

MINUTES  
BOARD OF GOVERNORS  
STATE UNIVERSITY SYSTEM OF FLORIDA  
AUDIT AND COMPLIANCE COMMITTEE MEETING  
UNIVERSITY OF SOUTH FLORIDA  
TAMPA, FL  
June 13, 2019

*Video or audio archives of the meetings of the Board of Governors  
and its Committees are accessible at <http://www.flbog.edu/>.*

Chair Tim Cerio convened the meeting of the Audit and Compliance Committee on June 13, 2019, at 8:34 a.m., in the Marshall Student Center Ballroom on the campus of the University of South Florida in Tampa, Florida. The following Audit and Compliance Committee members were present: Tim Cerio, H. Wayne Huizenga Jr., Patricia Frost (phone), Alan M. Levine, Ed A. Morton, Eric Silagy, and Kent Stermon. The following members of the Board were also present: Shawn Felton, Zenani D. Johnson, Sydney Kitson, Brian Lamb, Ned C. Lautenbach, Steven Scott, and Norman D. Tripp.

1. Call to Order

Mr. Cerio called the meeting to order.

2. Approval of Minutes

Mr. Morton motioned that the Committee approve the minutes of the Audit and Compliance Committee meeting held March 28, 2019, as presented. Mr. Huizenga seconded the motion. The minutes were approved.

3. OIGC Risk Assessment and Audit Work Plan 2019-2020

Ms. Leftheris presented the Committee with the draft *Office of Inspector General and Director of Compliance 2019-2020 Work Plan*, which is required to be developed and presented annually for the Board's consideration and approval.

Ms. Leftheris explained the work plan is risk-based to provide the most effective coverage of Board office operations and Office of the Inspector General and Director of Compliance (OIGC) System responsibilities. It will guide OIGC staff activities for the upcoming fiscal year and contains two planned audit projects. The first is a compliance audit of Take Stock in Children funding, and the second is an operational audit of the academic approval process with the Board of Governors. The OIGC intends to continue outreach to promote itself as a resource to report abuse, fraud, and waste within the

universities as recommended by the Florida House of Representatives Public Ethics and Integrity Committee. The OIGC is also seeking accreditation for its investigative function from the Florida Commission on Law Enforcement Accreditation.

Mr. Huizenga motioned to approve the work plan, and Mr. Levine seconded it. The Committee approved the OIGC's 2019-2020 Annual Work Plan and moved it to the full Board of Governors for their approval consideration.

#### 4. UCF E&G Funds Misuse Investigative Report Update

Mr. Cerio provided the background on the continued investigation into the University of Central Florida's (UCF) misuse of Education and General (E&G) Funds. He stated that during the January 31<sup>st</sup> Committee meeting, Committee members approved a second investigation into the university's use and/or transfer of E&G funds for capital projects beyond that of the Trevor Colbourn Hall construction project. Mr. Cerio noted that this investigation is in progress and being conducted by the law firm, Bryan Leighton Cave Paisner (BCLP) with oversight by Board of Governors' Inspector General, Julie Leftheris. Ms. Leftheris introduced BCLP's lead investigator, Joey Burby, so that he could provide an update on the investigation.

Mr. Burby noted that BCLP is being assisted by the firm PricewaterhouseCoopers (PwC) in the investigation. He cautioned that the information he was reporting was preliminary and subject to change. Mr. Burby expressed that there has been significant progress since the previous Committee meeting because UCF staff have provided substantial amounts of both financial data and internal correspondence. He said that BCLP has begun reviewing this documentation and commended UCF for their cooperation. Mr. Burby explained that witness interviews had begun and that over 25 interviews had been conducted to date. He noted that, however, the people with the most knowledge regarding the subject matter of the investigation were uncooperative by either ignoring or declining BCLP's request for interviews. These included former staff members: former President John Hitt, former President and Provost Dale Whittaker, former Provost Tony Waldrop, former CFO Bill Merck, former Associate Vice President for Finance Tracy Clark, and former Associate Vice President for Facilities and Safety Lee Kernek. He explained that this lack of cooperation could prevent the investigators from fully finding out how the capital projects under investigation came to be improperly funded.

Mr. Burby noted that he expected to have his report completed before the next Committee meeting in August. He explained that he consulted with Ms. Leftheris and Chris Kinsley, the Board of Governors Assistant Vice Chancellor for Finance and Facilities, to create the methodology for the investigation. The methodology involved an analysis of all fund transfers of any type to any UCF construction project during the

period under review. Cumulative transfers totaling two million dollars or more was the threshold to determine in-scope capital projects.

In referring to the table of “Preliminary Findings: List of Projects in Scope” (provided in the meeting materials), Mr. Burby explained that eleven capital projects were determined to be in scope; five completed, and six still in progress. Mr. Burby explained that the amount of E&G dollars spent and when those dollars were spent was still being determined, and would be included in BCLP’s final report. Seven of the projects involved new construction as opposed to renovation projects. Mr. Burby noted that the Global UCF project was not initially identified as in scope, but after considering the improperly distributed investment earnings from E&G funds to the project, it became in scope. Mr. Burby noted that the Heating and Power Plant project used an internal loan of E&G funds that was intended to be paid back from future “energy” savings according to a memorandum of understanding signed by former CFO Bill Merck and Interim Provost Diane Chase in 2014. He explained that this matter is still being investigated.

Mr. Burby explained that regarding the eleven capital projects, there was approximately 61.3 million dollars in E&G funds transferred. He noted that these were almost all carryforward funds and that some transfers seemed to be timed so that UCF did not have to report them to the Board. Mr. Burby explained that including Trevor Colbourn Hall, approximately 100 million dollars in E&G funds were improperly transferred to capital projects. He said that BCLP is reviewing documentation and conducting interviews to determine how the use of E&G funds was determined, who made these determinations, and why. BCLP is also seeking to determine if E&G funds were replaced or returned with the appropriate funds.

When asked, Mr. Burby explained that without the ability to compel former staff members to interview, the full depth of the misuse would be difficult to determine. Committee members discussed the Board’s authority over this situation and discussed seeking subpoena authority in the future.

In response to the discussion, Mr. Burby noted that UCF’s Board of Trustees’ members were being cooperative and supportive. He reiterated that he expects the BCLP report will be completed before the August Committee meeting.

5. USF Report of Findings, Review into Use of Carryforward Funds in the Construction of the Dr. Kiran C. Patel Center for Global Solutions (Patel Center)

Ms. Leftheris introduced USF’s Board of Trustees Audit and Compliance Committee Chair, Nancy Watkins, and USF’s Chief Audit Executive, Virginia Kalil, to provide an

update on the review into the use of carryforward funds for the construction of the Patel Center. Ms. Leftheris noted that Ms. Kalil conducted the review under Ms. Watkins' oversight.

Ms. Watkins presented the review findings and explained the three reports were released. The first report was conducted to confirm the Patel Center's misallocation of funds. This report revealed that approximately 5.7 million dollars of E&G funds were transferred for the Patel Center project. Ms. Watkins noted that due to the projects' age and the lack of contact with employees who had worked on them, they relied on empirical rather than anecdotal evidence. Ms. Watkins noted that the accounting system from the period the Patel Center was built has been replaced and explained that this misuse of funds occurred due to lack of checks and balances between departments. She noted that this lack of internal control has been corrected. Ms. Watkins explained that the funds have been repaid and that there was no evidence of intentional misuse or personal or private inurement from the misuse of funds.

Ms. Watkins explained that the second report reviewed all capital projects. She noted that there were 51 capital projects; 30 of those were in scope. She explained that the auditing department validated the funding source for all 51 projects.

The third report reviewed the current procedures and internal controls in place at USF as a preventative measure. Ms. Watkins noted that the report deemed the controls adequate and that there will be follow-up on seven medium risk items (listed in Appendix B). When asked, Ms. Kalil explained that all corrective actions have begun and should be completed within three to six months. Mr. Lamb and other Committee members encouraged USF to complete their corrective actions before the August Committee meeting.

6. Florida Agricultural and Mechanical University Intercollegiate Athletics Cash Deficit

Ms. Leftheris provided a history of the OIGC's monitoring activities regarding the athletics program cash deficit. She introduced FAMU's Board of Trustees Chair, Kelvin Lawson, to update the Committee.

Mr. Lawson explained that FAMU's Vice President of Audit, Joe Maleszewski, was also in attendance to answer Committee members' questions. Mr. Cerio noted the presentation provided by Mr. Lawson and Mr. Maleszewski had been updated and was not the same version as the one in the meeting materials. Mr. Lawson explained that the presentation was changed to reflect the most recent events that occurred regarding the athletics cash deficit.

Mr. Lawson provided a background of the athletics cash deficit. He noted that FAMU was in the midst of a 12-year repayment plan, which began in September 2016, to repay seven million dollars to their auxiliary programs. The corrective action plan includes a three-year review process. Every month for the first year, Chair Lawson, President Robinson, the university's CFO, and the university's athletics director met internally to review the athletics program budget. Then they met with Board of Governors staff to review it with them.

Year two of the corrective action plan requires a less aggressive review process, but they still meet with Board of Governors staff, which now includes Mr. Cerio as the Audit and Compliance Committee Chair. Additionally, the plan requires the CFO and the President to approve any transfers from auxiliaries to athletics should there be a reason to do so.

Mr. Lawson explained that the control of the athletics budget was removed from the athletics department to the financial leadership team. He noted that the overall athletics budget is 10 million dollars and that there is currently a \$313,000 gap between the plan's budget and the plan's incoming revenue. He explained FAMU's four-part plan to close the gap. They are still pursuing their athletics fund-raising tour; they are continuing the Investing in Champions campaign; they are working with the Boosters to generate additional revenue; and they are collecting on outstanding debts such as royalty payments, Investing in Champions commitments, and outstanding sponsorships. The goal is to zero-out the budget at the end of the academic year.

Regarding the internal audit staff's recent discovery of unauthorized funding sources still being used to cover the athletics cash deficit, Mr. Lawson explained that this is unrelated to the recent news about FAMU's NCAA penalties. He said that corrective actions related to the former include the resignation of FAMU's CFO and the replacement of positions from the CFO to the budget officer. He noted that there were additional safeguards put into PeopleSoft, the university's accounting system, and that FAMU is hiring an outside firm to perform an extensive audit. He estimated that 1.5 to 3 million dollars of auxiliary funds have been misused for this purpose. Although they had a good plan in place, as he had described earlier, that required the CFO and President to sign off on any transfers from auxiliary operations to athletics, Mr. Lawson said the funds were transferred without obtaining the required signatures. President Larry Robinson stated that he did not why the approvals did not follow the established procedures.

Mr. Maleszewski explained that the external firm they select to conduct additional audit or investigative work will have the final report completed by August 1<sup>st</sup>. He noted that this practice could have been happening since the first year the corrective plan was put into place and added they have put a notification system in place so that he will be automatically notified of any auxiliary funds transfers. Mr. Stermon stated that this

occurrence was unacceptable. Mr. Lawson concurred with Mr. Stermon's statement and noted that leadership is taking swift corrective action.

7. OIGC Updates

Due to time constraints, Mr. Cerio asked Ms. Leftheris to provide her report regarding OIGC updates at the next Audit and Compliance Committee meeting in August.

8. Concluding Remarks and Adjournment

Mr. Cerio asked Board members if anyone had any questions or comments. Hearing none, the Audit and Compliance Committee was adjourned at 9:45 a.m.

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Timothy Cerio, Chair

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Lori Clark, Compliance and Audit Specialist