



AUDITOR GENERAL

DAVID W. MARTIN, CPA



UNIVERSITY OF CENTRAL FLORIDA

Operational Audit

SUMMARY

Our operational audit for the fiscal year ended June 30, 2007, disclosed the following:

Finding No. 1: The University assessed an administrative service charge for certain international students without specific legal authority to do so.

Finding No. 2: The University's office supply store, Office Plus, extended credit to nongovernmental entities, contrary to Article VII, Section 10 of the Florida Constitution.

Finding No. 3: The University's controls over parking permit collections needed improvement, including the development of written procedures for Parking Services employees.

Finding No. 4: The University overpaid an employee by a total of approximately \$100,000 due to the failure to enforce the specialized terms of the employee's written compensation agreement.

Finding No. 5: The University's competitive procurement threshold exceeded the limit established by the Board of Governors.

Finding No. 6: Travel reimbursement vouchers for travelers who received travel advances were not always submitted in a timely manner.

Finding No. 7: The University paid taxes on cell phone services for which it was exempt.

Finding No. 8: The University needed to improve its procedures for determining insurable values for buildings, and the University's written insurance policies and procedures did not

address the level of insurance coverage to be maintained or the method to be used to determine insurable values.

Finding No. 9: Noncompliance with grant requirements caused delays in receiving Federal grant funds, which resulted in the University forgoing interest earnings.

Finding No. 10: The University made \$7.4 million of loans to the UCF Athletics Association, Inc., a University direct-support organization, without specific legal authority to do so.

Finding No. 11: The University transferred approximately \$13 million of student athletic fees to UCF Athletics Association, Inc., contrary to Section 1009.24, Florida Statutes.

Finding No. 12: The University transferred \$2 million of State matching funds received under the 21st Century World Class Scholars Program to the University of Central Florida Foundation, Inc., without specific legal authority to do.

Finding No. 13: Several University Board of Trustees members and employees did not timely file their 2006 calendar year statement of financial interests with the Florida Commission on Ethics.

BACKGROUND

The University is a separate public instrumentality that is part of the State university system of public universities. The University Board of Trustees (Trustees) consists of 13 members. The Governor appoints 6 citizen members and the Board of Governors appoints 5 citizen members. These members are confirmed by the Florida Senate and

serve staggered terms of five years. The faculty senate chair and student body president also are members. Trustees who served during the audit period are listed in Appendix A of this report.

The Board of Governors establishes the powers and duties of the Trustees. The Trustees are responsible for setting policies for the University, which provides governance in accordance with State law and Board of Governors' Regulations. The Trustees select the University President and the State Board of Education ratifies the candidate selected. The University President serves as the executive officer and the corporate secretary of the Trustees and is responsible for administering the policies prescribed by the Trustees for the University.

The President of the University during the audit period was Dr. John C. Hitt.

The results of our financial audit of the University for the fiscal year ended June 30, 2007, will be presented in a separate report.

An examination of expenditures of Federal awards administered by the University under contract and grant agreements to finance specific programs and projects is included in our Statewide audit of Federal awards administered by the State of Florida. The results of that audit, for the fiscal year ended June 30, 2007, will be presented in a separate report.

maintaining information on international students and exchange visitors in the United States. SEVIS is administered by the Student and Exchange Visitor Program, U.S. Immigration and Customs Enforcement, Department of Homeland Security. The reporting of this information is required by Title 8, Section 1372, United States Code. Since inception through June 30, 2007, the University had collected \$185,250 related to this fee assessment.

The University may only assess fees and charges as specifically authorized by law, and there exists no specific legal authority authorizing the University to assess the above-noted administrative charge. In response to a similar finding in audit report No. 2006-052, the University President indicated that the service charge was assessed pursuant to Section 1009.24, Florida Statutes, and subsequently authorized by the Board of Governors and, therefore, is authorized pursuant to Article IX, Section 7 of the Florida Constitution. However, neither Section 1009.24, Florida Statutes, nor Article IX, Section 7 of the Florida Constitution, specifically provide for this service charge, nor does specific authority exist granting the Board of Governors the power to approve such a charge.

Recommendation: The University should ensure that students are only assessed fees and charges that are clearly authorized by law.

FINDINGS AND RECOMMENDATIONS

Finding No. 1: International Students Service Charge

On September 23, 2004, the University Board of Trustees approved the establishment of a service charge to be paid by certain international students. Effective for the Fall 2005 term, the University began assessing F-Visa and J-Visa degree seeking students \$50 per semester to cover University administrative costs incurred in connection with reporting certain information to the Student and Exchange Visitor Information System (SEVIS), a web-based system for

Follow-up to Management Response

The President, in response to this finding, indicated that the service charge was assessed pursuant to Section 1009.24(13)(m), Florida Statutes, and we were subsequently provided information indicating that the University had used revenues generated from the fees to cover administrative costs incurred in connection with reporting information to SEVIS. However, it is not apparent how a fee assessed on a per semester basis could equate to the actual administrative costs incurred for each particular student.

The President, in response to this finding, also stated that the service charge was subsequently authorized by the Board of

Governors and, therefore, is now authorized pursuant to Article IX, Section 7 of the Florida Constitution. However, Article IX, Section 7 of the Florida Constitution, does not specifically provide for this service charge, nor has the Board of Governors adopted a Rule approving such a charge as required by Section 1001.706(1)(b), Florida Statutes.

Finding No. 2: Office Supply Store Collections

The University's office supply store, Office Plus, was established as an auxiliary operation to provide office supplies primarily to University departments and students. Office Plus maintains a limited inventory of goods for resale and utilizes a private office supply vendor as its primary supplier. The Office Plus website includes a link to the vendor's on-line catalog and a request form for access to use the on-line catalog. Office Plus then provides the customer with an ID and password. When orders are placed via the on-line catalog, the goods are delivered to the requesting department and Office Plus is billed. Office Plus makes payment to the vendor then bills the requesting department. Sales during the 2006-07 fiscal year totaled approximately \$1.6 million.

Our review of Office Plus collections disclosed that nongovernmental entities¹ had placed orders with the vendor via the Office Plus website. Office Plus paid the vendor, then billed these entities. We obtained a receivables report from University personnel as of June 25, 2007, that listed credit sales of approximately \$50,400 to nongovernmental entities during the 2006-07 fiscal year. Of this amount, approximately \$16,100 remained outstanding, some as much as 353 days old, on June 25, 2007. The extension of credit to nongovernmental entities is contrary to Article VII, Section 10 of the Florida Constitution, which prohibits governmental entities (including universities) from extending credit to any corporation, association, partnership, or person.

¹ Nongovernmental entities included food and management vendors that operated on campus and several University direct-support organizations.

Recommendation: The University should discontinue the practice of extending credit to nongovernmental entities purchasing supplies from the Office Plus store.

Follow-up to Management Response

The President, in response to this finding, cited authorities that involve the sale of real property on an installment basis with a first mortgage being retained and impact fees or taxes being collected on an installment basis. As noted in AGO 82-58, cited by the University, such credit sales are appropriate only if "no additional obligation is placed upon the city and there is no assumption by the city, either directly or indirectly, to pay a debt of a third party nor any public property is placed in jeopardy by the default of such party." See also AGO 90-41.

The President, in response to this finding, also indicated that billing nongovernment entities for supplies purchased is similar to billing students for tuition and fees. Section 1009.27, Florida Statutes, authorizes the University to defer student tuition and fees, and provides for measures to be taken if the University is unable to collect the deferred fees; however, no such statutory authority exists regarding extension of credit to nongovernmental entities. The University's extension of credit to nongovernmental entities for supplies purchased from its office supply store would result in a loss of University funds if the credit sales to nongovernment entities resulted in a default. Therefore, such installment sales are inappropriate and contrary to Article VII, Section 10 of the Florida Constitution.

Finding No. 3: Parking Permit Collections

Section 1009.24(13)(p), Florida Statutes, authorizes universities to sell parking permits to its faculty, staff, and students. According to University records, parking permit sales totaled approximately \$3.5 million for the 2006-07 fiscal year. Prior to acquiring parking permits, vehicles must be registered on-line through the University's Parking Services Department (Parking Services) permit ordering system, whereby permits may be purchased using a credit card. Permits may also be obtained in-person at the Parking Service's office with a credit card, cash, or check. As similarly noted in our audit report No. 2006-052, our

review of the University’s controls over parking permit sales disclosed that such controls needed improvement, as follows:

- Written procedures had not been developed to document the specific functions and duties required to be performed by Parking Services employees.
- Although parking permits are prenumbered and each cashier is allocated an allotment of permits, a log is not maintained documenting the allocation of permits to the respective cashiers to fix responsibility for the permits issued.
- Procedures were not performed to account for parking permits sold, voided, and on-hand. Permits sold were not individually documented in the daily collection records and were not reconciled to the prior day’s sales or inventory on hand to ensure proper accountability for parking permit fee collections and the actual permits.
- Transfer documents were not used to evidence the transfer of responsibility of collections from cashiers to supervisors. Without proper transfer documents, responsibility for collections cannot be fixed to one individual should a loss occur.

Recommendation: The University should develop and implement written procedures for Parking Services employees. Such procedures should require that all parking permits sold, voided, and on hand be accounted for in a timely manner, and all transfers of collections be evidenced by signed transfer documents.

Finding No. 4: Employee Compensation

Our test of employee compensation disclosed overpayments to an employee. The employee’s compensation agreement stipulated that the employee, for a specified time period during which the employee was engaged in outside employment, would receive

only 30 percent of his normal pay. However, during the 2007 calendar year the employee was paid 100 percent of his salary during this time period, resulting in salary overpayments totaling approximately \$12,500 for 283 hours.

According to University personnel, the overpayments occurred due to oversight, but the situation had been corrected. Subsequently, the employee repaid the University for the overpayments related to this time period; however, University personnel determined that approximately \$87,700 was owed by the employee for similar salary overpayments related to calendar years 2001 through 2006. In accordance with University policy, a repayment schedule has been established whereby the employee is to repay the amount owed over a time period similar to that during which the overpayments occurred. The repayment schedule provides for monthly payments of \$609.08, the last payment being due in March 2013. However, the University did not document the repayment arrangement in a formal written agreement signed by the employee. Such an agreement, which should address the employee’s obligation should he terminate employment with the University prior to the last scheduled payment date, would enhance the University’s ability to collect the amount owed.

Recommendation: The University should strengthen procedures to prevent overpayments of this nature in the future, and should document the repayment arrangement in a formal written agreement.

Finding No. 5: Competitive Procurement

Pursuant to Section 1001.74, Florida Statutes, each university board of trustees may adopt rules to exercise its powers, duties, and authority as granted by law. However, such rules must be consistent with State Board of Education Rules adopted by the Board

of Governors² (referred to as the Board of Governors Regulations).

As similarly noted in our report No. 2006-052, University of Central Florida Regulation 6C7-7.130 requires that purchases of commodities or services in excess of \$50,000 be awarded pursuant to competitive solicitation. However, during the 2006-07 fiscal year, this Regulation was in conflict with Board of Governors Regulation 6C-18.045, which provided for a competitive solicitation threshold of \$25,000.

According to BOG staff, they are in the process of developing proposed regulations setting the competitive solicitation bid threshold at no lower than \$50,000, and plan to present them for BOG approval.

Recommendation: The University should ensure that its procurement policies are consistent with Board of Governors Regulations.

Finding No. 6: Travel Reimbursements

Pursuant to the University's Travel Manual, a traveler receiving an advance is required to properly complete and submit a voucher for reimbursement of travel expenses, including the portion relating to the travel advance, within ten working days of the traveler's return to headquarters. In addition, if advanced funds are in excess of the actual reimbursement due the traveler, the excess must be reimbursed to the University within ten working days.

Our test of 30 travel reimbursement vouchers disclosed 15 such vouchers, related to travel advances totaling \$35,249, that were not submitted within the ten-day requirement. These vouchers were submitted from 13 to 81 days late. A similar finding was noted in our report No. 2006-052. When travelers do not timely complete travel reimbursement vouchers, the University has limited assurance that all travel costs

² Pursuant to Section 1000.01(5)(a)2., Florida Statutes, all rules of the former Board of Regents became State Board of Education rules. Such rules were adopted by the Board of Governors by resolution on January 7, 2003.

have been recorded or advances in excess of costs returned, if applicable.

Recommendation: The University should enhance its procedures to ensure the timely filing of travel reimbursement vouchers.

Finding No. 7: Cellular Telephones

The University provided cellular telephones (cell phones) to many of its employees for use in performing their duties. According to University records, approximately 830 cell phones were assigned to University employees at the time of our review in March 2007. Expenses for cell phone usage totaled approximately \$460,000 for the 2006-07 fiscal year.

Although the University is exempt from certain Federal, State, and local taxes on telephone services, it was billed for, and in some instances paid, such taxes on cell phone billings during the 2006-07 fiscal year.

Recommendation: The University should request that cell phone service providers remove exempt taxes from the University's bills, and seek credit for exempt taxes previously paid.

Finding No. 8: Insurance Coverage

The University obtains insurance coverage for buildings and inventoried equipment through the Florida Department of Financial Services, Division of Risk Management (Division). The Division annually provides universities with certificates of coverage, and the universities are responsible for notifying the Division of needed changes to insurable values shown on the certificates of coverage. Premiums are primarily based on the total insurable value of all university buildings and other property shown on the insurance certificate.

The Division has developed a valuation method that includes a matrix of cost factors used to arrive at the actual cash value (ACV) of the building. A university may use the Division's valuation method, or an

alternative method, to determine the insurable value. If a university elects to show on the insurance certificate an insurable value that is lower than the ACV, in the event of a loss, the university would be covered up to that amount, rather than the ACV. However, according to Division personnel, the ACV is the maximum coverage provided by the Division. Therefore, a university's insurable value, as shown on the insurance certificate, should not exceed the ACV because to do so would result in the university paying additional premiums without receiving coverage beyond the ACV. Universities may opt to purchase additional commercial insurance coverage in excess of the ACV.

As of June 30, 2007, the University owned 146 buildings costing approximately \$590 million. Our analysis of insurance coverage obtained for fiscal year 2006-07 for 29 University buildings disclosed the following:

- For 18 of the 29 buildings, the insurable building value was significantly less than the replacement value. It is unclear as to whether the level of coverage for these buildings was consistent with the University's insurance philosophy as the University's written policies and procedures did not address the level of insurance coverage to be maintained or the method to be used to determine insurable values.
- For 2 of the remaining 11 buildings, the insurable building value was more than the ACV. The excess amounts were \$1.9 million and \$1.6 million, respectively. In these instances, the University paid higher premiums than it would have had it used the ACV, but without benefit of additional insurance coverage.

In response to a similar finding in our report No. 2006-052, the University's President indicated that an insurance and risk management firm had been hired to review the University's insured building values and

had determined that five buildings analyzed were underinsured by an average of 31 percent. The President further indicated that the firm was going to develop a procedure whereby University personnel would review the insured values of new and existing University buildings. However, in response to our request for documentation evidencing implementation of such procedures, we were advised that currently new buildings are being analyzed for proper coverage, and that other alternatives for valuation and coverage are being examined.

Recommendation: The University should continue its efforts to modify its written insurance policies and procedures to address the level of insurance coverage to be maintained for its buildings and equipment, and to clarify whether the Division's method, or an alternative method, is to be used to determine insurable values. The University should also ensure that insurable values included on the certificate of coverage do not exceed the ACV. In addition, the University should conduct a thorough analysis of its building and equipment insurance to ensure that current coverage is commensurate with the University's established level of risk of loss.

Finding No. 9: Grant Administration

In October 2004, the University was awarded a \$1.5 million grant from the United States Department of Commerce (Department) to partially fund the construction of an expansion for the School of Optics. According to grant requirements, prior to the solicitation of bids for construction of the project, the University was to furnish the Department with an acceptable engineering certificate showing all lands, rights-of-way and easements necessary for construction of the project along with an acceptable certificate of title on said lands, rights-of-way, and easements, showing good and merchantable title free of mortgages or other foreclosable liens.

In July 2005, the University entered into an agreement with a construction manager to oversee the project with a guaranteed maximum price of approximately

\$4.7 million. Previously, the University had submitted documentation to the Department that was presumed to satisfy the grant requirements for an engineering certificate and certificate of title. However, the University did not, prior to entering into the construction manager agreement, obtain written confirmation of this from the Department. By October 27, 2006, the University had charged \$1.5 million to the grant account; however, due to a dispute with the Department over the engineering certificate and certificate of title, the University was unable to obtain reimbursement at that time.

In March 2007, the University provided the Department with the final engineering certificate and certificate of title and submitted a request for reimbursement of 90 percent of the \$1.5 million grant award (10 percent was to be withheld pending completion of the project). The University received \$1,350,000 on April 9, 2007, 306 days after University funds were initially expended for grant-related costs. As a result, the University had to forgo interest that could have been earned on the \$1,350,000 had the University been able to more timely obtain reimbursement for the project expenses.

Recommendation: The University should ensure that grant requirements are properly complied with prior to committing to the acquisition of goods or services related to grant-funded projects.

Finding No. 10: Loans to a Direct-Support Organization

During the period June 1, 2004, through January 4, 2007, the University issued nine promissory notes to the UCF Athletics Association, Inc. (Association), a University direct-support organization organized to promote intercollegiate athletics to benefit the University and surrounding communities. Funds loaned were from University auxiliary overhead accounts and were provided to the Association to fund shortfalls in operating costs. Only two of the loans had been approved by the University President

and none of the loans were approved by the Board of Trustees. As of June 30, 2007, loans totaling \$7,473,000 had been issued with interest accruals totaling \$476,511.

In response to our inquiry regarding the University's authority to make such loans, University personnel indicated that these loans are characterized as internal loans made to a direct-support organization from auxiliary enterprise funds and, therefore, a "permissible action." A separate response from the University's general counsel indicated that authority for the loans could be implied from Section 1001.75(8), Florida Statutes (2006), which provides that a university president shall administer the university's program of intercollegiate athletics; Section 1001.74, Florida Statutes (2006), which describes the general powers and duties of a university board of trustees; and Section 1004.28(1)(a)2., Florida Statutes, which states that a direct-support organization is organized and operated exclusively to receive, hold, and invest and administer property and make expenditures to and for the benefit of a university. The general counsel's response further stated that "Since its sole function is to act for the benefit of the university, a DSO (direct-support organization) inherently has the ability to accept loans from the university to perform that function."

None of the statutes cited in the general counsel's response specifically provide the University the authority to make loans to other entities. Universities possess only such authority as conferred by law, either expressly or by necessary implication. Absent specific statutory authority, the University is prohibited from making loans to the Association. Moreover, Section 1004.25(1)(a)2., Florida Statutes, serves to highlight that direct-support organizations are intended to work to benefit the University, and not operate as a liability to the University by borrowing money from it.

Recommendation: The University should cease the practice of lending public funds to its direct-support organization. Also, the University should seek to collect the outstanding amount owed by the Association and replenish University accounts.

Follow-up to Management Response

The President, in response to this finding, indicated that the authority to make a loan to a direct-support organization can be implied from statutes and that no regulatory or statutory prohibition to making the loans was found. However, the point of our finding is that the University, as an entity created by statute, possesses only the authority granted to it by statute and the authority to take action necessarily implied by its statutory authority. We are unaware of any statutory authority for the University to make loans to a direct-support organization or any such implied authority for such action. The President indicates in his response that the University has ceased to initiate new loans.

Finding No. 11: Transfers to a Direct-Support Organization

Pursuant to Section 1009.24³, Florida Statutes, the University assessed students an athletic fee as a component part of tuition and fees. This statute requires that the University retain the fees, and pay the fees into a separate fund for athletics. Previously, these fees were used to fund the University's Athletic Department; however, effective July 1, 2003, the Department incorporated as the UCF Athletics Association, Inc. (Association).

According to University records, during the 2006-07 fiscal year, the University collected and deposited into University accounts approximately \$13 million of student athletic fees, which were subsequently transferred to the Association. Since the 2003-04 fiscal year, approximately \$49 million in student athletic fees have been transferred from the University to the Association to fund its operations.

³ See Section 1009.24(8), Florida Statutes (2006), which was subsequently renumbered as Section 1009.24(9), Florida Statutes.

The University has no specific legal authority to transfer student fee collections to the Association. Although Section 1009.24(9), Florida Statutes, authorizes universities to transfer athletic fees to a university direct-support organization, such transfers may only be made for the purpose of paying and securing debt on capital outlay projects approved pursuant to Section 1010.62, Florida Statutes, and in accordance with a written agreement approved by the Board of Governors. The transfers made to the Association were not for the purpose prescribed by Section 1009.24(9), Florida Statutes, and we are aware of no other statutory authority that authorizes the transfer of university athletic fees to a direct-support organization.

The University entered into an intercollegiate athletics services agreement with the Association, effective for the period July 1, 2005, through June 30, 2010, which defines the manner in which the student athletic fees collected by the University are to be remitted to the Association. Under the agreement, the University provides a reporting to the Association of the amount of fees collected, the Association invoices the University for that amount, and the University transfers funding to the Association based on such invoices. However, the University did not have procedures to monitor and control the specific uses of the student athletic fees collected prior to disbursement. Without such procedures, the University cannot be assured that the funds transferred to the Association are expended in accordance with University procurement guidelines, and cannot demonstrate that it has retained such fees as required by Section 1009.24, Florida Statutes.

Similar findings were noted in our report Nos. 2006-052 and 2007-177.

Recommendation: The University should retain the student athletic fees in a separate University account, as required by law, and expend the funds based on properly approved and supported invoices from the Association.

Finding No. 12: 21st Century World Class Scholars Program

Section 1004.226(5), Florida Statutes, establishes the 21st Century World Class Scholars Program, whereby the State may provide matching funds to universities to assist in the recruitment of scholars to help develop the State's capabilities in science and high-technology research. To be eligible for the matching funds, a university must raise a minimum of \$1 million. Upon verification by the Board of Governors (BOG) that a university has met the criteria, the BOG releases matching funds to the university to be expended according to a BOG-approved expenditure plan.

During the 2006-07 fiscal year, the University received two separate allocations of \$1 million under this program for a total of \$2 million in State matching funds. Upon receipt and deposit into University accounts, the University transferred the State matching funds to the University of Central Florida Foundation, Inc. (Foundation), a University direct-support organization organized pursuant to Section 1004.28, Florida Statutes, to provide charitable and educational aid to the University. In accordance with the respective BOG-approved expenditure plans, the State matching funds transferred to the Foundation were placed into endowments, interest earnings from which were to provide recurring support for the scholars being recruited by the University.

Section 1004.226(5), Florida Statutes, does not specifically authorize the University to transfer State matching funds received under this program to another entity, nor are we aware of any law providing the University specific legal authority to transfer such funds to a direct-support organization (see previous discussion in finding No. 11).

Recommendation: The University should retain the State matching funds in University accounts.

Follow-up to Management Response

The President, in response to this finding, indicated that the funds were transferred to the UCF Foundation based on the proposal submitted to (and approved by) the BOG and the Foundation's status as an agent for the administration and oversight of all endowments. Regardless of the BOG's approval and the Foundation's role, however, we are unaware of any specific statutory authority that would permit the University to transfer these funds to the Foundation.

Finding No. 13: Statement of Financial Interests

Pursuant to Section 112.3145(2)(b), Florida Statutes, each State officer and specified State employee must file a statement of financial interests no later than July 1 of each year with the Florida Commission on Ethics. State officer, as defined in Section 112.3145(1), Florida Statutes, includes members of the University's Board of Trustees (Board). Section 112.3145(1), Florida Statutes, in defining specified State employees does not make specific mention of university employees; however, the Florida Commission on Ethics considers State university employees to be subject to the requirements of Section 112.3145, Florida Statutes.

Our review of the Florida Commission on Ethics' online records disclosed that four University Board members and nine University employees did not file their 2006 calendar year statement of financial interests by the July 1, 2007, due date. Subsequent to our inquiry, the Board members and employees filed the 2006 calendar year statements with the Florida Commission on Ethics (the statements were filed from 10 to 66 days after the July 1, 2007, due date).

Recommendation: The University should ensure that Board members and employees are advised of the statement of financial interests filing requirements, and ensure that they timely file the statements with the Florida Commission on Ethics.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of this operational audit were to obtain an understanding and make overall judgments as to whether University internal controls promoted and encouraged compliance with applicable laws, rules, regulations, contracts, and grant agreements; the economic and efficient operation of the University; the reliability of financial records and reports; and the safeguarding of assets. Specifically, we reviewed internal controls and administration of accounting records, budgetary controls, construction projects, revenues and receivables, purchasing processes, selected expenditures and contractual arrangements, and human resources and employee compensation for the fiscal year ended June 30, 2007.

This audit was conducted in accordance with applicable Generally Accepted Government Auditing Standards.

PRIOR AUDIT FINDINGS

As part of our current audit, we determined that the University had taken corrective actions for findings included in our report No. 2006-052, except as noted in finding Nos. 1, 3, 5, 6, 8, and 11 of this report.

AUTHORITY

Pursuant to the provisions of Section 11.45, Florida Statutes, I have directed that this report be prepared to present the results of our operational audit.



David W. Martin, CPA
Auditor General

MANAGEMENT RESPONSE

The University's response is included as Appendix B of this report.

This audit was coordinated by Jeffrey M. Brizendine, CPA, and supervised by Brenda C. Racis, CPA. Please address inquiries regarding this report to Ted J. Sauerbeck, CPA, Audit Manager, via e-mail at tedsauerbeck@aud.state.fl.us or by telephone at (850) 487-4468.

This report and other audit reports prepared by the Auditor General, can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 487-9024; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

APPENDIX A
UNIVERSITY OF CENTRAL FLORIDA'S BOARD OF TRUSTEES

Members of the University's Board of Trustees who served during the 2006-07 fiscal year are listed below:

Board Member

Richard Walsh, Chair from 1-18-07

Thomas Yochum, Vice-Chair

Richard Nunis, Chair to 1-17-07

Judith Albertson

Olga Calvet

Manoj Chopra (1)

Patrick Christiansen

Alan S. Florez

Brandie Hollinger from 5-08-07 (2)

Phyllis Klock

Harris Rosen

Conrad Santiago

Al Weiss

Mark White to 5-07-07 (2)

Notes: (1) Faculty senate chair.

(2) Student body president.

APPENDIX B
MANAGEMENT RESPONSE



Office of the President

February 21, 2008

David Martin
Auditor General
State of Florida
G74 Claude Pepper Building
111 W. Madison Street
Tallahassee, FL 32399-1450

Dear Mr. Martin:

Enclosed with this letter are UCF's responses to the preliminary and tentative findings of the UCF operational audit.

If you have any questions about the audit responses, please contact Amy Voelker, Director of University Audit, at 407-823-2889.

Cordially yours,


John C. Hitt
President

JCH/ab

c: Amy Voelker

University of Central Florida
Operational Audit
For the Fiscal Year Ended June 30, 2007

Preliminary and Tentative Audit Findings,
Recommendations, and Responses

International Students Service Charge

Finding No. 1: The University assessed an administrative service charge for certain international students without specific legal authority to do so.

Recommendation: The University should ensure that students are only assessed fees and charges that are clearly authorized by law.

Response: The fee assessed by the university was to reimburse the university for expenses related to duplicating, photocopying, binding, and microfilming services and therefore was properly assessed pursuant to Section 1009.24(m), Florida Statutes.

Subsequent to the university's implementation of this fee, the Florida Board of Governors authorized the universities to assess an international service fee and therefore that fee is now authorized pursuant to Article IX, Section 7 of the Florida Constitution.

Office Supply Store Collections

Finding No. 2: The University's office supply store, Office Plus, extended credit to nongovernmental entities, contrary to Article VII, Section 10 of the Florida Constitution.

Recommendation: The University should discontinue the practice of extending credit to nongovernmental entities purchasing supplies from the Office Plus store.

Response: Article VII, Section 10 of the Florida Constitution prohibits the PLEDGING of credit by a state agency for the benefit of a private party. It does not prohibit the EXTENSION of credit. Otherwise, the university would not be able to bill for services it provides. Rather, it would have to receive cash in advance for services. This is not a valid interpretation of this constitutional provision. In *Nobrr V. Brevard County Educational Facilities Authority*, 247 So. 2d. 304 (Fla. 1971), the Supreme Court of Florida stated that: "The word 'credit' as used in Fla. Const., art. VII, s 10 (1968), implies the imposition of some new financial liability upon the State or a political subdivision which in effect results in the creation of a State or political subdivision debt for the benefit of a private enterprise. In order to have a gift, loan or use of public credit, the public must be either directly or contingently liable to pay something to somebody."

In the case of Office Plus, the university is billing vendors for supplies, much in the same way it bills students for tuition and fees. The university is not directly or contingently liable to pay something to somebody and is therefore not pledging the credit of the state. See also Attorney General Opinions 82-58, 90-16, and 82-42, which provide additional support for this position.

Parking Permit Collections

Finding No. 3: The University's controls over parking permit collections needed improvement, including the development of written procedures for Parking Services employees.

**University of Central Florida
Operational Audit
For the Fiscal Year Ended June 30, 2007**

**Preliminary and Tentative Audit Findings,
Recommendations, and Responses**

Recommendation: The University should develop and implement written procedures for Parking Services employees. Such procedures should require that all parking permits sold, voided, and on hand be accounted for in a timely manner, and all transfers of collections be evidenced by signed transfer documents.

Response: We are in the process of updating our procedures to ensure appropriate controls are in place.

Implementation Date: April 15, 2008

Employee Compensation

Finding No. 4: The University overpaid an employee by a total of approximately \$100,000 due to the failure to enforce the specialized terms of the employee's written compensation agreement.

Recommendation: The University should strengthen procedures to prevent overpayments of this nature in the future, and should document the repayment arrangement in a formal written agreement.

Response: Responsibility for accurate employee payroll payments is delegated to each department. Payroll will remind departments to carefully process payroll, giving special consideration to any employees with unique compensation agreements.

Payroll will advise departments and employees of overpayment repayment terms via e-mail and require an employee response with their acceptance of repayment terms.

Failure to comply with repayment terms will result in repayment amounts being turned over to the university cashier's office for collection and, if repayment is not forthcoming, the debt will be turned over to a collection agency for action. In repayment circumstances, it is desirable to begin receiving repayments as early as possible. Requiring a signed repayment agreement would slow the process in that it would require legal review by Human Resources and also by the employee. The repayment usually occurs while the employee continues his/her employment. However, if the employee should leave our employ, UCF will place all remaining obligations and repayment plans in writing.

Implementation Date: March 1, 2008

Competitive Procurement

Finding No. 5: The University's competitive procurement threshold exceeded the limit established by the Board of Governors

Recommendation: The University should ensure that its procurement policies are consistent with Board of Governors Regulations.

Response: In January 2008, the Board of Governors approved a \$75,000 threshold for competitive procurement. That newly proposed regulation is currently being advertised.

Implementation Date: July 1, 2008

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Travel Reimbursements

Finding No. 6: Travel reimbursement vouchers for travelers who received travel advances were not always submitted in a timely manner.

Recommendation: The University should enhance its procedures to ensure the timely filing of travel reimbursement vouchers.

Response: The university's Travel department has undergone an internal review and is working to streamline operating procedures and policies, including re-writing the travel manual to make it more concise.

The following process is now used to follow-up on travel purchase orders that remain open past the travel end date:

- 1) Travel accountants monitor open POs and copy travelers on e-mails advising departmental support staff when the travel end date has passed and the reimbursement voucher is not submitted timely.
- 2) If no response is received within a reasonable time, the traveler's immediate supervisor will be copied on the second request.
- 3) If a response is still not received, a third request for the reimbursement voucher is sent with a copy to the dean, director, or chair of the department.

We believe the following will ensure timely filing of travel reimbursement vouchers:

- a) having regularly scheduled reviews by Travel staff of their open POs;
- b) using more efficient Travel department policies and procedures; and,
- c) sending increasingly escalated e-mails to request travel reimbursement vouchers.

Implementation Date: February 1, 2008

Cellular Telephones

Finding No. 7: The University paid taxes on cell phone services for which it was exempt.

Recommendation: The University should request that cell phone service providers remove exempt taxes from the University's bills, and seek credit for exempt taxes previously paid.

Response: There are two types of cell phone contracts at UCF: 1) contracts in the name of the university, and, 2) contracts in the name of an individual using the phone for university business. When the contract is in the name of the university, vendors payable processors are instructed to contact the cell phone companies directly when an invoice contains charges for Florida sales tax, federal excise tax, state communications tax, or local communications tax and ask the company to cease charges in the future.

When the contract is in the name of an individual, the companies will not remove the tax charges because the contract was not set-up as a corporate contract.

Vendors payable processors have been using one of the following payment practices:

- a) pay invoices net of exempt tax charges, or
- b) contact the vendor and request credit for the amount of the tax on a future invoice, and then pay the full amount of the invoice. Effective immediately, all processors have been instructed to strike any exempt

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tax charges from the cellular phone service provider's invoice and pay an amount net of exempt taxes. We believe that the amount of un-credited taxes previously paid are minimal and will review invoices for any material amounts (\$10 or greater per cell phone) that remain unreimbursed to seek credit on a future invoice.

As of January 1, 2008, the university has a new cell phone policy, which provides for a cell phone allowance for reimbursement of business-related cell phone costs to be added to the staff member's W-2 as additional compensation. This policy also provides for a transition period during which the university will continue to pay for individual contracts that have a cancellation fee until termination of the existing contract. Under this policy, all charges and record keeping become the responsibility of the cell phone holder.

Implementation Date: February 18, 2008

Insurance Coverage

Finding No. 8: The University needed to improve its procedures for determining insurable values for buildings, and the University's written insurance policies and procedures did not address the level of insurance coverage to be maintained or the method to be used to determine insurable values.

Recommendation: The University should continue its efforts to modify its written insurance policies and procedures to address the level of insurance coverage to be maintained for its buildings and equipment, and to clarify whether the Division's method, or an alternative method, is to be used to determine insurable values. The University should also ensure that insurable values included on the certificate of coverage do not exceed the ACV. In addition, the University should conduct a thorough analysis of its building and equipment insurance to ensure that current coverage is commensurate with the University's established level of risk of loss.

Response: UCF is in the process of updating the insurance values for submission to the Department of Financial Services for the 2008/2009 fiscal year. We are currently evaluating various methods of valuation and will weigh the advantages and disadvantages of each and decide which one will best suit the needs of the university.

With the current accounting system of tagging all equipment valued at \$1,000 or greater it appears that the content values are accurately represented using the current method of valuation as recommended by DFS. Content valuation will not change.

If UCF chooses to maintain the current method of building valuations they will be valued at the ACV level as recommended by DFS. The other methods would give higher insured values; therefore have levels of coverage above the ACV. In these cases we may have to consider purchasing gap insurance, which would cover the values above the ACV.

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An analysis of the buildings and contents is currently being done. A plan will be written describing the valuation method of the buildings and contents and will state the university's risk philosophy as it relates to the insured values that we carry.

Implementation Date: December 31, 2008

Grant Administration

Finding No. 9: Noncompliance with grant requirements caused delays in receiving Federal grant funds, which resulted in the University forgoing interest earnings.

Recommendation: The University should ensure that grant requirements are properly complied with prior to committing to the acquisition of goods or services related to grant-funded projects.

Response: In the future, the university will ensure compliance with all requirements on grant funded projects.

Implementation Date: February 1, 2008

Loans to a Direct-Support Organization

Finding No. 10: The University made \$7.4 million of loans to the UCF Athletics Association, Inc., a University direct-support organization, without specific legal authority to do so.

Recommendation: The University should cease the practice of lending public funds to its direct-support organization. Also, the University should seek to collect the outstanding amount owed by the Association and replenish University accounts.

Response: The Auditor General's finding was confusing as it said universities had such authority as conferred by law, either directly or by necessary implication but then said that the university is prohibited from making loans to direct support organizations absent direct statutory authority. In any event, the authority of the university to make loans to its direct support organizations can be implied from the statutes cited in the first paragraph of the finding. The DSO did not mandate that the university issue the loans in question. Rather, the university initiated the loans from its auxiliary fund balances as a way to help the intercollegiate athletics program increase its quality and competitiveness. The fact that it is now a direct support organization, as opposed to the auxiliary enterprise it was several years ago, was considered and concluded to be an immaterial distinction for the purpose of loans, and no regulatory or statutory prohibition to making the loans was found. The university has requested an updated plan of repayment from the Association and has ceased to initiate new loans. Each of the loans continues to accrue interest in favor of the university.

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Transfers to a Direct-Support Organization

Finding No. 11: The University transferred approximately \$13 million of student athletic fees to UCF Athletics Association, Inc., contrary to Section 1009.24, Florida Statutes.

Recommendation: The University should retain the student athletic fees in a separate University account, as required by law, and expend the funds based on properly approved and supported invoices from the Association.

Response: Student athletic fees are no longer transferred to the UCF Athletics Association, rather, they are retained at the university and funds disbursed through Finance and Accounting as recommended.

Implementation Date: October 1, 2007

21st Century World Class Scholars Program

Finding No. 12: The University transferred \$2 million of State matching funds received under the 21st Century World Class Scholars Program to the University of Central Florida Foundation, Inc., without specific legal authority to do.

Recommendation: The University should retain the State matching funds in University accounts.

Response: The university requested 21st Century World Class Scholars funds to endow two chairs: Electrical Engineering and Computer Science and Laser Medicine.

The proposals submitted for these funds clearly stated that they were to be used to hire eminent scholars and their budgets included a line item for an endowment equal to or greater than the amount of the 21st Century Match.

The UCF Foundation is the university's agent for administration and oversight of all endowments; therefore, these funds were transferred to them.

Statement of Financial Interests

Finding No. 13: Several University Board of Trustees members and employees did not timely file their 2006 calendar year statement of financial interests with the Florida Commission on Ethics.

Recommendation: The University should ensure that Board members and employees are advised of the statement of financial interests filing requirements, and ensure that they timely file the statements with the Florida Commission on Ethics.

Response: It is our opinion that there is no need for any additional responses or actions to be taken in regards to this finding. The university has been going above and beyond the requirements as outlined by the

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Commission on Ethics to update our agency's information directly on the Commission on Ethics website by the required January 31 deadline. The university is not accountable to ensure that each of its employees files a timely response. However, we do take our notification responsibilities seriously and notify our employees of their personal obligations and penalties under the statute. We have no way of knowing who has filed and when they filed unless we are notified by the Commission on Ethics.

We have outlined below the process used at UCF.

- Each year the university receives a memorandum from the State of Florida Commission on Ethics, which states, "Each year the Commission on Ethics requests your help to compile the mailing list of public officials and employees required to file financial disclosures." Using this list, our office mails out financial disclosure forms and asks these persons to file financial disclosure by July 1.
- As a courtesy to our officers and employees, the UCF coordinator sends out an e-mail to advise the filers they will be receiving a letter prior to the Commission's memorandum.
- In 2008, an additional "proactive" measure was initiated by President Hitt. A memo was sent from his office to each UCF officer and employee required to file a statement. The memo included the applicable statute and the penalties for late filing.
- A third reminder is issued if the President's Office gets a reminder letter from the Commission indicating that some of our people have not filed. They are contacted by the senior executive assistant to the president. An e-mail is sent letting them know they need to file and/or pay the fine if they do not meet the deadline.