

**UNIVERSITY OF CENTRAL FLORIDA**

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**Operational Audit**



## BOARD OF TRUSTEES AND PRESIDENT

Members of the Board of Trustees and President who served during the 2010-11 fiscal year are listed below:

Richard Walsh, Chair to 6-22-11 (1)  
Thomas Yochum, Vice Chair to 6-22-11 (1)  
Judith Albertson to 4-12-11  
James Atchison  
Olga Calvet  
Dr. Ida Cook (2)  
Meg G. Crofton from 6-23-11  
Richard T. Crotty from 4-13-11  
Alan S. Florez from 4-13-11  
Robert A. Garvy from 6-23-11  
Ray Gilley  
Michael J. Grindstaff  
Michael Kilbride to 5-08-11 (3)  
Phyllis Klock to 4-12-11  
Joseph Mantilla to 4-12-11  
Marcos Marchena from 6-23-11  
Matthew McCann from 5-09-11 (3)  
Harris Rosen  
John Sprouls from 4-13-11  
Daniel Webster to 12-31-10 (4)

Dr. John C. Hitt, President

Notes: (1) There was no chair or vice chair from  
June 23, 2011, through June 30, 2011.  
(2) Faculty Senate chair.  
(3) Student body president.  
(4) Position remained vacant from  
January 1, 2011, through June 22, 2011.

The audit team leader was James H. Cole, CPA, and the audit was supervised by Brenda C. Racis, CPA. For the information technology portion of this audit, the audit team leader was Shawn McCormick, 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](mailto: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](http://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.

UNIVERSITY OF CENTRAL FLORIDA

SUMMARY

Our operational audit disclosed the following:

PERSONNEL AND PAYROLL

**Finding No. 1:** The University needed to enhance its procedures to ensure documented supervisory review and approval of all payroll timekeeping records.

STUDENT TUITION AND FEES

**Finding No. 2:** The University needed to enhance its procedures for documenting Florida residency for tuition purposes.

EXPENSES AND DISBURSEMENTS

**Finding No. 3:** The University did not have written policies related to the use of electronic funds transfers, contrary to law.

INFORMATION TECHNOLOGY

**Finding No. 4:** The University had not developed a written, comprehensive information technology (IT) risk assessment.

**Finding No. 5:** The University’s IT 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, 2011, 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, 2011, will be presented in a separate report.

**FINDINGS AND RECOMMENDATIONS**

**Personnel and Payroll**

**Finding No. 1: Overtime Payments**

For the 2010-11 fiscal year, the University incurred expenses for salaries and benefits totaling approximately \$438.4 million, including \$926,902 for overtime. The University Police Department incurred \$446,778 in overtime, or 48 percent of total University overtime payments. We reviewed overtime payments from various departments, including the Police Department, from July through December 2010, to determine if employees were paid in accordance with the contracts or appropriate salary ranges; whether payroll expenditures were properly recorded and reported; and to determine whether the University complied with applicable laws, rules, and other guidelines.

We tested 15 University employees who, in the 2010-11 fiscal year, received \$242,246 in overtime payments, 8 of which were Police Department employees who received \$166,197 in overtime payments. Our test disclosed that, for 2 of the Police Department employees, the payroll records for both regular and overtime payments had not been approved by supervisory personnel. We subsequently requested payroll records for these two employees for six additional payroll periods. Of these 12 pay periods, only one evidenced supervisory approval.

The Police Department is one of eleven University departments that utilized a separate computerized timekeeping system. Under this system, employees either record their time stamp into their departmental computers, similar to punching a time clock, or swipe their employee ID cards at designated time clocks. However, this timekeeping system does not require supervisory approval prior to payroll processing. Without proper supervisory review and approval of timekeeping records, there is an increased risk that errors or fraud may occur and not be timely detected.

**Recommendation: The University should enhance its procedures to ensure documented supervisory review and approval of payroll timekeeping records.**

**Student Tuition and Fees**

**Finding No. 2: Student Residency Status**

Section 1009.21, Florida Statutes, states, in part, that students shall be classified as residents or nonresidents for the purpose of assessing tuition. According to this Statute, to qualify as a resident for tuition purposes, legal residence must be established and maintained in Florida for at least 12 months immediately prior to his or her initial enrollment in an institution of higher learning. Section 1009.21(3)(c), Florida Statutes, provides that a university shall affirmatively determine that an applicant who has been granted admission to that institution as a Florida resident meets the residency requirements of this section at the time of initial enrollment. Additionally, this law provides that residency determination must be documented by the submission of written or electronic verification that includes two or more specified documents (a Florida voter’s registration card, a Florida driver’s license, a State of Florida identification card, or a Florida vehicle registration). This law further provides that no single piece of evidence shall be conclusive. The University tuition rate for nonresidents is significantly higher than the rate for residents.

Our test of 28 student records disclosed the following:

- For three students enrolled in the College of Graduate Studies classified as Florida residents for tuition purposes, the University did not document the student’s submission of the written or electronic

documentation required to evidence Florida residency, contrary to law. The College relied on information provided by the students on their Graduate Application for Admission Form. The Form includes such information as the claimant’s voter registration, driver’s license number, vehicle registration number data, and employment history as evidence of residency. If nothing on the Form appears contradictory or raises concerns about the Florida residency claim, actual supporting documentation such as voter registration cards, driver’s licenses, or employment records are not requested. Absent documentation that University personnel have examined two or more of the required documents to verify Florida residency status at the time of initial enrollment, the University has not demonstrated compliance with Section 1009.21(3)(c), Florida Statutes.

- One student was a transient student (temporarily attending the University of Central Florida) from another Florida university. The University’s Registrar’s Office relied on the Transient Student Form, provided by the other university, to determine residency from the originating Florida university. The Form includes a section to indicate the student’s residency status and, in this case, the Form indicated that the student was a documented alien, and the Florida Resident box had not been check-marked. The Registrar’s Office indicated that the Florida resident designation was assigned in error. Another student was designated as a Florida resident because of a letter from his employer indicating employment for the 12 months while enrolled at a Florida College System institution but prior to his enrollment at the University. As the employment was concurrent with the Florida college enrollment, the student did not meet the requirements of Section 1009.21(3)(b). The classification of these students as Florida residents for tuition purposes resulted in a loss of \$17,027 of nonresident student fee revenue to the University.
- Two students, who were residents of Latin America or Caribbean countries, were assessed Florida resident tuition rates. University personnel indicated that these students were eligible for Florida residency status under Section 1009.21(10)(e), Florida Statutes, which provides that students from Latin America and the Caribbean who receive scholarships from the Federal or State government be classified as residents for tuition purposes. However, University records did not evidence that these students had received the required Federal or State scholarships to qualify for a Florida resident tuition rate. The classification of these students as Florida residents for tuition purposes resulted in a loss of \$30,975 of nonresident student fee revenue to the University.

Absent documentation evidencing affirmation of Florida residency status, there is an increased risk that the University may not properly assess tuition fees.

**Recommendation:** The University should obtain required documentation to ensure that students are assessed fees that are consistent with their residency status. The University should also ensure that students assessed Florida resident tuition rates pursuant to Section 1009.21(10)(e), Florida Statutes, received a Federal or State scholarship.

**Expenses and Disbursements**

**Finding No. 3: Electronic Funds Transfers**

Section 1010.11, Florida Statutes, requires each university board of trustees to adopt written policies prescribing the accounting and control procedures under which funds are allowed to be moved by electronic transaction for any purpose including direct deposit, wire transfer, withdrawal, investment, or payment. This law also requires that electronic transactions comply with the provisions of Chapter 668, Florida Statutes, which provides that the University is responsible for implementing control processes and procedures to ensure adequate integrity, security, confidentiality, and auditability of business transactions conducted using electronic commerce.

According to University records, \$1.4 billion of electronic funds transfers (EFTs) were made to various financial institutions and vendors for the purposes of funds transfer, investments, and payments to vendors during the 2010-11 fiscal year. However, contrary to Section 1010.11, Florida Statutes, the Board of Trustees had not established formal

written policies and procedures addressing the use of EFTs. While the University used informal processes such as electronic authorization forms and verbal instructions to monitor and control electronic transmission of funds, the lack of specific guidance in the Board of Trustees' policies increases the risk that electronic transactions will not be executed in accordance with Board directives and the provisions of Chapter 668, Florida Statutes.

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**Recommendation:** The Board should adopt formal written policies and procedures to address the use of EFTs to ensure adequate integrity, security, confidentiality, and auditability of such transactions consistent with applicable Florida Statutes.

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**Information Technology**

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**Finding No. 4: Risk Assessment**

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Management of information technology (IT)-related risks is a key part of enterprise IT governance. Incorporating an enterprise perspective into day-to-day governance actions helps an entity understand its greatest security risk exposures and determine whether planned controls are appropriate and adequate to secure IT resources from unauthorized disclosure, modification, or destruction. IT risk-assessment, including the identification of risks and the evaluation of the likelihood of threats and the severity of threat impact, help support management's decisions in establishing cost-effective measures to mitigate risk and, where appropriate, formally accept residual risk.

Although the University had contracted with a third-party vendor for an application impact analysis that identified risks related to the availability of the University's enterprise application system, it had not developed a written, comprehensive IT risk assessment including identifying risks related to the confidentiality and integrity of the enterprise application system and the supporting IT environment and security controls, such as selected configuration settings and policies and procedures to mitigate these risks. The absence of a written, comprehensive IT risk assessment may limit the University's assurance that all likely threats and vulnerabilities have been identified, the most significant risks have been addressed, and appropriate decisions have been made regarding which risks to accept and which risks to mitigate through security controls.

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**Recommendation:** The University should develop a written, comprehensive IT risk assessment related to the enterprise application system and the supporting IT environment to provide a documented basis for managing IT-related risks.

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**Finding No. 5: Security Controls – User Authentication**

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Security controls are intended to protect the confidentiality, integrity, and availability of data and 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 confidentiality, integrity, and availability of data and IT resources may be compromised, increasing the risk that University data and IT resources may be subject to improper disclosure, modification, or destruction.

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

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**PRIOR AUDIT FOLLOW-UP**

The University had taken corrective actions for findings included in our report No. 2010-115.

**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 February 2011 to November 2011 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 University internal controls promoted and encouraged compliance with applicable laws, rules, regulations, contracts, and grant agreements; the economic and efficient operation of the University; the reliability of records and reports; and the safeguarding of assets; (2) evaluate management’s performance in these areas; and (3) determine whether the University had taken corrective actions for findings included in our report No. 2010-115. 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 2010-11 fiscal year.

Our audit methodology included obtaining an understanding of the internal controls by interviewing University 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 University’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) logical access controls and user authorization.	Reviewed selected operating system, database, network, portal, and application security settings to determine whether authentication controls were configured and enforced in accordance with IT best practices.
IT access privileges.	Reviewed procedures for maintaining and reviewing access to IT resources. Tested selected access privileges over the operating system, database, network, and applications to determine the appropriateness and necessity based on employees' job duties and adequacy with regard to preventing the performance of incompatible duties.
IT data loss prevention.	Reviewed written policies, procedures, and programs in effect governing the classification, management, and protection of sensitive and confidential information.
IT security incident response.	Reviewed written policies and procedures related to security incident response and reporting.
IT risk management and assessment.	Reviewed the University's risk management and assessment processes and security controls intended to protect the confidentiality, integrity, and availability of data and IT resources.
Social security number requirements of Section 119.071(5)(a), Florida Statutes.	Examined supporting documentation to determine whether the University had provided individuals with a written statement of the purpose of collecting their social security numbers.
Identity theft prevention program (Red Flags Rule).	Reviewed University policies and procedures related to its identity theft prevention program for compliance with the Federal Trade Commission's Red Flags Rule.
University funding guarantees to direct-support organizations (DSOs).	Examined University records to determine if support agreements provided for University assistance for any DSO debt service.
Loans to direct-support organizations.	Examined University records to determine the repayment status of loans to the UCF Athletics Association, Inc.
Student Government Association funding.	Examined University records of transfers of Activity and Service Fees from the Student Government Association to the Parking Services Department to determine if such transfers were allowable.
Office supply store sales procedures.	Evaluated accounts receivable listing to determine if credit was advanced to nongovernmental entities.
Pharmaceutical inventories.	Reviewed University policies and procedures related to its pharmacy inventory to determine adequacy of controls.
Works of art and historical treasures.	Reviewed controls over museum works of art and historical treasures to determine whether the University had established adequate safeguards to protect such assets from theft or loss.

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

Scope (Topic)	Methodology
Administrative service charge fees for international students.	Determined whether fees and service charges assessed international students were in accordance with Florida Statutes.
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 Board of Governors Regulation 7.005.
Tuition differential fees.	Tested payments from tuition differential fees collected to determine whether the University used the tuition differential fees in compliance with Section 1009.24(16)(a), Florida Statutes.
Distance learning fees and excess hour surcharges.	Determined whether distance learning fees and excess hour surcharges were assessed and collected as provided by Sections 1009.24(17) and 1009.286(2), Florida Statutes.
Continuing education programs.	Reviewed University policies and procedures to ensure that credit continuing education courses did not compete with, or replace, the regular on-campus courses taken by degree seeking or special students.
Overtime payments.	Reviewed University policies, procedures, and supporting documentation evidencing the approval of and necessity for overtime payments.
Wireless communication devices.	Reviewed policies and procedures to determine whether the University limited the use of, and documented the level of service for, wireless communication devices.
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.
Electronic funds transfers and vendor payments.	Reviewed University policies and procedures relating to electronic payments and tested supporting documentation to determine if selected electronic payments were properly authorized and supported.
Construction administration.	For selected construction projects, tested payments and supporting documentation to determine compliance with University policies and procedures and provisions of law and rules. Also, for construction management contracts, determined whether the University monitored the selection process of subcontractors by the construction manager.
Procurement of goods and services.	Reviewed University regulations and procedures related to the procurement of goods and services to ensure a competitive vendor selection process. Tested vendors selected to determine if in accordance with University regulations and procedures.

**EXHIBIT B  
MANAGEMENT'S RESPONSE**



Office of the President

March 1, 2012

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 the fiscal year ended June 30, 2011.

If you should require additional information, please contact Amy Voelker at 407-823-2889 or [amy.voelker@ucf.edu](mailto:amy.voelker@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' and 'H'.

John C. Hitt  
President

c: Rick Schell  
Amy Voelker

**EXHIBIT B (CONTINUED)**  
**MANAGEMENT'S RESPONSE**

**University of Central Florida**

**Response to Auditor General Operational Audit**  
For the Fiscal Year Ended June 30, 2011

**Finding No. 1: Personnel and Payroll – Overtime Payments**

**Recommendation:** *The University should enhance its procedures to ensure documented supervisory review and approval of payroll timekeeping records.*

**Response:** A written directive was issued by the Chief of Police on November 22, 2011. The directive mandates that supervisors must approve all hours logged into the Kronos time-management system. The department audits the system each pay period to ensure compliance.

**Finding No. 2: Student Tuition and Fees – Student Residency Status**

**Recommendation:** *The University should obtain required documentation to ensure that students are assessed fees that are consistent with their residency status. The University should also ensure that students assessed Florida resident tuition rates pursuant to Section 1009.21(10)(e), Florida Statutes, received a Federal or State scholarship.*

**Response:** Documentation will be obtained to ensure that students are assessed fees that are consistent with their residency status.

The University will ensure that students assessed Florida resident tuition rates pursuant to Section 1009.21 (10)(e), Florida Status, received a Federal or State scholarship.

During the processing of transient applications that come in via FACTS.org or paper form, the Registrar's Office will verify that the residency coding in PeopleSoft is in agreement with the residency status certified by the home institution.

**Finding No. 3: Electronic Funds Transfers**

**Recommendation:** *The Board should adopt formal written policies and procedures to address the use of EFTs to ensure adequate integrity, security, confidentiality, and auditability of such transactions consistent with applicable Florida Statutes.*

**Response:** The University agrees with the recommendation and will ensure that an EFT policy and procedure is completed and approved by the UCF Policies and Procedures Review Committee and the UCF Board of Trustees.

**EXHIBIT B (CONTINUED)**  
**MANAGEMENT'S RESPONSE**

**University of Central Florida**

**Response to Auditor General Operational Audit**  
For the Fiscal Year Ended June 30, 2011

**Finding No. 4: Information Technology – Risk Assessment**

**Recommendation:** *The University should develop a written, comprehensive IT risk assessment related to the enterprise application system and the supporting IT environment to provide a documented basis for managing IT-related risks.*

**Response:** Computer Services & Telecommunications will obtain cost estimates for a comprehensive IT risk assessment from approved state vendors by April 30, 2012. A request for funding will be submitted in May for FY 1012-13. Presuming funding is approved, a risk assessment could begin as early as fall 2012.

**Finding No. 5: Information Technology – Security Controls – User Authentication**

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

**Response:** Computer Services & Telecommunications is implementing improved security controls related to authentication. Effective December 2011, CS&T began using Thycotic Secrete Server, a password management vault that secures and manages administrative passwords. Other identity management initiatives are underway to further secure and manage administrative user credentials.