

BOARD OF GOVERNORS

Operational Audit



BOARD OF TRUSTEES AND PRESIDENT

Members of the Board of Governors and Chancellor who served during the 2011-12 fiscal year are listed below:

Dean C. Colson, Chair from 1-01-12,
Vice Chair to 12-31-11
Morteza "Mori" Hosseini, Vice Chair from 1-01-12
Ava L. Parker, Chair to 12-31-11
Richard A. "Dick" Beard, III
Dr. Matthew M. Carter, II, from 3-23-12
Joseph L. Caruncho from 1-19-12
Christopher T. Corr from 10-03-11 to 5-06-12 (1) (2)
Ann W. Duncan to 1-18-12
Patricia L. Frost
Thomas G. Kuntz from 1-19-12
Michael Long to 6-04-12 (3)
Dr. J. Stanley Marshall to 1-18-12
Frank T. Martin to 3-22-12
Hector A. "Tico" Perez
Gerard Robinson from 8-08-11 (4)
Ambassador John D. Rood
Gus A. Stavros
John W. Temple
Norman D. Tripp
Elizabeth Webster from 6-14-12
Cortez Whatley from 6-05-12 (3)
John L. Winn to 8-07-11 (5)
Dr. Richard A. Yost (6)

Frank T. Brogan, Chancellor

- Notes: (1) Position was vacant from July 1, 2011, to October 2, 2011.
(2) Position remained vacant from May 7, 2012, to June 13, 2012.
(3) Chair of the Florida Student Association (equivalent to Florida Student Association president referred to in Article IX, Section 7(d) of the State Constitution).
(4) Commissioner of Education.
(5) Interim Commissioner of Education.
(6) Chair to the Advisory Council of Faculty Senates.

The audit team leader was Kimberly Ferree, CPA, and the audit was coordinated by Karen L. Revell, CPA. Please address inquiries regarding this report to James R. Stultz, CPA, Audit Manager, by e-mail at jimstultz@aud.state.fl.us or by telephone at (850) 922-2263.

This report and other reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 487-9175; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

BOARD OF GOVERNORS

SUMMARY

Our operational audit disclosed the following:

REGULATIONS AND OVERSIGHT FUNCTION

Finding No. 1: The Board of Governors (BOG) needed to enhance regulations and provide detailed guidelines to the State University System (SUS) to establish uniform standards and, as applicable, conform to statutory requirements.

MONITORING ACTIVITIES

Finding No. 2: The BOG had not developed procedures to compare revenues remitted by the universities for debt service payments on SUS revenue bonds with amounts required to be submitted in accordance with statutes and bond issues.

Finding No. 3: The BOG needed to improve procedures related to monitoring of grant expenditures by universities.

Finding No. 4: The BOG did not maintain proposal selection or monitoring documentation for the SUS's New Florida Initiative awards.

BACKGROUND

Pursuant to Section 7(d), Article IX of the State Constitution, the Board of Governors (BOG) has the duty to operate, regulate, control, and be fully responsible for the management of the State University System (SUS). The BOG consists of 17 members. The Governor appoints 14 citizen members subject to confirmation by the Senate and these members serve staggered terms of seven years. The Commissioner of Education; the Chair of the Advisory Council of Faculty Senates, or the equivalent; and the President of the Florida Student Association, or the equivalent, are also members of the BOG.

The BOG establishes the powers and duties of the University Boards of Trustees (UBOT). The Trustees are responsible for setting University policies, which provide governance in accordance with State law and BOG Regulations.

FINDINGS AND RECOMMENDATIONS

Regulations and Oversight Function

Finding No. 1: University Guidance and Oversight Function

Pursuant to Section 7(d), Article IX of the State Constitution, the BOG has the duty to operate, regulate, control, and be fully responsible for the management of the SUS. Chapter 2010-78, Laws of Florida, states that pursuant to Section 7, Article IX of the State Constitution, the BOG has the authority to regulate the SUS and may adopt a regulation development procedure for the BOG and the UBOT to use in implementing their constitutional duties and responsibilities. Pursuant to this authority the BOG adopted Regulations to delegate powers and duties to the UBOT so that they have all of the powers and duties necessary and appropriate for the direction, operation, management, and accountability of each State university.

Prior to the implementation of Chapter 2010-078, Laws of Florida, uniform guidance was provided to the individual universities by Board of Regents (BOR) Chancellor's Memorandum and BOR Rules listed in the Florida Administrative Code. With the implementation of the BOG's constitutional authority, BOG personnel reviewed the Chancellor's Memorandum and the prior BOR Rules listed in the Florida Administrative Code to determine what provisions, if any, needed to be included in the new BOG Regulations. All of the former BOR Rules and Chancellor's Memorandum were repealed and BOG Regulations were implemented as the BOG considered necessary.

Our review of the BOG Regulations disclosed certain areas for which additional guidance could be added, or monitoring of the SUS could be improved, as noted below.

Sponsored Research

Section 1001.706(3)(b), Florida Statutes, states that the BOG shall develop guidelines related to divisions of sponsored research, pursuant to the provisions of Section 1004.22, Florida Statutes, to serve the function of administration and promotion of the programs of research. According to Section 1004.22(6)(a), Florida Statutes, each university shall submit to the BOG a report of the activities of each division of sponsored research together with an estimated budget for the next fiscal year. BOG personnel indicated that BOG Regulation 9.007 implements the requirements of Section 1001.706(3)(b), Florida Statutes, by requiring each university to include in their annual budget the actual and estimated fiscal year revenues, expenditures, and positions for functions that are supported by foundations, various State and Federal agencies, local units of governments, businesses, and industries, including sponsored research. No other guidance or regulations have been provided for operating policies and procedures for SUS sponsored research programs. For the 2010-11 fiscal year, the universities reported approximately \$1.6 billion in sponsored research awards, and expenditures totaling \$1.5 billion from Federal, State, and other sources.

In the absence of guidance for sponsored research activities, the BOG has limited assurance that SUS sponsored research activities are in compliance with applicable laws, rules, and regulations and consistent with the SUS mission and long-term planning. Such guidance should include, for example, restrictions on the use of research funds; procedures for negotiating, entering into, and executing research contracts; procedures for soliciting and accepting research grants and donations; and procedures over the collection of fees and donations.

Anti-Hazing

The BOG has delegated to the UBOT in BOG Regulation 1.001(4)(a)(8) the responsibility for developing anti-hazing policies, penalties, and enforcements. In the Fall of 2011, the BOG surveyed each of the universities about their policies and procedures designed to create an environment of respect for all students, hazing incident reporting mechanisms, and hazing prevention strategies. The results of the surveys were presented to the BOG's Academic and Student Affairs Committee (Committee) meeting on March 12, 2012. The survey results included a matrix of each university's hazing policies, showing the consistencies and inconsistencies, as well as information on the extent of hazing as noted in a national study. For example, the survey matrix showed that 5 of the 11 universities did not have a 24 hour/7 day a week reporting system in place to report hazing incidents. In addition, 5 of 11 of the universities did not have an anti-hazing educational program for student organizations and 9 of the 11 universities did not have hazing prevention strategies in place that included professional staff development or training.

The Committee recommendations based on the survey were to require the universities to, at a minimum, establish an anti-hazing website and a 24 hour/7 day reporting system; ensure programming and training activities for faculty, staff members, students, and organizations; ensure broad dissemination of anti-hazing policies and statutes; and provide training and workshops to all student faculty and staff on a semester basis. However, as of June 30, 2012, the BOG had taken no formal action to implement the Committee's recommendations and had not developed a regulation to provide guidance regarding anti-hazing policies, penalties, and enforcement to the universities. Such a regulation

could include, for example, specific penalties to universities and university faculty and staff, and students, if they are found participating in or having knowledge of hazing activities. In addition, the regulation should require universities to report to the BOG, on a periodic basis, the number of hazing incidents that have occurred to provide the BOG a means of monitoring hazing activities at the universities. In the absence of a BOG regulation providing specific guidance and oversight for potential hazing activities at universities, there is an increased risk that future hazing events will occur and not be timely detected and investigated.

Student Code of Conduct

BOG Regulation 6.0105, *Student Conduct and Discipline*, requires the universities to develop a student code of conduct that would include such things as the rights and responsibilities of students; standards of student conduct expected by the university; a list of violations, appropriate penalties, and sanctions; and procedures for initiating and conducting student disciplinary procedures. However, no guidance was provided to the universities regarding the types of violations the BOG expects to be addressed in the universities' student code of conduct and what the BOG considers appropriate disciplinary action. This type of guidance would promote consistency throughout the SUS regarding what is acceptable student conduct.

Purchasing Practices

Section 1010.04(2), Florida Statutes, provides that UBOT must adopt regulations to be followed in making purchases. In addition, BOG Regulation 18.001, *Purchasing Regulations*, provides that each UBOT adopt regulations establishing basic criteria related to procurement, including procedures and practices to be used in acquiring commodities and contractual services. Competitive solicitation procedures are intended to provide for the identification and selection of vendors resulting in the procurement of goods and services at prices that are fair, competitive, and reasonable within acceptable quality. Our review disclosed additional guidance was needed, as discussed below:

- BOG Regulation 18.001(5) provides exceptions to the competitive solicitation process. Subsection (5)d) provides 24 specific commodities and services that are not subject to competitive solicitation. While we understand the need for exemptions for certain goods or services that are only available from a sole source due to the nature of the goods or services, the Regulation exempts several services for which it is not evident why such services should be exempted from competitive solicitation. Such services include, for example, accounting, advertising, and auditing services. In addition, this Regulation exempts from competitive solicitation goods and services acquired through the extension of an existing contract. The exemption does not provide a specific maximum number of contract extensions that are authorized or the timeframe (number of years), nor is it apparent why such a general exemption would be provided for extensions of existing contracts since it is generally beneficial to competitively solicit goods or services periodically rather than extending existing contracts. This Regulation also provides an exemption for purchases of goods for resale, which may limit the ability of a university to sell these goods to others at the lowest and best prices or may reduce a university's return on sales. Unnecessary competitive solicitation exemptions increase the risk that purchases of goods and services will not be acquired at the lowest and best price within acceptable quality.
- BOG Regulation 18.001(7) provides for standards of conduct for any employee of a university to accept, solicit, or agree to accept a gratuity of any kind, form or type in connection with any contract of commodities. However, the standard of conduct does not address the appropriateness of considering a potential vendor's ability to assist in fund-raising activities or using a competitive selection process for vendors that make donations to a university direct-support organization. In our University of South Florida operational audit report No. 2012-132, we noted a construction project for which potential construction managers were asked about their willingness to assist in the University's fund-raising activities, which could have given the appearance of favoritism and resulted in reduced public confidence in the University's competitive procurement process. BOG guidance regarding how to avoid the appearance of a conflict of interest in the vendor selection process when vendors have made, or are willing to make, donations may prevent instances such as this from occurring.

Effective procurement procedures serve to increase public confidence in the procurement process and avoid the appearance of favoritism in the selection of vendors. Additional guidance to universities addressing these issues would help ensure that public confidence is maintained in the purchasing process.

Recommendation: The BOG should review, and revise as appropriate, its current regulations provided to universities to address the above-cited issues.

Monitoring Activities

Finding No. 2: SUS Capital Improvement Bonds

Article VII, Section 11(d) and Article IX, 7(d) of the Florida Constitution and Section 1010.62, Florida Statutes, authorize the BOG to issue revenue bonds on behalf of the universities, which are repaid from a portion of revenues generated at the universities from building and capital improvement fees. These moneys are paid by the universities to FDOE for use by the BOG to make debt service payments on the SUS Capital Improvement Bonds. BOG personnel estimate each year the amount of moneys, per full-time equivalent student, that the universities should transfer to the FDOE and make a determination as to whether funds will be sufficient to make current year debt service principal and interest payments. As of June 30, 2011, the BOG reported outstanding SUS revenue bonds totaling \$214.5 million with debt service principal and interest payments for the 2011-12 fiscal year totaling approximately \$28 million. The universities transferred \$40 million in revenue generated from building and capital improvement fees to FDOE during the 2011-12 fiscal year.

While the BOG received sufficient funds from the universities to meet 2011-12 fiscal year debt service requirements, the BOG does not perform a comparison of estimated revenues expected to be received from the universities to actual amounts that should be received from the universities based on the actual enrollments (less any applicable documented waivers) and fee amounts. Absent such a comparison, the BOG cannot be assured that the universities have transferred all amounts required by law for the bond issues.

Recommendation: The BOG should develop procedures to review the actual remittances of revenues and fees by the universities for the payment of revenue bonds with the amounts required by Statute for the bond issues.

Finding No. 3: 21st Century World Class Scholars Program

Section 1004.226, Florida Statutes, established the 21st Century World Class Scholars Program (Program) to develop the State's capabilities in science and high-technology research. This Section further provides that funds shall be used for the purpose of recruiting a 21st Century World Class Scholar and shall be expended according to an expenditure plan approved by the BOG.

In previously issued audit reports, most recently report No. 2011-009, we noted that the BOG had not established procedures to monitor expenditures of the Program's funds or required expenditure reports be provided by the various universities awarded funds by the BOG under the Program. According to the information included in the annual reports filed by universities with the BOG, \$20 million in grants had been awarded to, and \$17.6 million in expenditures had been incurred by, universities since the inception of the Program. In response to our finding in report No. 2011-009, the BOG requested and received detailed expenditure information totaling \$17.3 million through the 2009-10 fiscal year, but had not requested detailed expenditures reported subsequent to that fiscal year.

Our current review disclosed that universities reported their Program expenditures as part of their 2010-11 fiscal year annual reports filed with the BOG; however, the BOG did not obtain details of the expenditures from the universities to determine whether the amounts spent agreed with the approved expenditure plan or monitor funds to ensure they were used for the authorized Program purposes. Instead, the BOG relied on the universities' narrative comments that were reported in the SUS Annual Accountability Report and did not request additional detailed expenditure information for review.

Requiring timely reports of detailed expenditures from the universities and monitoring these expenditures would provide the BOG with additional assurances that these funds were used for only authorized Program purposes. For example, the University of Central Florida (UCF) received a 21st Century World Class Scholars Program award of \$2 million, which it transferred to its Foundation. In our operational audit report No. 2010-115, we reported there was no specific authority to permit UCF to transfer Program funds received to its Foundation. Subsequent to our inquiry, BOG personnel followed-up with UCF to determine UCF's plans to use the \$2 million in unspent Program funds. However, the BOG had not, of record, taken action to resolve UCF's inappropriate transfer of Program funds to UCF's Foundation.

Recommendation: The BOG should establish policies to obtain and review sufficient documentation from the universities to ensure awarded funds are spent for authorized Program purposes. In addition, the BOG should take action to resolve UCF's inappropriate transfer of the \$2 million of Program funds to UCF's Foundation.

Finding No. 4: New Florida Initiative Awards

The 2010 Florida Legislature appropriated \$10 million to the SUS to enhance the SUS's New Florida Initiative to work toward a knowledge-driven economy and a high-skill, high-wage workforce in the fields of science, technology, engineering, and mathematics. The BOG created two programs (the Scholar Boost and Clustering programs) to distribute the funds. The universities submitted 85 proposals resulting in 33 projects and 45 individual awards to SUS institutions for the two programs, totaling \$10 million.

The BOG developed eligibility criteria, which were to be assessed using a scorecard to evaluate submitted proposals to ensure that the selection process was accurate and supported. Our review of program documents indicated:

- The BOG received 85 proposals requesting funding from these two programs totaling \$32 million. According to BOG personnel, scorecards were used to document the selection process and the basis for awarding amounts different than the amounts requested in university proposals. For example, for the three awards tested, the proposals exceeded the award amounts by \$820,900, \$523,382, and \$200,000, respectively. However, although requested, the scorecards used by the BOG to evaluate 82 of the 85 proposals were not provided for our review. Absent such documentation, the BOG is limited in its ability to demonstrate the fairness and accuracy of the selection process.
- As part of the 2010 New Florida Initiative accountability reporting, expenditure reports were obtained from the universities. The BOG provided for our review a procedures narrative describing how the individual expenditure reports for the 2010-11 fiscal year had been reviewed by BOG personnel and attested to all expenditures of the reported amounts as being accurate. However, BOG records did not evidence BOG personnel's review of the expenditure reports for the 2010-11 fiscal year. Absent a documented review of expenditures reports, the BOG's records do not evidence that the review was performed to ensure the accuracy of the amounts reported.

Recommendation: The BOG should strengthen its procedures for retaining documentation of the selection, awarding, and monitoring to ensure that amounts awarded are fairly selected and that expenditures are accurately reported in accordance with New Florida Initiative program plans.

PRIOR AUDIT FOLLOW-UP

The BOG had taken corrective actions for findings included in our report No. 2011-009, except that finding No. 3 was also noted in prior audit report No. 2011-009, as finding No. 3, and was also noted in prior audit report No. 2009-019, as finding No. 2.

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 2012 to July 2012 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of this operational audit were to: (1) obtain an understanding and make overall judgments as to whether BOG internal controls promoted and encouraged compliance with applicable laws, rules, regulations, contracts, and grant agreements; the economic and efficient operation of the BOG; the reliability of records and reports; and the safeguarding of assets; (2) evaluate management's performance in these areas; and (3) determine whether the BOG had taken corrective actions for findings included in our report No. 2011-009. Also, pursuant to Section 11.45(7)(h), Florida Statutes, our audit may identify statutory and fiscal changes to be recommended to the Legislature.

The scope of this operational audit is described in Exhibit A. Our audit included examinations of various records and transactions (as well as events and conditions) occurring during the 2011-12 fiscal year.

Our audit methodology included obtaining an understanding of the internal controls by interviewing BOG personnel and, as appropriate, performing a walk-through of relevant internal controls through observation and examination of supporting documentation and records. Additional audit procedures applied to determine that internal controls were working as designed, and to determine the BOG's compliance with the above-noted audit objectives, are described in Exhibit A. Specific information describing the work conducted to address the audit objectives is also included in the individual findings.

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'S RESPONSE

Management's response is included as Exhibit B.

EXHIBIT A
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Information technology (IT) environmental and security controls.	Examined environmental and security controls associated with the BOG's IT resources to determine whether vulnerabilities existed. Tested employees who terminated employment during the audit period and examined supporting documentation evidencing when the BOG removed IT access privileges.
Fraud policy and related procedures.	Examined written policies, procedures, and supporting documentation related to the BOG's fraud policy and related procedures.
Financial statements, budgeting, and Legislative required reporting.	Examined written policies, procedures, and supporting documentation to determine: <ul style="list-style-type: none"> • Whether the BOG had adequately instructed and monitored the universities in the preparation and submission of financial statements in accordance with generally accepted accounting principles, including the final financial statements amounts of university direct support organizations, and whether the BOG prepared and submitted consolidated university financial statements to the Division of Bond Finance as prescribed by law. • Whether the BOG administration is providing interim financial information to its Board to apprise the Board of the financial condition during the fiscal year. • Whether any reports and recommendations required by the General Appropriations Act proviso language were prepared and submitted as provided therein. • Whether the BOG adopted an operating budget pursuant to Section 1011.40(2), Florida Statutes. • Whether required reports from the universities' Sponsored Research divisions were filed with the BOG in accordance with Section 1004.22(6)(a), Florida Statutes. • Whether the BOG prepared and submitted a Legislative Budget Request for the SUS in accordance with Sections 1001.706 and 1011.90, Florida Statutes. • Whether the BOG timely received the annual Department of Correspondence Study from the University of Florida in accordance with BOG Regulation 8.002(4).

**EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY**

Scope (Topic)	Methodology
BOG oversight functions.	<p>Examined written policies, procedures, and supporting documentation to determine whether the BOG had developed adequate monitoring and provided timely guidance regarding the following:</p> <ul style="list-style-type: none"> • Repealed portions of the Florida Administrative Code Section 6C and authority for the Florida Administrative Code repeals. • State University SACS accreditation monitoring. • Oversight for the use of funds given to direct-support organizations for facilities construction. • Law changes, such as changes to severance payment requirements in Section 215.425, Florida Statutes. • Conflicts with vendors that conduct business with a university or give donations to a university's direct-support organizations. • Anti-hazing and a uniform code of conduct. • Monitoring of the universities' student default rates on student loans. • Operating policies and procedures for universities' sponsored research programs. • Preparation of five-year educational plant surveys in accordance with Section 1013.31(1), Florida Statutes. • Tangible personal property.
Institutes and centers.	<p>Reviewed written policies, procedures, and supporting documentation to determine whether the BOG monitored the timely reporting of institutes and centers reports from the universities.</p>
Statement of Financial Interest requirements of Section 112.3145(2), Florida Statutes.	<p>Determined whether the Chancellor, Board members, and certain other BOG employees filed statements of financial interest in accordance with law.</p>
Fund equity – net assets.	<p>Reviewed written policies, procedures, and supporting documentation to determine whether the universities notified the BOG if their unencumbered balances in the education and general funds in their approved operating budgets fell below five percent as required by Section 1011.40(2), Florida Statutes. Also reviewed the 2012-13 budget fund balance reductions for the universities.</p>

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Direct-support organization.	Reviewed the BOG direct-support organization’s audit report and determined whether it was filed in accordance with Section 1004.28(5), Florida Statutes.
Social security number requirements of Section 119.071(5)(a), Florida Statutes.	Examined supporting documentation to determine whether the BOG had provided individuals with a written statement of the purpose of collecting their social security numbers.
Building leases.	Examined office space leases to determine whether lease transactions were conducted in accordance with State laws.
Student tuition and fees.	Examined written policies, procedures, and supporting documentation to determine: <ul style="list-style-type: none"> • Whether the BOG had approved tuition and fees charged by the universities as provided by law. • Whether the BOG identified and tracked receipt of Building and Capital Improvement fees remitted by the universities and whether those fee collections were used for authorized purposes.
Personnel program.	Examined policies, procedures, and supporting documentation to determine general compliance of the BOG’s personnel program with State laws, and with the positions and compensation authorized by Appropriation 130, Laws of Florida, Chapter 2011-69. Also determined whether contractual employees’ retirement contributions were properly calculated on the compensation as prescribed by Sections 121.021(22) and (47) Florida Statutes.
New hires.	Tested new hires and examined supporting documentation to determine whether evidence of qualifications was obtained and fingerprinting and background checks were performed, in accordance with BOG established policies and procedures. Reviewed new hire contracts to determine whether any new hire contracts included severance pay clauses required by Section 215.425, Florida Statutes. Also determined whether the BOG had developed and implemented a regulation to provide guidance to the universities for the implementation of the new statutory requirements regarding severance pay clauses.
Terminal pay policies and procedures.	Reviewed the BOG’s policies and procedures for terminal pay to ensure consistency with State law. Tested former employees to determine appropriateness of terminal pay.
Administrative employees’ compensation.	Reviewed administrative employees compensation to determine whether compensation did not exceed limits provided in State law.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Procurement policies and procedures.	Reviewed supporting documentation for compliance with policies and procedures and consistency with Chapter 287, Florida Statutes, including competitive procurement and software application purchases.
Purchasing card transactions.	Examined written policies, procedure, and supporting documentation to determine whether the BOG policies and procedures were adequate to ensure purchasing card transactions were properly authorized, reviewed, and approved for payment in accordance with the purchasing card agreement and good business practices.
Travel expenses.	Tested executive out-of-state travel expenses to determine whether the travel was reasonable, adequately supported, and for BOG purposes.
Contractual agreements.	Determined whether contractual services were supported by Board-approved contracts. Also, examined and tested the aforementioned contracts to ensure that they were properly awarded and executed, that contract terms were adequately supported, and that vendors carried adequate insurance.
Grants to universities.	Examined written policies, procedures, and supporting documentation to determine whether the BOG had established a process for the submission, documentation, and approval of requests for grant funds and monitoring grant expenditures by the universities.
Safety and sanitation standards.	Reviewed written policies, procedures, and supporting documentation to determine whether the BOG provided for annual inspections of the leased office space to ensure the safety of their employees, in accordance with BOG Regulations Chapters 14, 17, and 21.
Wireless communication devices.	Reviewed policies and procedures to determine whether the BOG limited the use of, and documented the level of service for, wireless communication devices. Also, determined whether the BOG paid Federal, State, or local taxes or fees for which it was exempt.

EXHIBIT B
MANAGEMENT'S RESPONSE



STATE
UNIVERSITY
SYSTEM
of FLORIDA
Board of Governors

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To: David W. Martin, Auditor General
From: Frank T. Brogan, Chancellor (FTB)
Date: October 5, 2012
Re: Management response to Preliminary and Tentative Findings,
2012 Board of Governors Operation Audit

I would like to thank you for providing such a positive experience over the course of the past several months as your team conducted a very thorough review of Board of Governors operations. Below is the official management response to the four findings you presented to us in the Preliminary and Tentative Findings Report.

A.G. Finding No. 1: The Board of Governors (the Board) needs to enhance regulations and provide detailed guidelines to the State University System (the System) to establish uniform standards and, as applicable, conform to statutory requirements.

A.G. Recommendation: The Board should review, and revise as appropriate, its current regulations provided to universities to address the above-cited issues.

Board of Governors Response: *The Auditor General's report correctly points out that pursuant to Section 7(d), Article IX of the State Constitution, the Board has the duty to operate, regulate, control, and be fully responsible for the management of the System. Pursuant to Section 7, Article IX of the State Constitution, the Board has the authority to regulate the System and has adopted a regulation development procedure for the Board and the University Boards of Trustees to use in implementing their constitutional duties and responsibilities. As such, the Board adopted regulations to delegate powers and duties to the Boards of Trustees so that they have all of the powers and duties necessary and appropriate for the direction, operation, management, and accountability of each State university.*

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

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The Auditor General's report recommends that additional guidance could be added – or monitoring of the System could be improved – in areas such as sponsored research, anti-hazing, student code of conduct, and purchasing practices. The Board of Governors will continue to work cooperatively with the universities to review Board regulations to ensure clarity of intent and proper implementation.

Regarding the four examples provided in the Auditor General's report, Board staff has already engaged with university personnel to: 1) revise the Board's purchasing regulation to address various statutory changes pertaining to the competitive procurement of personal property no later than Spring 2013; 2) identify and implement best practices related to anti-hazing efforts system-wide; 3) ensure that robust student codes of conduct are in place at all institutions; and 4) coordinate with university research offices to ensure adherence to all state and federal guidelines that govern the use of research funds. The Board will continue its practice to provide additional guidance regarding the implementation of regulations and will pursue updates of regulations as needed to ensure system-wide minimum standards are in-place this fiscal year.

A.G. Finding No. 2: The Board does not perform a comparison of estimated revenues expected to be received from the universities to actual amounts that should be received from the universities based on the actual enrollments and fee amounts in order to determine whether the universities have transferred all amounts required by law for the bond issues.

A.G. Recommendation: The Board should develop procedures to review the actual remittances of revenues and fees by the universities for the payment of revenue bonds with the amounts required by statute for the bond issues.

Board of Governors Response: *It is important to note that universities have little incentive to withhold funds since half of the Board's recommended pro-rata allocation of future CITEF funds is based on actual remittance data. As such, under-remitting of funds would only hurt the universities' ability to access CITEF funds in the future.*

Nonetheless, Board Regulation 7.002 (4) requires that all proceeds from the Capital Improvement Fee be remitted no later than the 20th of each month, and Board staff currently reviews the deposits received to confirm that each institution is remitting funds as required by the regulation. The revenue estimates are based on historical and preliminary data, and are strictly budgetary projections. Actual revenues are ultimately based on university collections for the Capital Improvement Fee. Thus, the recommended action would provide limited assurance that universities have transferred all amounts

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

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required by Board Regulation 7.002 (4). However, the Board of Governors' Director of Finance & Facilities will work cooperatively with the university controllers to define an alternative assurance mechanism, such as a annual certification of compliance, statement of account, or an attestation of reliance upon university internal controls and procedures that can be documented and/or implemented no later than June 30, 2013.

A.G. Finding No. 3: The Board needs to improve procedures related to monitoring of grant expenditures by universities.

A.G. Recommendation: The Board should establish policies to obtain and review sufficient documentation from the universities to ensure awarded funds are spent for authorized Program purposes. In addition, the Board should take action to resolve UCF's inappropriate transfer of the \$2 million of Program funds to UCF's Foundation.

Board of Governors Response: *With regard to establishing policies to obtain and review sufficient documentation from the universities to ensure awarded funds are spent for authorized Program purposes, expenditures associated with the 21st Century World Class Scholars Program have been collected and reported to the Board Office in standard State University System expenditure categories.*

These reports will be reviewed against the expenditure plans of original proposals to ensure that the award dollars were used for the authorized Program purposes. Because the preponderance of these funds are already expended (awards dating back to 2006), and because all funds were non-recurring, the Board will conduct this as a one-time exercise except in any cases where the expenditure of all funds has not occurred. In all cases, the Board will continue to report on the activities of World Class Scholars on an annual basis.

With regard to taking action to resolve UCF's transfer of the \$2 million of program funds to UCF's Foundation, Board staff has thoroughly reviewed the documentation and circumstances of the UCF 21st Century World Class Scholar awards. It has been determined that UCF indicated in its initial proposals that the awards would be placed into the UCF Foundation to generate recurring support for the World Class Scholars. Staff determined further that the Board of Governors approved the UCF proposals on November 16, 2006 and that, by so doing, approved UCF's intention of placing award dollars into the UCF Foundation.

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

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Depositing the funds in the UCF Foundation was legally appropriate and permissible. Pursuant to Regulation 9.011 and section 1004.28, Florida Statutes, direct support organizations are created and operated exclusively to serve the best interests of the university, including the university's research, education and service missions. The essential function of a university foundation is to receive, hold, invest, and administer university property for the benefit of the university. University property includes funds received by a university for the establishment of a permanent endowment. The creation of a permanent endowment in which the earnings are used for the benefit of the World Class Scholar clearly meets the intent of the statutory language in s. 1004.226(2)(a) Florida Statutes. In fact, the World Class Scholars Program operates much like the Major Gifts Program authorized by section 1011.94, Florida Statutes. As described in section 1004.226(5), once a university raises the requisite funds to participate in the Program, the Board of Governors releases the state matching funds to the university. Just like the Major Gifts Program, these combined funds are held by the university's foundation and the interest earnings are used to support the purpose of the permanent endowment.

As such, it is the opinion of the Board of Governors that placement of these funds into the UCF Foundation is consistent with the Board's statutory authority. The Board will, however, request an opinion from the Attorney General regarding this matter.

Additionally, staff has communicated these findings with the University of Central Florida, which – at our request – is implementing a change in its reporting process on these awards such that it will be apparent that the placement of the award dollars into its Foundation occurred subsequent to the approval of the Board of Governors.

A.G. Finding No. 4: The Board did not maintain proposal selection or monitoring documentation for the System's New Florida Initiative awards.

A.G. Recommendation: The Board should strengthen its procedures for retaining documentation of the selection, awarding, and monitoring to ensure that amounts awarded are fairly selected and that expenditures are accurately reported in accordance with New Florida Initiative program plans.

Board of Governors Response: *With regard to strengthening procedures for retaining documentation of the selection and awarding of New Florida Initiative awards, the Board Office has developed a comprehensive checklist of procedures that will ensure the retention of all documentation. The checklist requires the electronic scanning of all hard-copy documentation to ensure maximum accessibility of the documents and to negate the necessity for hard-copy historical files.*

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The checklist includes:

- *Development of Proposal Submission Instructions*
- *Development of Score Sheets and Scoring System*
- *Calibration of Staff Proposal Scorers*
- *Transmission of Submission Instructions and Templates to Universities*
- *Receipt of Proposals from Universities*
- *Electronic Filing System Created for Receipt of Proposals from Universities*
- *Assignment of Code Numbers to Individual Submissions*
- *Creation of Master Table to Include all Submissions and Deletion of Potential Duplicate Submissions*
- *Electronic Filing of All Submissions*
- *Proposal Scoring by Staff Scorers*
- *Electronic Scanning of all Score Sheets*
- *Electronic Compilation and Filing of Proposal Scores by Staff Scorers*
- *Development and Electronic Filing of Master Table of Proposals Rank-ordered by Composite Score*
- *Rank-ordered Master Table Submitted to Chancellor for Final Consideration and Recommendations*
- *Final Consideration and Recommendations Shared with Universities for any Potential Concerns*
- *Recommendations Provided to Board of Governors for Approval*

With regard to ensuring that amounts awarded are spent in accordance with New Florida Initiative proposals, it should be noted that the original instructions for the submission of both Scholar Boost and Clustering proposals did require that proposals indicate estimated expenditures in standard Board expenditure categories. During the Auditor General's Operational Audit, it was pointed out that accountability for New Florida Initiative dollars would necessarily require two year's worth of reporting owing to the standard timing associated with funds allocation. Even though the Board Office was not yet in a position to conduct a comprehensive analysis of actual expenditures at the time of the Operational Audit, early results already show impressive return-on-investment with \$3.5 million used to secure a cohort of top scholars who have a cumulative research portfolio valued at more than \$28 million.

The Board Office has received its second round of accountability reporting for the initiative. As of the 2012 reporting deadline, approximately \$9M of the \$10M awarded has been expended, and Board staff is currently in the process of comparing actual expenditures against proposed budgets. For those universities with reports identifying

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that all funds have not been expended, reminders have already been provided as to which reports will require final submissions by December 31, 2012.

Given that the awards provided by the Board were less than the amount requested, universities would have adjusted expenditures appropriately to implement their plan, and the Board will solicit additional clarification and rationale from the universities as needed. The universities have until December 31, 2012 to verify to the Board Office that all award dollars have been expended. At that point, Board staff will be in a position to analyze all award expenditures against original plans.

Reports submitted on individual awards also contain narrative with regard to activities associated with the awards. This information, which is being edited and compiled into a single reporting document, demonstrates that a great deal of innovative teaching, research, and service was made possible and enhanced by the awards provided by the 2010 New Florida Initiative.
