

STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

Report No. 2023-190
May 2023

UNIVERSITY OF FLORIDA



Sherrill F. Norman, CPA
Auditor General

Board of Trustees and President

During the period January through December 2021, Dr. W. Kent Fuchs served as President of the University of Florida and the following individuals served as Members of the Board of Trustees:

Morteza "Mori" Hosseini, Chair	Leonard H. Johnson through 1-6-21
Thomas G. Kuntz, Vice Chair	Daniel T. O'Keefe
Dr. David C. Bloom from 6-1-21 ^a	Rahul Patel
David L. Brandon	Trevor J. Pope through 4-20-21 ^b
Cooper L. Brown from 4-21-21 ^b	Marsha D. Powers
Richard P. Cole	Fred S. Ridley from 1-27-21 ^c
Christopher T. Corr from 1-7-21	Dr. Jason Rosenberg through 1-6-21
Sylvain Doré through 5-31-21 ^a	Anita G. Zucker
James W. Heavener	

^a Faculty Senate Chair.

^b Student Body President.

^c Trustee position vacant from 1-1-21, through 1-26-21.

The team leader was Michelle N. Williams, and the audit was supervised by Denita K. Tyre CPA.

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

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UNIVERSITY OF FLORIDA

SUMMARY

This operational audit of the University of Florida focused on selected University processes and administrative activities and included a follow-up on findings noted in our report No. 2020-135. Our operational audit disclosed the following:

Finding 1: University records did not always demonstrate that the University properly contracted for minor construction projects or monitored the projects to ensure required bids were obtained for trade packages exceeding \$75,000.

BACKGROUND

The University of Florida is part of the State university system of public universities, which is under the general direction and control of the Florida Board of Governors (BOG). The University is directly governed by a Board of Trustees (Trustees) consisting of 13 members. The Governor appoints 6 citizen members and the BOG appoints 5 citizen members. These members are confirmed by the Florida Senate and serve staggered 5-year terms. The Faculty Senate Chair and Student Body President also are members.

The BOG establishes the powers and duties of the Trustees. The Trustees are responsible for setting University policies, which provide governance in accordance with State law and BOG Regulations. The University President is selected by the Trustees and confirmed by the BOG. 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.

FINDING AND RECOMMENDATION

Finding 1: Construction Projects

The University may, pursuant to State law,¹ enter into a guaranteed maximum price contract with a construction management entity (CME) to schedule and coordinate both the design and construction phases and to ensure the successful, timely, and economical completion of a construction project. University Project Management Guides require each builder to obtain at least three sealed bids, where competition is available and feasible, for trade packages² exceeding \$75,000 and require University personnel to document verification of the bid results.

Change orders provide an effective and common means to amend a construction contract for changes applicable to the contractor's scope of work. However, when changes in construction work fundamentally

¹ Section 1013.45(1)(c), Florida Statutes.

² Trade packages represent services provided by subcontractors.

alter the original construction contract, University and contractor responsibilities would be better established in a new contract rather than through use of change orders.

To evaluate University controls over construction expenses and compliance with applicable contracts and other requirements for the 88 minor construction projects with costs totaling \$12.8 million during the 2021 year, we selected 32 payments totaling \$1.6 million for 3 minor construction projects with costs totaling \$2.6 million, examined University records supporting the payments, and made inquiries of University personnel. These procedures disclosed the following sequence of events:

- In July 2020, pursuant to State law,³ the University contracted with a CME for annual continuing contract services in which construction costs would not exceed \$2 million.
- In October 2020, the University authorized the CME to proceed with the Weimer Hardening Project (Project) through execution of a GMP notice to proceed contract totaling \$47,697. University correspondence with the CME indicated that the initial scope of work would mainly include demolition of an existing building, the Project would consist of multiple phases, and additional GMP contracts would be prepared as required for each phase.
- From October 2020 through October 2022, the University approved several change orders for additional phases of the Project, which increased the construction costs to \$1 million. Two trade packages, authorized by the change orders, included heating, ventilation, and air conditioning (HVAC) services with costs totaling \$241,966 and electrical services with costs totaling \$230,623.

According to University personnel, the University approved the change orders to authorize the additional services and related costs as construction funding came available. However, it was not readily apparent why the University used change orders for these authorizations as the change orders did not directly correlate to the original GMP demolition contract.

University records included bids supporting the CME awards of trade packages for certain HVAC and electrical services with costs totaling \$108,238 and \$123,013, respectively. However, the CME continued to use the same subcontractors for additional HVAC and electrical services with costs totaling \$133,728 and \$107,610, respectively; and the University did not require, and the CME did not obtain, bids supporting those services and related costs.

In response to our inquiries, University personnel indicated that sealed bids were not required for all the HVAC and electrical services trade packages because the subcontractors were awarded contracts before costs for their services exceeded the \$75,000 threshold. Notwithstanding, since the subcontractor service costs ultimately exceeded \$75,000, and all services and related costs were not subjected to the required bid process, University records did not demonstrate compliance with University Project Management Guides or that the services were obtained at appropriate levels of quality and the lowest possible cost.

Recommendation: The University should enhance procedures to ensure that:

- **Rather than using change orders, new contracts are established when significant changes to the scope of construction projects fundamentally alter original construction contracts.**

³ Section 287.055(2)(g), Florida Statutes.

- **CMEs comply with University Project Management Guides by obtaining at least three sealed bids, where competition is available and feasible, for trade packages exceeding \$75,000, and University personnel document verification of the bid results.**

PRIOR AUDIT FOLLOW-UP

The University had taken corrective actions for findings included in our report No. 2020-135.

OBJECTIVES, SCOPE, AND METHODOLOGY

The Auditor General conducts operational audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

We conducted this operational audit from April 2022 through January 2023 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This operational audit focused on selected University processes and administrative activities.

For those areas, our objectives were to:

- Evaluate management's performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse, and in administering assigned responsibilities in accordance with applicable laws, rules, regulations, contracts, grant agreements, and other guidelines.
- Examine internal controls designed and placed in operation to promote and encourage the achievement of management's control objectives in the categories of compliance, economic and efficient operations, reliability of records and reports, and safeguarding of assets, and identify weaknesses in those controls.
- Determine whether management had taken corrective actions for findings included in our report No. 2020-135.
- Identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

This audit was designed to identify, for those areas included within the scope of the audit, weaknesses in management's internal controls significant to our audit objectives; instances of noncompliance with applicable laws, rules, regulations, contracts, grant agreements, and other guidelines; and instances of inefficient or ineffective operational policies, procedures, or practices. The focus of this audit was to identify problems so that they may be corrected in such a way as to improve government accountability and efficiency and the stewardship of management. Professional judgment has been used in determining significance and audit risk and in selecting the particular transactions, legal compliance matters, records, and controls considered.

As described in more detail below, for those programs, activities, and functions included within the scope of our audit, our audit work included, but was not limited to, communicating to management and those charged with governance the scope, objectives, timing, overall methodology, and reporting of our audit; obtaining an understanding of the program, activity, or function; identifying and evaluating internal controls significant to our audit objectives; exercising professional judgment in considering significance and audit risk in the design and execution of the research, interviews, tests, analyses, and other procedures included in the audit methodology; obtaining reasonable assurance of the overall sufficiency and appropriateness of the evidence gathered in support of our audit findings and conclusions; and reporting on the results of the audit as required by governing laws and auditing standards.

Our audit included the selection and examination of transactions and records, as well as events and conditions, occurring during the audit period of January 2021 through December 2021 and selected University actions taken prior and subsequent thereto. Unless otherwise indicated in this report, these records and transactions were not selected with the intent of statistically projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

An audit by its nature does not include a review of all records and actions of management, staff, and vendors and, as a consequence, cannot be relied upon to identify all instances of noncompliance, fraud, waste, abuse, or inefficiency.

In conducting our audit, we:

- Reviewed applicable laws, rules, University policies and procedures, and other guidelines, and interviewed University personnel to obtain an understanding of applicable processes and administrative activities and the related requirements.
- Inquired whether the University had any expenses or entered into any contracts under the authority granted by a declared state of emergency, declared or renewed during the audit period.
- Reviewed University information technology (IT) policies and procedures to determine whether the policies and procedures addressed certain important IT control functions, such as security access, systems development and maintenance, user authentication, and disaster recovery.
- From the population of six finance application roles assigned to 1,412 employees, we evaluated the propriety and necessity of access privileges assigned to 30 selected employees based on the employees' job duties and user account functions and whether incompatible duties were prevented.
- Evaluated University procedures that prohibit former employees' access to University IT data and resources. From the population of 7,748 employees who separated from University employment during the audit period, we examined the access privileges for 30 selected former employees to determine whether their access privileges had been timely deactivated.
- Evaluated University security policies and procedures effective during the audit period governing the classification, management, and protection of sensitive and confidential information.
- Evaluated the appropriateness of the University comprehensive IT disaster recovery plan effective during the audit period and determined whether it had been recently tested.
- Examined University records supporting student fees, including student orientation, admission deposits, late payment, and nonrefundable application fees, totaling \$3.6 million to determine whether the fees were authorized and properly assessed in compliance with Section 1009.24, Florida Statutes.

- Examined Board of Trustees (Trustees), committee, and advisory board minutes to determine whether Trustee approval was obtained for the University policies and procedures in effect during the audit period and for evidence of compliance with Sunshine Law requirements (i.e., proper notice of meetings, meetings readily accessible to the public, and properly maintained meeting minutes).
- Examined University records supporting the internal audit function to determine whether the University followed applicable professional standards. Specifically, we determined whether internal audit reports identified the audit objectives, methodology used, and auditor conclusions and recommendations (where applicable), and were subject to the peer review process and submitted to the Trustees.
- Examined University records to determine whether the University had developed an anti-fraud policy for the audit period to provide guidance to employees for communicating known or suspected fraud to appropriate individuals. Also, we examined University records to determine whether the University had implemented appropriate and sufficient procedures to comply with its anti-fraud policy.
- From a population of 190 educational departments within the University's 16 academic colleges, determined whether the textbooks for 30 educational departments with 3,746 course sections during the Fall 2021 Term complied with Section 1004.085, Florida Statutes.
- From the population of overtime and on-call payments totaling \$3.7 million made to 3,053 employees during the audit period, selected payments totaling \$10,989 made to 30 employees, and examined University records supporting the payments to determine whether the rate of pay was accurate and whether supervisory personnel reviewed and approved employee reports of time worked.
- From the population of bonus and additional compensation payments totaling \$20.5 million made to 5,806 University employees during the audit period, selected 33 payments totaling \$899,000 made to 29 employees and examined University records to determine whether bonuses complied with the requirements of Section 215.425, Florida Statutes, or were authorized pursuant to agreed-upon terms in personnel agreements.
- Examined University records supporting bonus payments totaling \$2.1 million to 2,838 employees during July and August 2022 to determine whether the University complied with the requirements of Section 1012.978, Florida Statutes.
- From the population of 71 employees who received severance pay totaling \$1.1 million during the audit period, examined University records supporting severance payments totaling \$268,000 to 22 selected employees to determine whether the severance payments complied with Section 215.425(4), Florida Statutes.
- Examined University records to determine whether selected expenses were reasonable; correctly recorded; adequately documented; for a valid University purpose; properly authorized and approved; and in compliance with applicable laws, rules, contract terms, and University policies; and whether applicable vendors were properly selected. Specifically, from the population of contractual services payments totaling \$235.7 million for the audit period, we examined University records supporting 30 selected payments totaling \$11.3 million.
- From the population of 720 purchasing card (P-card) holders who separated from University employment, examined records for 30 selected cardholders to determine whether the University timely canceled the cardholders' P-cards.
- From the population of 88 minor construction projects with costs totaling \$12.8 million during the audit period, selected 32 payments totaling \$1.6 million for 3 minor construction projects with costs totaling \$2.6 million and examined University records to evaluate University controls over construction expenses and compliance with applicable contracts and other requirements.

Specifically, we determined whether the University's process for selecting design professionals and construction managers complied with Section 287.055, Florida Statutes; the University adequately monitored the construction manager subcontractor selection process; the Trustees had adopted a policy establishing minimum insurance coverage requirements for design professionals; design professionals provided evidence of required insurance; and construction expenses and funding sources were appropriate.

- From the population of Public Education Capital Outlay and other restricted capital outlay expenses totaling \$172.1 million during the audit period examined records supporting 30 selected expenses totaling \$16 million to determine whether these funds were expended in compliance with the restrictions imposed on the use of these resources.
- Determined whether the University maintained a minimum carryforward balance of at least 7 percent of its State operating budget and prepared a spending plan for balances in excess of the 7 percent minimum balance as required by Section 1011.45, Florida Statutes.
- Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.
- Obtained the views of management concerning the conclusions in this report. Management's views are summarized under the heading **MANAGEMENT'S RESPONSE**.

AUTHORITY

Section 11.45, Florida Statutes, requires that the Auditor General conduct an operational audit of each University on a periodic basis. Pursuant to the provisions of Section 11.45, Florida Statutes, I have directed that this report be prepared to present the results of our operational audit.



Sherrill F. Norman, CPA
Auditor General

MANAGEMENT'S RESPONSE



Office of the Senior Vice President
and Chief Financial Officer

1 Tigert Hall
P O Box 113240
Gainesville, FL 32611-3240
352-392-2402 Telephone
352-846-3546 Fax

May 25, 2023

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

Dear Ms. Norman:

Attached is the response to the University of Florida's preliminary and tentative operational audit findings for the calendar year ended December 31, 2021.

Your staff's assistance is greatly appreciated.

Sincerely,

A handwritten signature in cursive script that reads 'Olga N. Weider'.

Olga N. Weider
Assistant Vice President and University Controller

Attachments

cc: Dr. Benjamin E. Sasse, President, University of
Florida University of Florida Board of Trustees
Mr. Chris J. Cowen, Senior Vice President and Chief Financial Officer
Mr. Curtis Reynolds, Vice President
Mr. Dhanesh Raniga, Chief Audit Executive
Amy Hass, Vice President and University General Council

University of Florida
Responses to Preliminary & Tentative Audit Findings
Operational Audit
For the Calendar Year Ended December 31, 2021

Finding 1 – Construction Projects

Auditor Recommendation: The University should enhance procedures to ensure that:

- Rather than using change orders, new contracts are established when significant changes to the scope of construction projects fundamentally alter original construction contracts.
- CMEs comply with University Project Management Guides by obtaining at least three sealed bids, where competition is available and feasible, for trade packages exceeding \$75,000, and University personnel document verification of the bid results.

University Response:

PDC regularly advances work incrementally, as funding allows, in accordance with University’s policies and procedures and applicable regulations, however, we will continue efforts to evaluate our process as follows:

- When incremental work is executed with prior knowledge that the scope of work is larger and likely to be increased, the process for executing the larger scope of work should be followed.
- When increases in scope are likely to be significant, the project should not proceed until a significant portion of the full funding is available. These procedural changes would exclude unforeseen conditions or unexpected increases in scope.

Responsible Auditee:

Carlos Dougnac, Assistant Vice President, PD&C
Curtis Reynolds, Vice President for Business Affairs