

UNIVERSITY OF CENTRAL FLORIDA

Operational Audit



BOARD OF TRUSTEES AND PRESIDENT

Members of the Board of Trustees and President who served during the 2013-14 fiscal year are listed below:

Olga M. Calvet, Vice Chair to 7-24-13, Acting Chair
from 7-25-13 to 9-25-13, Chair from 9-26-13
John R. Sprouls, Vice Chair from 9-26-13 (1)
Michael J. Grindstaff, to 7-24-13, Chair (2)
James Atchison
Weston Bayes from 5-8-14 (3)
Clarence H. Brown III, M.D. from 7-25-13
Richard T. Crotty
Alan S. Florez
Robert A. Garvy
Ray Gilley
Marcos R. Marchena
Alex Martins from 11-21-13 (4)
Dr. Reid Oetjen (5)
Beverly J. Seay
Melissa Westbrook to 5-7-14 (3)

Dr. John C. Hitt, President

- Notes: (1) Vice Chair position vacant from
July 25, 2013, to September 25, 2013.
(2) Board member served beyond the end of
term, January 6, 2013.
(3) Student body president.
(4) Position was vacant from July 1, 2013,
to November 20, 2013.
(5) Faculty Senate Chair.

The audit team leader was Sherry J. Homayouni, CPA, and the audit was supervised by Brenda C. Racis, CPA. For the information technology portion of this audit, the audit team leader was Bill Allbritton, CISA, and the supervisor was Heidi G. Burns, CPA, CISA. 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) 412-2869.

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) 412-2722; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

UNIVERSITY OF CENTRAL FLORIDA

EXECUTIVE SUMMARY

Our operational audit disclosed the following:

ADMINISTRATIVE MANAGEMENT

Finding No. 1: The University needed to enhance its textbook affordability monitoring procedures to ensure that textbooks are timely posted on its Web site in accordance with State law.

STUDENT TUITION AND FEES

Finding No. 2: Our tests disclosed payments totaling \$422,289 to 12 employees from tuition differential fees for which University records did not evidence that these employees provided a benefit to undergraduate programs, contrary to Section 1009.24(16), Florida Statutes.

PERSONNEL AND PAYROLL

Finding No. 3: The President's employment agreement included a retention compensation provision representing severance pay that appears to be contrary to Section 215.425(4)(a), Florida Statutes.

DIRECT-SUPPORT ORGANIZATIONS

Finding No. 4: The University needs to continue its efforts to ensure that funds loaned to a direct-support organization are returned to the University's accounts.

INFORMATION TECHNOLOGY

Finding No. 5: University information technology security controls related to user authentication needed improvement.

BACKGROUND

The University of Central Florida (University) is part of the State university system of public universities, which is under the general direction and control of the Florida Board of Governors. The University is directly governed by a Board of Trustees (Trustees) consisting 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.

The Board of Governors 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 Board of Governors' Regulations. The University President is selected by the Trustees and confirmed by the Board of Governors. 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 results of our financial audit of the University for the fiscal year ended June 30, 2014, will be presented in a separate report. In addition, the Federal awards administered by the University are included within the scope of our Statewide audit of Federal awards administered by the State of Florida and the results of that audit, for the fiscal year ended June 30, 2014, will be presented in a separate report.

FINDINGS AND RECOMMENDATIONS

Administrative Management**Finding No. 1: Textbook Affordability**

Section 1004.085(3), Florida Statutes, requires that universities post on their Web sites, as early as is feasible, but not less than 30 days prior to the first day of class for each term, a list of each textbook required for each course offered at the institution during the upcoming term. Additionally, Board of Governors (BOG) Regulation No. 8.003, *Textbook Adoption*, provides that each university board of trustees adopt a regulation that establishes textbook adoption procedures to minimize the cost of textbooks for students and document the intent of the course instructor to use all items ordered, including the extent to which a new edition differs significantly and substantively from earlier versions and the value of changing to a new edition. The posted list must include the International Standard Book Number (ISBN) for each required textbook or other identifying information, which must include at a minimum, all of the following: the title, all authors listed, publishers, edition number, copyright date, published date, and other relevant information necessary to identify the specific textbook or textbooks required for each course.

The University had established the BOG required textbook regulation and procedures; however, the University did not have adequate monitoring procedures in place to ensure the posting of textbooks lists 30 days before the first day of class. The University contracted with a vendor to manage and operate the University bookstore, as well as compile and post a list of adopted textbooks on the University's Web site. According to University business services personnel, textbooks were supposed to be published on the University's Web site within 48 hours after the adopted textbooks were recorded in the vendor's bookstore system.

Our review disclosed that the University adopted 3,887 textbooks for the Fall 2013 term and 3,632 textbooks for the Spring 2014 term, which included the required ISBN or other identifying information. However, information for 662 textbooks for the Fall 2013 term and 452 textbooks for the Spring 2014 term was not posted on the University's Web site at least 30 days prior to the first day of class for each term, contrary to State law. These textbooks were posted from 6 to 49 days late, including 26 textbooks from the Fall term and 31 textbooks from the Spring term that were posted to the University's Web site from 1 to 19 days after the first day of class. University business services personnel provided explanations for the late postings, such as late notification by professors of their textbook requirements, problems with inputting textbooks in the vendor's bookstore system, and exemptions used by the bookstore vendor that had not been authorized by the University, contrary to Section 1004.085, Florida Statutes.

Effective monitoring procedures would help ensure that textbooks are listed on the University's Web site in accordance with State law and BOG Regulations. The timely posting of textbook information is necessary to improve textbook affordability for students.

Recommendation: The University should enhance its monitoring procedures to ensure that textbooks are timely posted on its Web site in accordance with State law.

Student Tuition and Fees

Finding No. 2: Tuition Differential Fee

Section 1009.24(16), Florida Statutes, states in part that each university board of trustees may establish a student tuition differential fee for undergraduate courses, which shall be used to promote improvements in the quality of undergraduate education and provide financial aid to undergraduate students who exhibit financial need. Section 1009.24(16)(a), Florida Statutes, provides that 70 percent of revenues from tuition differential fees must be expended for certain specified purposes other than for student financial aid, which includes increasing course offerings, improving graduation rates, increasing the percentage of undergraduate students who are taught by faculty, decreasing student-faculty ratios, providing salary increases for faculty who have a history of excellent teaching in undergraduate courses, improving the efficiency of the delivery of undergraduate education through academic advisement and counseling, and reducing the percentage of students who graduate with excess hours. This Section further provides that except as otherwise provided in Section 1009.24(16)(a), Florida Statutes, the remaining 30 percent of revenue from tuition differential fees, or the equivalent amount of revenue from private sources, must be expended to provide financial aid to undergraduate students who exhibit financial need.

For the 2013-14 fiscal year, the University recorded \$47.6 million in collections and \$46.9 million in expenses from the tuition differential fees, and expenses were comprised of \$32.8 million for specific purposes other than student financial aid and \$14.1 million for student financial aid. Of the \$32.8 million spent for purposes other than financial aid, the University estimated that \$31.8 million was spent on salaries for 445 employees. The University had not established a separate fund to record tuition differential expenses related to employee salaries and benefits. Instead, the University estimated the salary and benefit costs using a separate listing identifying employee salary and benefits funded with tuition differential fees, which was based on the employees' annual salary as of May 12, 2014, and estimated employee benefits at 25 percent of the employees' annual salary as of May 12, 2014. Without establishing a separate fund to record salary expenses funded from the tuition differential fees the University is limited in its ability to demonstrate that the funds were used in accordance with Section 1009.24(16), Florida Statutes.

Our tests of 13 employees who were paid \$886,789 in salaries from tuition differential fees disclosed \$422,289 of questioned expenses of tuition differential fees, as follows:

- The Academic Assignment and End of Semester reports for nine instructors who taught courses during the Fall 2013 term, with salaries totaling \$765,696, indicated that the percentage of their time spent on teaching undergraduate courses, advising undergraduate students, or other activities covered by the tuition differential fees ranged from 22 to 97 percent. Based on these reports, only \$464,500 of their salaries and benefits should have been paid from tuition differential fees. The remaining \$301,196 of their salaries and benefits paid from tuition differential fees was related to time and effort spent on various other responsibilities such as public service, State mandated services, academic administration, departmentally-funded research, graduate instruction, and other instructional activity. However, documentation provided by University personnel did not evidence that these activities directly related to teaching undergraduate courses or other qualifying activities, allowed by Section 1009.24(16), Florida Statutes. University management indicated that, for these faculty members, their assigned duties impact the delivery of undergraduate instruction, the quality of undergraduate instruction and the undergraduate experience both in- and out-of-class, therefore, all of their salary was paid from differential tuition fee revenues. However, absent documentation that the University expended funds in accordance with the provisions of Section 1009.24(16), Florida Statutes, University records did not demonstrate compliance with the law for the use of tuition differential fee revenue totaling \$301,196 for these employees.
- Three noninstructional personnel were paid a total of \$121,093 for tuition differential fees. These employees held the positions of office manager, program assistant, and a coordinator of public functions, for which their

job responsibilities did not evidence duties related to the improvement of undergraduate education as described in Section 1009.24(16), Florida Statutes. For example, the job description for the program assistant included job duties such as assisting with graduate admissions, graduate degree audits, and advising students regarding program and graduate policies (i.e., thesis deadlines, graduate petitions, and appeals). In response to audit inquiry, University personnel stated the office manager worked in a department that provides guidance and support to students interested in pursuing careers in health and legal professions; the program assistant's position improved the efficiency of delivery of undergraduate education through academic advisement as well as through assisting with program assessment to better enhance the quality of their programming; and the coordinator was responsible for providing support for public functions and managing the Teaching Academy and the Human Performance Lab facilities within the Institute of Exercise Physiology and Wellness. University personnel stated these responsibilities are necessary for instruction of undergraduate students. However, although requested, the University did not provide documentation supporting that the tuition differential fee revenue was used to promote improvements in the quality of the undergraduate education or other qualifying activities allowed by Section 1009.24(16), Florida Statutes.

Recommendation: The University should enhance its procedures to ensure that tuition differential fees are expended in accordance with Section 1009.24(16), Florida Statutes. Additionally, to ensure accountability over the use of tuition differential fees, the University should establish a separate fund and account to record salary expenses funded with tuition differential fees. In addition, the University should document of record how the payments to the employees noted above are consistent with the specified purposes of Section 1009.24(16), Florida Statutes, or restore the \$422,289 of questioned costs to the recommended separate tuition differential fee fund.

Personnel and Payroll

Finding No. 3: Severance Pay

Section 215.425(4)(a), Florida Statutes, provides that a unit of government that enters into a contract or employment agreement, or renewal or renegotiation of an existing contract or employment agreement, that contains a provision for severance pay must include a provision in the contract or employment agreement that precludes severance pay from exceeding 20 weeks of compensation. In our report No. 2013-051, we noted that the University President's amended employment agreement provided that in the event the President was discharged without cause, the President was to be paid for the lesser of the remaining term of the contract or two years of base salary and deferred compensation, which was contrary to Section 215.425(4)(a), Florida Statutes. In his response to that report, the University President indicated that the Board would take appropriate action to remedy this by July 2013.

The Board entered into a revised contract with the President on July 25, 2013, which removed the severance pay provision of the contract but modified a retention compensation provision providing that the President will be paid one year of additional base salary for services rendered from July 1, 2013, to June 30, 2014, if the President is employed on June 30, 2016, or is terminated without cause after June 30, 2014. Because the additional compensation can be paid as a result of the President's discharge prior to June 30, 2016, this contractual obligation to pay severance pay in excess of 20 weeks of compensation appears to be contrary to Section 215.425(4)(a), Florida Statutes.

Recommendation: The University should take appropriate action to amend the President's employment agreement to be consistent with Section 215.425(4)(a), Florida Statutes.

Direct-Support Organizations

Finding No. 4: Loans to a Direct-Support Organization

In our reports No. 2008-104 and No. 2010-115, we noted that the University had provided loans to the UCF Athletic Association, Inc. (Association), a direct-support organization organized to promote intercollegiate athletics to benefit the University and surrounding communities. Funds loaned were from University auxiliary overhead accounts and had been provided to the Association to fund shortfalls in operating costs. From June 1, 2004, through July 2, 2007, the University made ten loans, totaling \$9,473,000, to the Association. Absent specific statutory authority, the University is prohibited from making loans to its direct-support organizations. In response to the finding in our report No. 2010-115, the Board on March 25, 2010, approved a repayment schedule for the loans, which required the Association to begin making repayments in the 2009-10 fiscal year with the final payment in the 2023-24 fiscal year, with a floating interest rate equal to the State of Florida Special Purpose Investment Account rate of return adjusted annually on July 1st of each fiscal year.

On July 26, 2012, the Board approved an amendment to the original repayment schedule for the loans, which canceled the required debt service payments for the 2011-12 and 2012-13 fiscal years, but accelerated payments beginning in the 2015-16 fiscal year with payoff in the 2021-22 fiscal year. This action to cancel the required debt service payments was based on an anticipated increase in expenses related to the University's football team joining a new athletic conference. On July 25, 2013, the Board approved an action to decrease the debt service payment during the 2013-14 fiscal year because athletic conference revenue distributions were lower than estimated. As a result, instead of the scheduled minimum payment of \$750,000, the Association paid \$550,000 for the 2013-14 fiscal year.

Although the University received three loan payments totaling \$1,350,000 since the 2008-09 fiscal year, interest of \$2,165,866 had accrued, and the outstanding loan balance increased from \$9,473,000 to \$10,288,866 at June 30, 2014. University personnel indicated that the Association did not have the resources to repay the loan as provided in the loan agreement, which necessitated amendments to the original repayment schedule.

Recommendation: The University should continue its efforts to ensure that these funds are returned to the University's accounts.

Information Technology

Finding No. 5: Security Controls – User Authentication

Security controls are intended to protect the confidentiality, integrity, and availability of data and information technology (IT) resources. Our audit disclosed that certain University security controls related to user authentication needed improvement. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising University data and IT resources. However, we have notified appropriate University management of the specific issues. Without adequate security controls related to user authentication, the risk is increased that the confidentiality, integrity, and availability of University data and IT resources may be compromised. Similar findings were communicated to University management in connection with our report Nos. 2012-104 and 2013-051.

Recommendation: The University should improve IT security controls related to user authentication to ensure the continued confidentiality, integrity, and availability of University data and IT resources.

PRIOR AUDIT FOLLOW-UP

The following table provides information on recurring audit findings for the University:

Current Fiscal Year Finding Numbers	Preceding Fiscal Year Audit Report and Finding Numbers	Second Preceding Fiscal Year Audit Report and Finding Numbers
3	2013-051, Finding No. 2	NA
5	2013-051, Finding No. 4	2012-104, Finding No. 5

NA – Not Applicable

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 March 2014 to November 2014 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:

- 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.
- Determine whether management had taken corrective actions for findings included in our report No. 2013-051.
- 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 programs, activities, or functions included within the scope of the audit, weaknesses in management’s internal controls; 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.

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; 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.

The scope and methodology of this operational audit are described in Exhibit A. Our audit included the selection and examination of records and transactions occurring during the 2013-14 fiscal year. Unless otherwise indicated in this report, these records and transactions were not selected with the intent of 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 University management, staff, and vendors, and as a consequence, cannot be relied upon to identify all instances of noncompliance, fraud, waste, abuse, or inefficiency.

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) access privileges and separation of duties.	Reviewed procedures for maintaining and reviewing access to IT resources. Tested selected access privileges to the University’s finance and human resources applications to determine the appropriateness and necessity of access privileges based on the employees’ job duties and adequacy with regard to preventing the performance of incompatible duties.
IT authentication controls.	Reviewed supporting documentation to determine whether authentication controls were configured and enforced in accordance with IT best practices.
IT logging and monitoring.	Reviewed procedures and reports related to the capture and review of system activity that were designed to ensure the appropriateness of access to and modification of sensitive or critical resources.
IT risk management and assessment.	Reviewed the University’s risk management and assessment process and security controls intended to protect the confidentiality, integrity, and availability of data and IT resources.
Board and committee meetings.	Reviewed Board and committee minutes to determine whether Board approval was obtained for policies and procedures in effect during the audit period and for evidence of compliance with Sunshine Law requirements (i.e., proper notice of meetings, ready access to public, and maintenance of minutes).
Textbook affordability.	Examined supporting documentation to determine whether the University’s procedures regarding textbook affordability were in accordance with Section 1004.085, Florida Statutes.
Internal audit function (inspector general).	Reviewed the internal audit function to determine whether the University followed professional requirements and provided for peer review of reports issued.
Fund equity controls.	Determined whether the unencumbered available balance in the education and general fund of the University Board of Trustees’ approved operating budget was below five percent of the total available fund balance at June 30, 2014, and if so, whether the University notified the Board of Governors (BOG), as required by Section 1011.40(2), Florida Statutes, and BOG Regulation 9.007(3)(a)2. Performed analytical procedures to determine whether financial transactions in other funds may require resources from other unrestricted funds that would cause a significant reduction in the unencumbered available balance in the education and general fund.
Investments.	Determined whether the Board established investment policies and procedures as required by Section 218.415, Florida Statutes, and whether investments during the fiscal year were in accordance with those policies and procedures.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Student receivables.	Determined whether student receivables were properly authorized, documented, and properly recorded. Determined adequacy of collection efforts and whether uncollectable accounts written-off were properly approved. Determined whether restrictions on student records and holds on transcripts and diplomas were adequate and enforced for delinquent accounts.
Florida residency determination and tuition.	Tested student registrations to determine whether the University documented Florida residency and correctly assessed tuition in compliance with Sections 1009.21, 1009.24, and 1009.286(2), Florida Statutes, and BOG Regulation No. 7.005.
Tuition differential fees.	Reviewed payments from tuition differential fees collected to determine whether the University assessed and used tuition differential fees in compliance with Section 1009.24(16)(a), Florida Statutes.
Distance learning fees.	Determined whether distance learning fees were assessed and collected in accordance with Section 1009.24(17), Florida Statutes.
Transportation Access Fees.	Reviewed transportation access fees to determine whether they were in compliance with Section 1009.24, Florida Statutes, and BOG Regulation No. 7.003.
Auxiliary operations contract compliance.	Examined selected auxiliary operations contracts to determine whether the University was properly monitoring compliance with the contract terms regarding fees, insurance, and other provisions. Also, performed analytical procedures to determine whether the University's auxiliary services were self-supporting.
Dual enrollment programs.	Reviewed University policies and procedures related to dual enrollment programs. Determined, on a test basis, whether revenues collected for dual enrolled students were consistent with the applicable dual enrollment agreement and Section 1007.271, Florida Statutes.
Personnel and payroll.	For selected employees determined the accuracy of the rate of pay, validity of employment contracts, adequacy of qualifications, completion of performance evaluations, accuracy of leave records, and certifications by supervisory personnel of employee time reports. Also, tested new hires to determine whether personnel records evidenced that employees had the necessary qualifications, degrees, experience, necessary background checks, etc.
Terminal pay.	Reviewed the University's policies and procedures for terminal pay to ensure consistency with Florida law. Tested former employees to determine appropriateness of terminal pay.
Severance pay.	Reviewed severance pay provisions in selected contracts to determine whether the University was in compliance with Florida Statutes.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Administrative employees' compensation.	Reviewed administrative employees' compensation to determine whether compensation did not exceed limits provided in Florida law.
President's compensation.	Determined whether the President's compensation was in accordance with Florida law, BOG Regulations, and University policy.
Background screenings.	Reviewed the University's policies and procedures for obtaining background screenings for personnel. Determined whether employees in sensitive positions, such as positions in direct contact with minors, had undergone the appropriate background screenings.
Employee payments.	Tested employee payments, other than travel and payroll payments, to determine whether such payments were reasonable, adequately supported, and for valid University purposes. Also, determined whether such payments were for employees doing business with the University, contrary to Section 112.313, Florida Statutes.
Bonuses.	Determined whether employee bonuses were paid in accordance with Section 215.425(3), Florida Statutes.
Holiday Leave.	Reviewed procedures regarding extending holiday leave to determining compliance with BOG regulations and University policies.
Electronic funds transfers.	Reviewed University policies and procedures related to electronic funds transfers. Tested supporting documentation to determine whether selected electronic funds transfers were properly authorized and supported.
Purchasing card transactions.	Tested transactions to determine whether purchasing cards were administered in accordance with University policies and procedures. Also, tested former employees to determine whether purchasing cards were timely cancelled upon termination of employment.
Rebate revenues.	Determined whether rebate revenues received from purchasing card program was allocated to the appropriate University funds.
Travel expenses.	Tested executive foreign and out-of-state travel expenses to determine whether the travel expenses were in compliance with laws and regulations, and were reasonable, adequately supported, and for a valid University purpose.
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 and that contract terms were adequately supported.
Construction administration.	For selected major construction projects, tested payments and supporting documentation to determine compliance with University policies and procedures and provisions of laws and rules.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Earmarked capital project resources.	Determined, on a test basis, whether Public Education Capital Outlay (PECO) and other restricted capital outlay expenditures were expended in compliance with the restrictions imposed on the use of these resources. Determine if PECO funds were properly encumbered by the required reversion date.
Related-party transactions.	Reviewed University policies and procedures related to identifying potential conflicts of interest. For selected University officials, reviewed Department of State, Division of Corporation, records; and University records to identify any potential relationships that represent a conflict of interest with vendors used by the University.
Direct-support organizations.	Reviewed transfers and loans between the University and its direct-support organizations to determine the legal authority of such transfers and loans.

**EXHIBIT B
MANAGEMENT'S RESPONSE**



Office of the President

January 20, 2015

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

Dear Mr. Martin:

Attached are the responses for the University of Central Florida to the Auditor General's preliminary and tentative operational audit findings for July 1, 2013-June 30, 2014.

If you should require additional information, please contact Robert Taft at 407-823-2889 or robert.taft@ucf.edu.

Cordially yours,

A handwritten signature in black ink that reads 'John C. Hitt'. The signature is written in a cursive style with a large initial 'J'.

John C. Hitt
President

cc: Rick Schell
Robert Taft

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

University of Central Florida

Response to Auditor General Operational Audit
For the Fiscal Year Ended June 30, 2014

Finding No. 1: Textbook Affordability

Recommendation: *The University should enhance its monitoring procedures to ensure that textbooks are timely posted on its Web site in accordance with State law.*

Response: The University did experience an issue with posting textbooks during a very limited period of time. However, we would also like to provide the context of this issue. UCF has been a leader for years among Florida peer institutions in the area of textbook adoption, which is verifiable through adoption percentage figures. The problem identified in the Auditor's report was an isolated event in the midst of a much longer period of compliance. In response to this recommendation, we have worked with our bookstore business partner (Barnes and Noble) to adopt even more stringent controls. Some of these include:

1. new staffing alignment to ensure better oversight reconciliation process;
2. installation of a dedicated hotline number for faculty and administration to report problems or concerns with textbook ordering;
3. creation of a Bookstore Innovation Group and a "more robust" Bookstore Advisory Committee—both of which are tasked with forward-thinking and solution-driven efforts at improving the textbook ordering process;
4. surveys of faculty and students to identify opportunities to improve textbook ordering and affordability;
5. addition of open forums for department textbook liaisons to discuss the ordering process and provide feedback on current processes;
6. an on-line ordering process "Faculty Enlight", which allows faculty to see the status of their orders and make changes within the posted deadlines; and
7. a stricter and more robust communication process that includes the Office of the Provost, Administration and Finance, and Business Services for critical textbook adoption dates, deadlines, and issues.

Each one of these accompanies the on-going practice of the Provost's Office providing notice to appropriate deans and chairs when their faculty members fail to meet the posted deadlines.

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

While no process is completely foolproof, these efforts will help alleviate future problems of this nature.

Finding No. 2: Tuition Differential Fee

Recommendation: *The University should enhance its procedures to ensure that tuition differential fees are expended in accordance with Section 1009.24(16), Florida Statutes. Additionally, to ensure accountability over the use of tuition differential fees, the University should establish a separate fund and account to record salary expenses funded with tuition differential fees. In addition, the University should document of record how the payments to the employees noted above are consistent with the specified purposes of Section 1009.24(16), Florida Statutes, or restore the \$422,289 of questioned costs to the recommended separate tuition differential fee fund.*

Response: In order to support the growing undergraduate student population, the university continues to rely on differential tuition funds of \$47 million, which is a fraction of the total expenses specifically directed towards undergraduate courses, programs, and services. Given the magnitude of the university's overall investment, it is currently a relatively simple exercise to identify planned expenses from differential tuition funds, and to reallocate those resources where necessary in direct support of undergraduate education as plans can and do change.

In the 2013-14 fiscal year, undergraduate courses to be taught by faculty instructors were identified as a component of the anticipated expenses from differential tuition funds. As planned activities changed, resources were reallocated to support other adjunct instructors teaching needed undergraduate courses using differential tuition fees to pay for these activities.

In an attempt to make the recording of these expenses more transparent in the future, the university will implement a more rigid accounting structure. The university will create new departments and/or account codes to separately record all differential tuition expenses effective as soon as programming changes can be made in the university's ERP system.

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

Finding No. 3: Severance Pay

Recommendation: *The University should take appropriate action to amend the President's employment agreement to be consistent with Section 215.425(4)(a), Florida Statutes*

Response: It is the General Counsel's assertion that the amended contract that was developed for the President is not in conflict with Section 215.425(4)(a). President Hitt's Fourth (and current) Amended and Restated Employment Agreement provides in Section 8.4 that Dr. Hitt was paid additional compensation for services rendered in the 2013-14 fiscal year equal to one year of base salary. However, this amount is subject to forfeiture if he is not employed by the University on June 30, 2016, unless terminated without cause prior to that date.

Board of Governors Regulation 1.001(5) provides as follows:

(a) Each board of trustees shall provide for the establishment of the personnel program for all the employees of the university, including the president, which may include but is not limited to: compensation and other conditions of employment, recruitment and selection, nonreappointment, standards for performance and conduct, evaluation, benefits and hours of work, leave policies, recognition and awards, inventions and works, travel, learning opportunities, exchange programs, academic freedom and responsibility, promotion, assignment, demotion, transfer, tenure, and permanent status, ethical obligations and conflicts of interest, restrictive covenants, disciplinary actions, complaints, appeals and grievance procedures, and separation and termination from employment. To the extent allowed by law, university employees shall continue to be able to participate in the state group insurance programs and the state retirement systems.

The Board of Trustees chose to award an additional year of compensation to President Hitt for services rendered during the 2013-14 year which will be actually paid if he is employed on June 30, 2016, or if he is terminated without cause prior to that date. Otherwise it is forfeited. So this is not a severance payment since services have been rendered in return for the payment. The General Counsel's office is not aware of any law prohibiting this type of arrangement, and the authority to award this type of compensation would fall within the broad delegation of authority given to the Board of Trustees by the Board of Governors. The University will discuss this issue with the General Counsel for the Florida Board of Governors.

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

Finding No. 4: Loans to a Direct-Support Organization

Recommendation: *The University needs to continue its efforts to ensure that funds loaned to a direct-support organization are returned to the University's accounts.*

Response: The University will continue to ensure collection of the UCF Athletic Association, Inc.'s (UCFAA) loans. The University's Board of Trustees (Board) annually reviews and approves the budget of UCFAA. As part of its review process the Board will monitor and discuss the status of the outstanding loans. The repayment schedule approved by the Board on July 26, 2012, is currently in full force and effect. Any deviation from that payment schedule would have to be approved by the Board.

Finding No. 5: Information Technology

Recommendation: *University information technology security controls related to user authentication needed improvement.*

Response: The university agrees with this finding and has begun steps to enhance user authentication in specific response to this finding. One phase of this remediation will be accomplished between January 2015 and July 1 2015, and a second phase will begin in January 2015 when funds can be appropriated.