforward (CF) funds in capital projects. The purpose of this review was to provide the Board of Trustees (BOT) with an independent, objective assessment of whether the certification was accurate and complete, including the population of projects reported and the utilization of E&G and E&G CF funds.

This review had three components: a) validate the population of projects included in the university's certification was complete and consistent with the Board of Governors' (BOG) definition of a new capital project; b) determine the projects which utilized E&G or E&G CF funds and validate utilization of these funds and other funding sources were appropriate; and c) verify the Patel Center project information disclosed was accurate and complete.

This report focuses on verification of the accuracy and completeness of the university's certification, including the population of projects reported and the appropriate use of E&G, E&G CF funds, and other funding sources. A separate report dated April 19, 2019 was issued regarding Audit's review of the Patel Center project. In addition, the university's current construction accounting controls were reviewed and reported as part of Audit's 19-035 Construction Accounting and Control Structure report which was issued on April 19, 2019.

In conducting our review, we followed a disciplined, systematic approach using the *International Standards for the Professional Practice of Internal Auditing*.

## Validation of the Certification Population

In a letter dated September 19, 2018, BOG Chair Lautenbach requested the university to review funding sources for all university capital projects approved by the BOT since July 1, 2008. Additionally, the university President, Chief Financial Officer, and General Counsel were asked to certify to the BOT and BOG that the funding sources used were legally available for the projects as authorized in [Chapter 1013 Florida Statutes](#) or as otherwise authorized in the General Appropriations Act. On October 24, 2018, BOG staff further clarified that the certification sought “new projects (not renovations/repairs/remodeling) that add more than 10,000 gsf [gross square feet] OR cost more than \$2 M.”

When completing the BOG certification, USF made two primary assumptions: (1) Statutory definitions contained in [Chapter 1013 Florida Statutes](#) were to be used to define the terms in the BOG certification where the same or substantively similar terms were used; and (2) BOG guidance, regarding both the certification and the use of E&G and E&G CF funds in construction projects, was to be treated as an authorization for the purpose of the USF certification.

The USF certification indicated, “USF has constructed approximately fifty one new capital projects totaling \$551 million, including multiple new projects adding more than 10,000 gross square feet of space or exceeding \$2 million in cost.”

In order to validate the accuracy and completeness of the university’s certification, Audit reviewed university financial accounting records and Facilities Management documentation, as well as BOT, BOG, and Florida Department of Education records. Based on the review, Audit determined all new capital projects meeting the BOG certification criteria were included in the 51 capital projects certified. In addition, Audit determined the projects certified by USF exceeded the BOG requirements as follows:

- Thirty capital projects, with certified expenditures totaling \$140 million, met the [Florida Statute Chapter 1013.01](#) definition of renovations, repairs, or remodeling, and were not required to be included in the certification.
- Four of the remaining 21 capital projects, with certified expenditures totaling \$35 million, were approved by the BOT prior to July 1, 2008 and were not required to be included in the certification.

Audit also reconciled the \$551 million in certified costs to the university’s Financial Accounting SysTem (FAST) and other internal project costing records and determined the university only certified actual expenditures and excluded committed funds. For the 51 capital projects certified by the university, total project costs (committed and actual) as of January 2, 2019 was actually \$708 million, of which \$516 million related to the 17 projects meeting the BOG certification criteria.

## Appropriate Use of E&G and Other Funding

During the review, Audit also validated the funding sources for all 51 capital projects included in the certification, utilizing a variety of internal and external sources, in order to determine which projects utilized E&G or E&G CF funds. Audit determined 29 of the 51 projects certified utilized E&G or E&G CF funds for a portion of the project costs. Audit reviewed the utilization of E&G and E&G

CF funds to determine if the use was authorized in [Chapter 1013 Florida Statutes](#) and [BOG Regulation 9.007\(3\)](#), as well as BOG staff guidance regarding use of E&G and E&G CF funds in construction projects. While the review focused on the utilization of E&G and E&G CF funding, Audit also verified whether additional funding sources were appropriate.

According to USF leadership, key assumptions of their application of the E&G and E&G CF guidance noted above included: (1) E&G and E&G CF funds may be used for planning and design services connected with construction projects; (2) E&G and E&G CF funds may be used for furniture, fixtures, and equipment; (3) E&G and E&G CF funds up to \$2 million may be applied to university capital projects, as long as the project does not meet [Chapter 1013 Florida Statutes](#) definition of new construction; and (4) E&G and E&G CF funds could be used to fund infrastructure projects. While this criteria was not formally documented, Audit found the university relied upon its understanding and consistently applied this criteria when authorizing the use of E&G and E&G CF funds on capital projects, with the exception of the Patel Center.

## Conclusion

While the university's certification overstated the capital projects approved by the BOT since July 1, 2008 and excluded committed funds, Audit did not identify any instances where projects were funded from sources which were not legally available or properly authorized, except for the Patel Center project, which is covered in a separate report. No additional exceptions were identified.

cc: Marshall M. Criser, III, Chancellor, State University System of Florida  
 Ned C. Lautenbach, Chair, Board of Governors, State University System of Florida  
 Timothy M. Cerio, Chair, Board of Governors Audit and Compliance Committee, State University System of Florida  
 Julie Leftheris, Inspector General, State University System of Florida

Vice Chair Leslie Muma, USF Board of Trustees  
 Trustee Michael Carrere, USF Board of Trustees  
 Trustee Stephanie E. Goforth, USF Board of Trustees  
 Trustee Oscar Horton, USF Board of Trustees  
 Trustee Moneer Kheireddine, USF Board of Trustees  
 Trustee Deanna Michael, USF Board of Trustees  
 Trustee Harold W. Mullis, ESQ., USF Board of Trustees  
 Trustee John B. Ramil, USF Board of Trustees  
 Trustee Byron E. Shinn, USF Board of Trustees  
 Trustee Charles Tokarz, USF Board of Trustees

President Judy Genshaft, USF System  
 Dr. Ralph Wilcox, Provost & Executive Vice President of Academic Affairs  
 David Lechner, Senior Vice President, Business and Financial Strategy  
 Nick Trivunovich, Vice President, Business and Finance and Chief Financial Officer  
 Calvin Williams, Vice President for Administrative Services  
 Gerard Solis, General Counsel

**Attachment A**  
**USF Certification of Funding Sources**



**UNIVERSITY OF SOUTH FLORIDA**

Office of the President

**CERTIFICATION OF FUNDING SOURCES FOR CAPITAL PROJECTS  
WITH EXCEPTIONS**

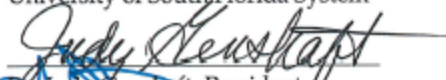
Since July 1, 2008 to the present, USF has constructed approximately fifty one new capital projects totaling \$551 million, including multiple new projects adding more than 10,000 gross square feet of space or exceeding \$2 million in cost. For each capital project, we have reviewed available university records, such as project budgets and expenditures, educational plant surveys, project programs, and project funding sources necessary to determine that each project was constructed with funding from legally available and authorized sources.

Based upon our review, we hereby certify to the University of South Florida Board of Trustees and the Board of Governors that each project was constructed with funds from legally available and authorized sources, except for the following project: the Patel Center for Global Solutions.


The Patel Center for Global Solutions was approved by the USF Board of Trustees in 2006 with the assumption that this project would be funded from private sources. In 2010 the USF Board of Trustees received an update indicating that the funding for the project would be private funds and state matching funds. Based on our review of all available records, we have determined that the project was constructed primarily using private funds; however, we have also determined that carryforward funds in the amount of \$6.4 million were inappropriately applied to the project. This has been corrected and the carryforward funds have been fully repaid as of the date of this certification.

The attached letter is an integral part of this certification.

University of South Florida System

  
 Dr. Judy Genshaft, President


  
 Mr. Nick Triunovich, Chief Financial Officer

  
 Mr. Gerard Solis, General Counsel



## MEMORANDUM

TO: Chair Jordan B. Zimmerman, USF Board of Trustees  
Trustee Nancy H. Watkins, USF Board of Trustees Audit and Compliance  
Committee Chair

FROM: Virginia L. Kalil, CIA, CISA, CFE, CRISC  
Executive Director/Chief Internal Auditor 

DATE: April 19, 2019

SUBJECT: 19-035 Review of Current Construction Accounting and Control Structure

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USF System Audit (Audit) performed an independent review of the current control structure in place regarding the use of Education and General (E&G) funds in construction projects. This review was requested by the Board of Trustees (BOT) Audit and Compliance Committee. The primary objective of the review was to provide the BOT with an objective assessment of whether the procedures in place are adequately designed to ensure all construction projects are appropriately approved and funded from legally available sources.

Our audit included a risk assessment and an internal controls evaluation of the administrative and financial controls environment in place over major and minor construction project accounting as of January 1, 2019. The specific scope and objectives are described on page ten of this report at [Appendix A](#).

Based on the review, Audit concluded that current procedures in place are adequate, assuming corrective actions are taken timely to address the seven medium-priority risks included in this report at [Appendix B](#).

These risks were related to clarification of BOG guidance on allowable uses of E&G funds for construction projects; tracking of construction project financial transactions in the Financial Accounting SysTem (FAST); tracking of construction project costs by category; monitoring authorization of expenditure transfers occurring on construction projects; monitoring of expenditures outside the Construction Fund; formal communication of roles and responsibilities for construction projects accounting; and improving controls over projects being managed by USF Health Operations & Facilities Management.

Please contact us at 974-2705 if you have any questions.



cc: President Judy Genshaft, USF System  
Dr. Ralph Wilcox, Provost & Executive Vice President of Academic Affairs  
David Lechner, Senior Vice President, Business and Financial Strategy  
Nick Trivunovich, Vice President, Business and Finance and Chief Financial Officer  
Calvin Williams, Vice President for Administrative Services  
Gerard Solis, General Counsel

## **APPENDIX A**

### **BACKGROUND**

#### **Project Management Roles and Responsibilities**

Facilities Management (FM), a part of Administrative Services, has responsibility for campus planning, development, maintenance, enhancement, safety, and the operation of university buildings, grounds, and utilities. FM has six operational units including Design and Construction (DC). FM-DC, formerly Facilities Planning Design and Construction, is responsible for in-house project management. Construction projects are either considered a major project, if estimated costs are greater than \$2 million, or a minor project if estimated costs are less than \$2 million.

In order to create efficiencies, cost savings, and consistent application of business processes, the Administrative Services Business Center (ASBC) was established in April 2016 to provide financial and administrative support services to all departments and offices within Administrative Services, including FM. The ASBC Capital Budgets Team (2.25 FTE-full time equivalent) is responsible for processing transactions on individual construction projects (purchase orders, invoice approvals, journal entries, etc.), and reconciling and closing out project accounts. Prior to April 2016, these functions were performed within FM-DC.

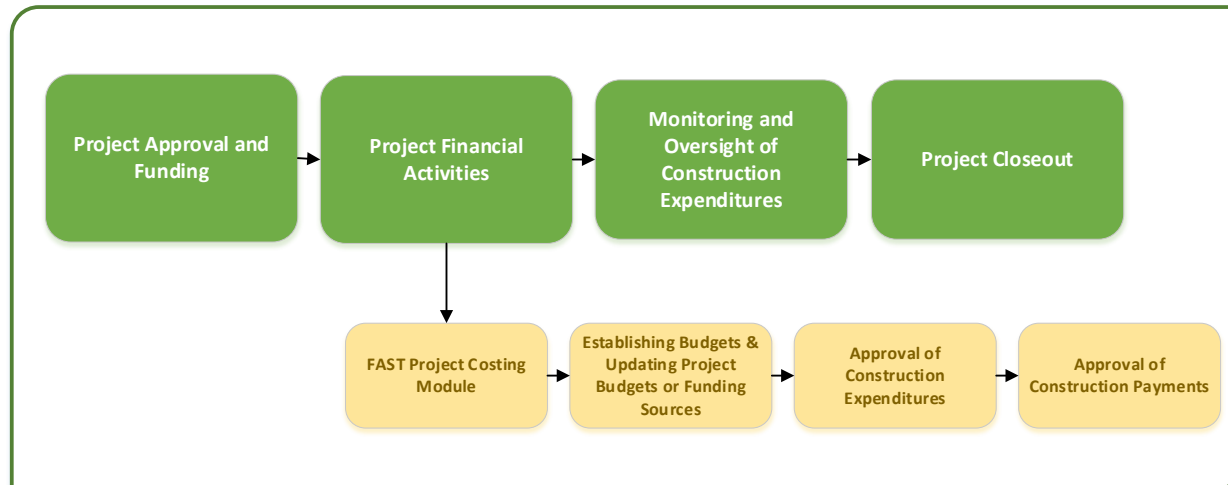
Construction Accounting (2.0 FTE), a unit within the University Controller's Office (UCO), is responsible for setting up project accounts and establishing budgets in the Financial Accounting SysTem (FAST), and recording and tracking project funding. Prior to April 2016, these functions were performed within FM-DC.

For construction projects at USF St. Petersburg (USFSP) and USF Sarasota-Manatee (USFSM), designated fiscal staff within the facilities planning and construction units on those campuses input requisitions, approve requisitions, receive goods and services in FAST, review and approve invoices, and perform reconciliations for projects they manage. USFSP and USFSM follow the Capital Project Procedures and Guidelines established by FM.

USF Housing and Residential Education (USFHRE) provides their own project management, as well as financial and administrative support services, for minor maintenance, repair, and renovation projects funded exclusively from auxiliary revenues (student rent). Major USFHRE projects are managed and administered by FM and ASBC.

Similarly, USF Health (USFH) has their own Operations & Facilities Management (USFH OFM) who is responsible for providing project management for USF Health projects. Projects managed by USFH OFM range from facility office/lab refurbishing to construction alterations or renovations. Projects managed by USFH OFM do not include new building construction. Beginning in 2015, the College of Medicine Business Office (COM-BO), began providing financial and administrative support services to the USFH OFM. The COM-BO construction accounting function (.90 FTE) is responsible for processing transactions on individual projects (purchase orders, invoice approvals, journal entries, etc.), and reconciling project accounts managed by USFH OFM.

## Process



### Project Approval and Funding

Each year, the Board of Trustees (BOT) approves a Fixed Capital Outlay Budget (FCOB) for the ensuing year, which is a part of the annual budget and is based on the Fixed Capital Outlay Plan (FCOP). The FCOB designates the proposed capital outlay expenditures by project for the year, from all funding sources. The university may not expend any funds on any project not included in the budget.<sup>1</sup>

The USF request for state appropriations to support construction activities begins with an annual Capital Improvement Plan which prioritizes capital project funding requests. The BOT must approve the Capital Improvement Plan prior to submitting it to the Board of Governors (BOG). The university's Capital Improvement Plan is used by the [BOG Facilities Committee](#), with the assistance of the [BOG Office of Finance & Facilities](#), to select projects for inclusion in the State University System (SUS) Three-Year Public Education Capital Outlay (PECO) Project Priority List and to prepare the SUS Five-Year Capital Improvement Plan and the initial SUS Annual Alec P. Courtelis Facility Enhancement Challenge Grant Program (FECGP) Project List. Projects selected for consideration are presented by the university at the annual Facilities Workshop. Following the workshop, the BOG adopts the PECO Fixed Capital Outlay Legislative Funding Request Budget for the upcoming legislative session.<sup>2</sup>

The BOG Office of Finance & Facilities also administers the Capital Improvement Trust Fund (CITF) which is generated from student fees. Proposals for fixed capital outlay projects to be funded by capital improvement fees must be approved by the university president after consultation with the student government association and submitted to the BOG for approval.<sup>3</sup>

Construction projects can also be funded through debt financing. The University Treasurer's Office serves as the financial management team of the USF Financing Corporation (USFFC), a Direct

<sup>1</sup>[Florida Statute 1013.61](#) Annual capital outlay budget

<sup>2</sup>[Florida Statute 216.043](#) Budgets for fixed capital outlay

<sup>3</sup>[BOG Regulation 14.0025](#) Actions Required Prior to Fixed Capital Outlay Budget Request

Support Organization (DSO) of the university whose purpose is to receive, hold, invest, and administer property for the benefit of the university and its DSOs, by assisting in acquisition and construction of facilities on the university's campuses. Most university debt is held in the name of the USFFC. Debt proposals are presented to and approved by the USFFC board, the university BOT Finance Committee, the full university BOT, and finally the BOG.<sup>4</sup>

Public-Private Partnerships can also be approved by the BOG whereby construction costs are funded by an external partner.<sup>5</sup>

Additionally, USF Foundation (USFF) donations may be an allowable source for construction funding.<sup>6</sup> USFF is a DSO and operates exclusively to receive, hold, invest, and administer donor contributions to make expenditures to or for the benefit of USF. They function as a separate entity on the USF campus and use their own financial system to operate. Donor gift agreements are utilized for major donations which spell out the terms and conditions of the gift.

Another allowable source of construction funding may be research grants from external sponsors. If a research grant pays for construction, a journal entry would be prepared at the end of each month moving expenditures to the grant and grant revenues to project costing.

Lastly, projects may also receive funding from university resources such as Auxiliary, Education & General (E&G), E&G Carryforward (CF), and Educational Enhancement Trust Funds (Lottery funds). Lottery funds specifically appropriated for fixed capital outlay and debt service are transferred from the Educational Enhancement Trust Fund to the Lottery Capital Outlay and Debt Service Trust Fund.<sup>7</sup> Lottery funds appropriated for USF which have not been designated specifically for construction are subject to the same restrictions as E&G funds.

Key controls present include:

- ✓ BOT Finance Committee and the full BOT approve the FCOB and FCOP, as well as the Capital Improvement Plan before it is sent to the BOG Office of Finance & Facilities. The USF System President has been authorized by the BOT to make subsequent nonmaterial adjustments to the Capital Improvement Plan with the requirement that any material changes be approved by the BOT Executive Committee.
- ✓ The USFFC board and BOT must approve debt proposals prior to sending to the BOG for approval.
- ✓ USFF donor gift agreements are utilized to document the terms and conditions of donor gifts. USFF has controls in place designed to ensure donations received are expended based on the terms and conditions of the donation.

#### Project Financial Activities

Once an approved capital construction project receives funding, the ASBC Capital Budgets Team and/or the staff in the facilities planning and construction units at USFSP, USFSM, or USFH

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<sup>4</sup>[USF BOT 06-003](#) Debt Management Policy

<sup>5</sup>[BOG Public-Private Partnership Guidelines](#)

<sup>6</sup>[Florida Statute 1013.74](#) University authorization for fixed capital outlay projects

<sup>7</sup>[Florida Statute 1013.71](#) Lottery Capital Outlay and Debt Service Trust Fund

manages the capital budget outlay in conjunction with UCO Construction Accounting (CA). USFHRE minor project funding is managed by their own administrative and financial support services.

### *FAST Project Costing Module*

The FAST Project Costing (PC) module is used to track and analyze construction project costs and allocate project resources throughout the life of the project, except in the case of USFHRE minor projects which are tracked separately by USFHRE in an internal system.

Each new construction project is assigned one or more unique project identification numbers (IDs) in the FAST PC module. A new FAST project ID is used for each year of state appropriations when funding is received over multiple years, or if multiple funding sources are utilized (bonds, gifts, grants, etc.). A standard Facilities Management Project Development (FMPD) form reflecting funding amounts by each unique source is used to establish projects in FAST PC. The FMPD form must be reviewed and approved by a FM Director. If the total project cost will exceed \$1 million, regardless of funding source, the FMPD form is also approved by the Vice President (VP) of Administrative Services and/or the ASBC Director.

FAST PC integrates with the other FAST modules used to manage financial resources such as Commitment Control, General Ledger, Billing, Purchasing, Accounts Payable, and Fixed Assets (when the project is complete). The project number becomes a component of the chartfield string used to account for transactions throughout the other FAST modules.

The funding source being utilized determines whether or not the funds are managed exclusively within the Construction Fund (Fund 50000). In either case, a FAST PC Project ID is associated with the expenditure to allow for tracking of the expenditures associated with the project:

- State construction appropriations (PECO, CITF, etc.): Managed in the Construction Fund.
- Debt or bond financed: USFFC transfers revenue to the Construction Fund either through electronic fund transfer (EFT) or through an agency account.
- USFF donation and capital matches received based on donor funds: USFF transfers funds to the Construction Fund via EFT.
- Auxiliary and E&G funding, including E&G CF and lottery funds: Remain in the original fund and department.
- Grant funded: A journal entry is prepared at the end of each month moving expenses from the Construction Fund to the grant.

Regardless of the funding source, all planned and actual construction project expenditures must be associated with legitimate construction-related activities, which are categorized by activity type utilizing activity IDs. Activity IDs are included as part of the chartfield string in the FAST procurement process and allow expenditures to be tracked by type to assist with monitoring project costs and validating appropriate funding sources. For example, architectural and engineering design costs are assigned to activity ID “AE” (Architectural & Engineering) which allows these costs to be tracked separately from construction costs.

Key controls present include:

- ✓ Decentralized Project Manager (PM) can request but not approve the establishment of a FAST PC Project ID.
- ✓ FAST PC Project IDs cannot be set up or changed without a properly reviewed and approved FMPD form which is approved by Administrative Services (FM Directors and/or ASBC Director) and verified by UCO.
- ✓ Capital project costs are tracked in the FAST PC module utilizing activity IDs which permit monitoring of costs by type.
- ✓ Auxiliary, E&G, E&G CF, and other departmental funds remain in the original source with the assigned Project ID and are not transferred to Fund 50000. This permits tracking of expenditures by funding source and transparency over the use of these funds outside of FM, ASBC, and UCO.

*Establishing Budgets & Updating Project Budgets or Funding Sources*

UCO-CA independently enters the initial budgets from the FM-provided FMPD form into the FAST PC module. All changes in budget must be initiated by FM submitting a newly approved FMPD form to UCO-CA. Based on the new FMPD form UCO-CA completes a Budget & Budget Transfers form and updates the project budget in FAST. Commitment control in FAST prevents expenditures from being processed without a corresponding budget.

If funding changes on a project within the FAST PC module, either by amount or source, FM (or USFSP, USFSM, or USFH OFM via FM) must submit an updated FMPD form to UCO-CA. New FMPD forms reflecting a funding change must be approved by an FM Director. Additional approvals are required in the following instances:

- Exceeding either \$1 million or 10% of the approved amount, whichever is less, requires approval by the BOT Finance Committee Chair.
- Equal to or greater than \$2 million requires approval by the BOT Finance Committee.

On a quarterly basis, a list of changes in project funding sources at or exceeding \$1 million are also submitted to the BOT Finance Committee as an informational item.

Key controls present include:

- ✓ There is separation of duties between those responsible for approving the FAST project revenues and expenditures (ASBC), and those setting up FAST projects and related budgets (UCO).
- ✓ Changes in budget and/or funding are compared to project totals by the ASBC Director, and the UCO Manager Fiscal and Business Administration, to determine if additional approvals needed from VPs and BOT were obtained. USF has established standard thresholds for approval of material changes.<sup>8</sup>

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<sup>8</sup>[USF System Policy 0-100](#) Delegations of General Authority and Signatory Authority

### *Approval of Construction Expenditures*

All construction expenditures must use the purchase order procurement method (non-Purchasing Card or Payment Request Form) and are subject to the UCO's standard [Expenditure Guide](#) by Source of Funds and Method. For capital projects managed by ASBC, all project expenditures begin with a standard ASBC Requisition/Change Order Request Form that is initiated by the FM Project Manager. ASBC Fiscal and Business Specialist (FBS) independently enters the requisition in FAST adding the appropriate Activity ID based on the nature of the expenditure (organizational separation of duties).

The FAST requisition is approved via the standard FAST workflow which requires the approval of a requisition manager assigned to the project prior to submission of the requisition to the Purchasing department (Purchasing). If departmental funding is utilized, an accountable officer, or designee of the fund must also approve the requisition via the FAST workflow. This secondary approval occurs outside of FM, ASBC, and/or UCO. Purchases of \$1 million or more are reviewed and approved by the ASBC Director and VP of Administrative Services. All USF construction expenditures are subject to the standard USF purchase order process. As a result, purchases of \$1 million or more must also be approved by the Chief Financial Officer.

Similar to changes in funding sources, construction expenditures and change orders have additional approval requirements which are formally communicated in USF System Policy 0-100, Delegations of General Authority and Signatory Authority.

Key controls present include:

- ✓ Capital projects expenditures must be incurred using the FAST requisition/purchase order process and are subject to the same controls over other university expenditures.
- ✓ Expenditures that exceed \$1 million or change orders that exceed either \$1 million or 10% of the approved expenditure amount, whichever is less, requires approval by the BOT Finance Committee Chair.
- ✓ Expenditures equal to or greater than \$2 million requires approval by the BOT Finance Committee.
- ✓ Additional approvals by the USFFC Executive Director and USFFC Accounting Manager are required for expenditures on all bond financed construction projects.
- ✓ Auxiliary, E&G, E&G CF, and other departmental funds remain in the original source with the assigned Project ID and are not transferred to Fund 50000. This permits tracking of expenditures by funding source and transparency over the use of these funds outside of FM, ASBC, and UCO.

### *Approval of Construction Payments*

For capital projects managed by ASBC, the ASBC FBS receives the invoice and reviews for accuracy and consistency with the approved purchase order then forwards the invoice to the PM for review and approval. Once the PM has returned the approved the invoice, the ASBC FBS receives the goods or services in FAST and submits the invoice to UCO-Accounts Payable (UCO-AP) for processing.



Capital projects invoices are entered into FAST by UCO-AP and are subject to the same controls as other expenditure payments.

Key controls present include:

- ✓ There is adequate separation of duties between the authorization and receiving functions.
- ✓ Capital projects expenditure payments must be processed using the FAST accounts payable processes and are subject to the same controls over other university expenditures.

#### Monitoring and Oversight of Construction Expenditures

ASBC Fiscal & Business Analyst (FBA) reconciles project expenditures on a monthly basis for all major projects and active minor projects using a standard template, the ASBC Construction Budget Tracking/Project Reconciliation (BTS). USFH COM-BO, USFSP, USFSM, and USFHRE are responsible for reconciling projects they manage. The BTS includes a summary of funding by source, tracking of encumbrances and expenditures by source, and tracking by activity ID for the project as a whole. Planning and design costs and furniture, fixture, and equipment are tracked separately.

ASBC follows up with PMs on discrepancies that are identified during the reconciliation process. Completed reconciliations are reviewed and approved in DocuSign by the FM-PM and the ASBC Budgets and Financial Services Manager.

Either ASBC or designees at USFSP, USFSM, USFH, or USFHRE are responsible for completing a final reconciliation for the project which assesses all transactions for completeness and accuracy and ensuring that all expenses are posted and encumbrances cleared.

Beginning in October 2018, the COM-BO FBS began using the same process for reconciliation as ASBC, except that reconciliations are being performed on a quarterly basis. Prior to October 2018, a master project worksheet was used to track all project expenditures but a formal, independently reviewed reconciliation was not being performed on a project basis until the project was complete. The final project reconciliation is independently reviewed by the USFH PM and USFH OFM Assistant Director.

For those project expenditures utilizing departmental funding, the accountable officer over that fund is also responsible for ensuring a reconciliation is performed monthly.

Key controls present include:

- ✓ The BTS form, used by ASBC to monitor projects and document reconciliations, contains a summary of funding by source.
- ✓ A final project reconciliation is prepared and independently approved.

#### Project Closeout

A construction project is considered complete when substantial completion is attained and the space is ready for occupancy for major projects or a punch list exists detailing the remaining work to be

completed for minor projects. The PM notifies ASBC or designee that the project is complete so that the closeout process can begin. For major projects, the closeout process can take as little as 90 days or as long as a year depending on the project size and complexity. Minor projects are generally closed in less than 90 days.

ASBC utilizes a Closeout Memorandum which acts as a checklist to ensure that key closeout steps are performed by ASBC and/or UCO-CA. ASBC is responsible for ensuring that confirmation of project completion is received from the PM and that a final reconciliation has been performed. UCO-CA ensures all revenue is received and determines if the project expenditures should be capitalized. UCO-CA inactivates the FAST project once all closing steps are complete.

Key controls present include:

- ✓ Either ASBC or designees at USFSP, USFSM, USFH, or USFHRE are responsible for completing a final reconciliation.
- ✓ A Closeout Memorandum ensures all closeout steps are performed by ASBC and UCO-CA.

## **SCOPE AND OBJECTIVES**

The purpose of this review was to provide the BOT with an objective assessment of whether current construction accounting controls are adequately designed to ensure:

- Funding sources for all construction projects (both major and minor) are reviewed and approved in advance for allowability and reasonableness.
- BOT and BOG approved construction projects are being funded from the same funding sources that were presented to the BOT and BOG.
- Changes in funding sources are reviewed and approved by the BOT and/or BOG, when required.
- Budgets are established for all construction projects.
- All construction project expenditures are posted to the correct funding sources.
- Budget to actual construction project expenditures are tracked and monitored throughout the life of the project.
- At the end of each project, all expenditures are timely reviewed and reconciled during a closeout process.

Our audit included a risk assessment and an internal controls evaluation of the administrative and financial controls environment in place over major and minor construction project accounting as of January 1, 2019.

Our audit scope did not include:

- Services provided by the FM-DC, which include in-house design and engineering services, major and minor construction and engineering project management, and project reporting.
- Minor building repairs and maintenance performed by FM Operations Department that were tracked solely within their separate work order management system and which did not result in establishment of unique construction projects in FAST.

- Minor building repairs and maintenance performed by USF Tampa Housing and Residential Education using auxiliary funds which are not tracked in FAST PC.
- Administrative and financial control procedures performed by central administrative units such as Purchasing, Accounts Payable, Travel, and the Office of the Treasurer.
- Financial control procedures performed by decentralized units when the construction expenditures were directly charged to departmental funds or when no FAST PC Project ID was utilized.
- Controls performed directly by the USF Foundation related to the management of donations and pledges related to construction projects.

In conducting our review, we followed a disciplined, systematic approach using the *International Standards for the Professional Practice of Internal Auditing*. The COSO (Committee of Sponsoring Organizations of the Treadway Commission) control framework was used to assess control structure effectiveness.

## CONCLUSION

Based on the review, Audit concluded that current procedures in place are adequate, assuming corrective actions are taken timely to address the seven medium-priority risks included in this report at [Appendix B](#). These risks were related to clarification of BOG guidance on allowable uses of E&G funds for construction projects; tracking of construction project financial transactions in the Financial Accounting SysTem (FAST); tracking of construction project costs by category; monitoring authorization of expenditure transfers occurring on construction projects; monitoring of expenditures outside the Construction Fund; formal communication of roles and responsibilities for construction projects accounting; and improving controls over projects being managed by USF Health Operations & Facilities Management.

## PRIOR AUDIT PROJECTS

Additionally, Audit performed an audit of the administrative and financial control environment related to construction project accounting as part of the Audit 2016-17 Work Plan (Audit 17-013, issued June 5, 2017). Our audit focused on the administrative and financial control environment over major and minor construction projects accounting during the period of October 1, 2016, through January 31, 2017. Based on the review, Audit concluded there was an adequate system of internal controls in place, assuming corrective actions are taken timely to address the five medium-priority risks. Audit made seven recommendations to strengthen the control environment and all seven had been implemented as of October 10, 2017.

Audit performed an audit of controls over the delegation of authority for contractual services. The project was included in the Audit 2017-18 Work Plan (Audit 18-036, issued November 15, 2018). The focus of this audit was the adequacy of the control structure over the centralized contractual services procedures followed by the UCO's Department of Procurement Services – Purchasing that ensures contracts are executed by authorized university personnel during the period July 1, 2017 through March 31, 2018. Audit's overall conclusion was that there was an adequate system of internal controls in place, assuming corrective actions were taken timely to address the five medium-

priority risks. Audit made 9 recommendations to strengthen the control environment and all 9 have been implemented as of the date of this report.

## APPENDIX B

MEDIUM PRIORITY RISKS	STATUS
<p><b>1. Further guidance was needed regarding the allowable uses of Education &amp; General (E&amp;G) funds on construction projects.</b></p> <p>Before it was repealed in 2003, Florida Statute 240.272 Carryforward of Unexpended Funds listed specific types of expenditures that were allowable from a university's carryforward fund balance, including expenditures "for major equipment purchases; for scientific, technical, or other equipment;" and expenditures "for minor repairs, renovations, or maintenance;" or "for major studies or planning processes."</p> <p>Presently, <a href="#">Florida Board of Governors (BOG) Regulation 9.007, State University Operating Budgets</a> governs the use of E&amp;G funds. It is less specific providing only that, "Unless otherwise expressed by law, E&amp;G funds are to be used for E&amp;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."</p> <p>BOG Regulation 9.007 further provides that, "Any unexpended E&amp;G appropriation carried forward to the fund balance in a new fiscal year shall be utilized in support of E&amp;G operating activities only except where expressly allowed by law."</p> <p>A <a href="#">Report of Investigation</a> that was recently prepared by Bryan Cave Leighton Paisner LLP, and presented to the University of Central Florida Board of Trustees, provided interpretations of BOG Regulation 9.007 which would allow for "repair" and "renovation" expenditures not specifically mentioned in BOG Regulation 9.007. Per this report dated January 17, 2019:</p> <p>"E&amp;G funds cannot be used to construct new facilities, although E&amp;G can be used for <b>repair</b> and maintenance of existing facilities. According to the BOG staff, E&amp;G funds may be used on <b>renovations</b> and repairs, but only up to a limit of \$2 million. There is no regulation that explicitly sets forth this limit." (Page 12, paragraph 3.)</p> <p>While expenditures for architectural and engineering (A&amp;E) design services and furniture, fixture, and equipment (FF&amp;E) have been considered as allowable from E&amp;G funds for newly constructed or renovated facilities, they were not addressed in BOG Regulation 9.007. Additionally, as noted in 19-034 Report 2: Construction Project Funding Certification, USF relied on similar BOG staff guidance in authorizing use of E&amp;G funds on capital projects.</p> <p>Given the present lack of regulatory clarity, there was an increased likelihood of misunderstandings occurring that might lead to non-compliance.</p>	Not Started

MEDIUM PRIORITY RISKS	STATUS
<p><b>Recommendation:</b> The university should seek formal written clarification from the BOG as to exactly what types of E&amp;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.</p> <p><b>Management Attention Required:</b>    <input type="checkbox"/> Immediate    <input checked="" type="checkbox"/> Urgent    <input type="checkbox"/> Timely</p> <p><b>Resources/Effort Required:</b>            <input type="checkbox"/> Significant    <input checked="" type="checkbox"/> Moderate    <input type="checkbox"/> Minimal</p>	
<p><b>2. Financial Accounting SysTem (FAST) functionality was not being utilized to associate related projects in the project costing module.</b></p> <p>The FAST Project Costing (PC) module is used to track, analyze, and report on actual and planned construction project costs.</p> <p>At USF, Project IDs are manually created and consisted of a series of numbers and letters denoting the project funding source, type, appropriation year, etc. The first letter of the Project (“P”) denotes the project is a construction project. If a single construction project had multiple funding sources, as was often the case, a separate Project ID would be created for each separate funding source.</p> <p>Within the PC module, a single “parent” project can be hierarchically related to multiple sub-projects in order to achieve the necessary degree of cost tracking and analysis; however, the university had not enabled this functionality for FAST. As a result, the FAST PC module was unable to link all of the separate Project IDs that might collectively make up an individual construction project. The FAST PC module was therefore unable to holistically track and report on all of a project’s budget, revenue, and expense transactions. Consolidated project financial reports (Budget Tracking Sheets) had to instead be assembled outside the system using lists of Project IDs, and these lists were not being consistently maintained.</p> <p>The lack of system-based tracking and reporting capabilities limited management’s ability to monitor overall fiscal activities on a project, thereby increasing the risk that unallowable transactions might occur and remain undetected.</p> <p><b>Recommendation:</b> The university should implement a means of identifying and tracking all of a construction project’s financial transactions within FAST.</p>	Not Started

MEDIUM PRIORITY RISKS	STATUS
<p><b>Management Attention Required:</b>    <input type="checkbox"/> Immediate    <input checked="" type="checkbox"/> Urgent    <input type="checkbox"/> Timely</p> <p><b>Resources/Effort Required:</b>        <input type="checkbox"/> Significant    <input checked="" type="checkbox"/> Moderate    <input type="checkbox"/> Minimal</p>	
<p><b>3. Tracking of costs by Activity ID and fund needs to be improved.</b></p> <p>The FAST PC module allows costs to be categorized by the activity type using Activity IDs. The purpose of the Activity ID is to permit tracking of construction projects by budget area or phase (planning and design, construction, direct purchase orders, furniture and fixtures, etc.). USF has established nine different Activity IDs.</p> <p>A construction project's total budget would be broken down by Activity ID both on the Facilities Management Project Development Form and when the budget was subsequently loaded in FAST. When a purchase requisition is initiated, the FAST procurement module checks to see if a Project ID is included in the chartfield to be charged for the expenditures. If a Project ID is located, FAST requires an Activity ID be selected. In this manner, budget to actual project costs could be tracked within the individual Activity ID categories.</p> <p>The use of the Activity ID also assists with monitoring the allowability of costs using E&amp;G funds. Two of the nine Activity IDs represented types of non-construction expenditures which are generally considered allowable from E&amp;G funds, namely A&amp;E fees and furniture and fixtures.</p> <p>Audit identified the following issues with tracking of costs by Activity ID:</p> <ul style="list-style-type: none"> <li>• Actual costs were primarily being tracked against a project's total available budget, not against the Activity ID budgets.</li> <li>• Activity ID budgets proved unreliable as they were not being adjusted to reflect any increases in funding that might occur.</li> <li>• Construction Manager invoices were being coded to the Activity ID for construction ("CM") when the costs paid related to another Activity ID, such as furniture and fixtures.</li> <li>• Direct purchase orders (DOPOs) related to Construction Manager contracts were being coded to the Activity ID "DOPO" when the costs paid related to another Activity ID, such as furniture and fixtures.</li> </ul> <p>Additionally, Audit determined there were no monitoring procedures in place to ensure that only allowable types of construction expenditures were charged directly to E&amp;G funds (Funds 10000-12009).</p>	Not Started

MEDIUM PRIORITY RISKS	STATUS
<p>Because construction costs were not being effectively tracked by category, there was an increased risk that certain types of expenditures would exceed allowable amounts, and/or be paid from unallowable funding sources.</p> <p><b>Recommendation:</b> The university should develop and implement procedures for budget to actual tracking of all construction costs by both Activity ID and funding source.</p> <p><b>Management Attention Required:</b>    <input type="checkbox"/> Immediate    <input checked="" type="checkbox"/> Urgent    <input type="checkbox"/> Timely</p> <p><b>Resources/Effort Required:</b>        <input type="checkbox"/> Significant    <input checked="" type="checkbox"/> Moderate    <input type="checkbox"/> Minimal</p>	
<p><b>4. Monitoring authorization of expenditure transfers, subject to USF System Policy 0-100, needs to be improved.</b></p> <p>Since April 2017, <a href="#">USF System Policy 0-100, Delegations of General Authority and Signatory Authority</a>, has required that Board of Trustees (BOT) approvals be obtained for goods and services procurement contracts above \$1 million (BOT Finance Committee Chair), or \$2 million (BOT Finance Committee). BOT approvals were also required for change orders or changes in project funding, if in excess of \$1 million or 10% of the previously approved expenditure amount.</p> <p>Besides goods and services procurement contracts, expenditures can also be moved on or off of a construction project, after the fact, by way of an expenditure transfer request directed to the University Controller's Office (UCO). While BOT approvals were being obtained for the initial expenditures, BOT approvals were not being sought whenever the amounts transferred exceeded the thresholds established in USF System Policy 0-100.</p> <p>As a result, there was an increased risk that BOT-approved expenditures could later be moved onto a different funding source from which they would no longer be allowable.</p> <p><b>Recommendation:</b> The university should ensure all expenditure transfers are subject to BOT approvals consistent with the intent of USF System Policy 0-100.</p> <p><b>Management Attention Required:</b>    <input type="checkbox"/> Immediate    <input checked="" type="checkbox"/> Urgent    <input type="checkbox"/> Timely</p> <p><b>Resources/Effort Required:</b>        <input type="checkbox"/> Significant    <input type="checkbox"/> Moderate    <input checked="" type="checkbox"/> Minimal</p>	Not Started



MEDIUM PRIORITY RISKS	STATUS
<p><b>5. Monitoring of expenditures outside of the Construction Fund should be performed to ensure a Project ID is associated with all construction expenditures.</b></p> <p>Each project within FAST PC is assigned a unique Project ID which becomes a part of the FAST chartfield string when transactions (budget, revenue, and expenditures) are entered into FAST. The Project ID can be associated with expenditures charged to any fund type, not just the Construction Fund.</p> <p>For example, if a specific FAST PC Project ID is entered as part of the chartfield string when a purchase requisition is initiated, FAST associates that corresponding purchase with the identified construction project. If a requisition initiator does not include the FAST PC Project ID, the expenditures will not be associated with the construction project even if the charge is related.</p> <p>Audit's review of the ASBC Budget Tracking Sheets (BTS) identified instances where expenditures were directly charged to an auxiliary, E&amp;G, or other departmental sources, without a FAST PC Project ID being associated with the charges.</p> <p>Because construction costs were not being effectively tracked using Project IDs, there was an increased risk that certain types of expenditures would exceed allowable amounts, and/or be paid from unallowable funding sources.</p> <p><b>Recommendation: 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.</b></p> <p><b>Management Attention Required:</b>    <input type="checkbox"/> Immediate    <input checked="" type="checkbox"/> Urgent    <input type="checkbox"/> Timely</p> <p><b>Resources/Effort Required:</b>        <input type="checkbox"/> Significant    <input checked="" type="checkbox"/> Moderate    <input type="checkbox"/> Minimal</p>	Not Started
<p><b>6. There was no formal communication of roles and responsibilities for construction projects accounting among the various decentralized facilities units.</b></p> <p>Key construction accounting processes must be managed as end-to-end processes rather than as a collection of common tasks performed by various entities. USF Health, USF St. Petersburg, USF Sarasota-Manatee, and USF Tampa Housing and Residential Education each have their own facilities departments which oversee construction projects at those locations, including some aspects of project fiscal administration. Staff in these departments were responsible for inputting requisitions, approving requisitions, receiving goods</p>	Not Started

MEDIUM PRIORITY RISKS	STATUS
<p>and services in FAST, reviewing and approving invoices, and performing account reconciliations and project closeout procedures. Among these units, the procedures performed for reconciling and closing out project accounts would vary as to form and frequency, and there was no centralized monitoring to ensure financial controls were being consistently applied for all construction projects system-wide. Without a means of ensuring key control activities were being consistently applied, there was an increased risk that unallowable transactions would occur and remain undetected.</p> <p><b>Recommendation: The university should establish a consistent control structure for construction accounting activities throughout the USF System.</b></p> <p><b>Management Attention Required:</b>    <input type="checkbox"/> Immediate    <input checked="" type="checkbox"/> Urgent    <input type="checkbox"/> Timely</p> <p><b>Resources/Effort Required:</b>        <input type="checkbox"/> Significant    <input checked="" type="checkbox"/> Moderate    <input type="checkbox"/> Minimal</p>	
<p><b>7. Financial controls over projects being managed by USF Health (USFH) Operations &amp; Facilities Management needs to be improved.</b></p> <p>While reviewing the administrative and financial controls in place for USFH projects other than new construction, Audit identified the following deficiencies:</p> <ul style="list-style-type: none"> <li>• College of Medicine Business Office (COM-BO) Fiscal and Business Specialist (FBS) had not received specific training in construction accounting.</li> <li>• The COM-BO does not utilize Activity IDs to track construction expenditure by type. FBS coded all activities as construction, unless it is known specifically that furniture is being purchased.</li> <li>• USFH allows PCards (USF Purchasing Card) to be utilized for smaller construction costs. There is no monitoring to ensure these expenses were associated with a FAST PC Project ID.</li> <li>• COM-BO does not review requisitions to ensure a FAST PC Project ID has been included. Even when a charge is identified without the Project ID, no correction is made in FAST.</li> <li>• Prior to October 2018, reconciliations by project, which included all funding sources, were not being performed until the project was completed.</li> <li>• Project closeout was not being requested on a timely basis.</li> </ul> <p>As a result of these deficiencies, there was an increased risk that unallowable transactions would occur and remain undetected.</p>	Not Started

MEDIUM PRIORITY RISKS	STATUS
<p><b>Recommendation:</b> The university should enhance the COM-BO construction accounting control structure, or else transfer USFH construction accounting functions to ASBC.</p> <p><b>Management Attention Required:</b>    <input type="checkbox"/> Immediate    <input checked="" type="checkbox"/> Urgent    <input type="checkbox"/> Timely</p> <p><b>Resources/Effort Required:</b>        <input type="checkbox"/> Significant    <input checked="" type="checkbox"/> Moderate    <input type="checkbox"/> Minimal</p>	