

UNIVERSITY OF CENTRAL FLORIDA

Operational Audit



BOARD OF TRUSTEES AND PRESIDENT

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

Michael J. Grindstaff, Chair from 7-21-11 (1)
Olga M. Calvet, Vice Chair from 7-21-11 (1)
James Atchison
Dr. Ida J. Cook (2)
Meg G. Crofton
Richard T. Crotty
Alan S. Florez
Robert A. Garvy
Ray Gilley
Marcos R. Marchena
Matthew McCann to 5-09-12 (3)
Harris Rosen
John R. Sprouls
Cortez Whatley from 5-10-12 (3)

Dr. John C. Hitt, President

Notes: (1) There was no chair or vice chair from July 1, 2011, through July 20, 2011.
(2) Faculty senate chair.
(3) Student body president.

The audit team leader was Jeffrey L. Cardinali, 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 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.

UNIVERSITY OF CENTRAL FLORIDA

SUMMARY

Our operational audit disclosed the following:

BOARD POLICIES

Finding No. 1: The Board had not adopted written policies and procedures relating to electronic funds transfers.

PERSONNEL AND PAYROLL

Finding No. 2: The President’s employment agreement included a severance pay provision that was contrary to Section 215.425(4)(a), Florida Statutes.

INFORMATION TECHNOLOGY

Finding No. 3: The University had not developed a written, comprehensive information technology (IT) risk assessment related to the enterprise application system and the supporting IT environment.

Finding No. 4: 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, 2012, 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, 2012, will be presented in a separate report.

FINDINGS AND RECOMMENDATIONS

Board Policies

Finding No. 1: 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 required that

electronic transactions comply with the provisions of Chapter 668, Florida Statutes, which discusses the use of electronic signatures in electronic transactions between universities and other entities.

According to University records, \$1.4 billion of electronic funds transfers were made during the 2011-12 fiscal year. In response to our inquiry regarding written policies and procedures, University personnel indicated that an electronic funds transfers policy was approved by the University’s Policies and Procedures Review Committee on September 10, 2012, with Board approval expected in November 2012. While the University had informal processes, such as electronic authorization forms and verbal instructions to monitor and control electronic funds transfers, the lack of specific guidance in the form of written Board-approved policies and procedures increases the risk that electronic transactions will not be executed in accordance with Board directives and the provisions of Chapter 668, Florida Statutes. A similar finding was noted in our report No. 2012-104.

Recommendation: The Board should continue its efforts to adopt written policies and procedures related to electronic funds transfers.

Personnel and Payroll

Finding No. 2: Severance Pay

Section 215.425(4)(a), Florida Statutes, provides that, on or after July 1, 2011, 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 with an officer, agent, employee, or contractor must include certain provisions, including a requirement that severance pay provided may not exceed an amount greater than 20 weeks of compensation.

On July 21, 2011, the Board approved an amended employment agreement with the University President. The terms of the agreement provide for a five-year employment period commencing July 1, 2011, through June 30, 2016. Section 8.2 of the employment agreement provides that in the event the President is discharged without cause, the President shall be paid for the lesser of the remaining term of the contract or two years of base salary and deferred compensation. This provision is contrary to Section 215.425(4)(a), Florida Statutes, in that it allows for the President to receive severance pay that exceeds 20 weeks of salary.

Recommendation: The University should ensure that future employment agreements contain provisions for severance pay that are in accordance with Section 215.425(4)(a), Florida Statutes. The University should also take appropriate action to amend the President’s employment agreement to be consistent with Section 215.425(4)(a), Florida Statutes.

Information Technology

Finding No. 3: Risk Assessment

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. Documented IT risk assessment activities, 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.

As also noted in our report No. 2012-104, the University 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. In response to audit inquiry, University management stated that they had issued a *Request for Quotes* on April 30, 2012, for the development of a written risk assessment for the University's enterprise application and IT infrastructure. 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.

Recommendation: The University should continue its efforts to 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.

Finding No. 4: Security Controls – User Authentication

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 risk is increased that the confidentiality, integrity, and availability of University data and IT resources may be compromised. A similar finding was noted in our report No. 2012-104.

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.

PRIOR AUDIT FOLLOW-UP

The University had taken corrective actions for findings included in our report No. 2012-104, except that finding Nos. 1, 3, and 4 were also noted in prior audit report No. 2012-104, as finding Nos. 3, 4, and 5, respectively.

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 2012 to September 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:

- 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 the safeguarding of assets, and identify weaknesses in those controls.
- Determine whether management had taken corrective actions for findings included in our report No. 2012-104.
- 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, deficiencies 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's 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 various records and transactions occurring during the 2011-12 fiscal year. Unless otherwise indicated in this report, these records and transactions were not selected with the intent of statistically projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

An audit by its nature does not include a review of all records and actions of agency 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	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 risk management and assessment.	Determined the status of the University’s risk management and assessment processes and security controls intended to protect the confidentiality, integrity, and availability of data and IT resources.
Board meetings.	Reviewed Board minutes for evidence of compliance with Sunshine law requirements (i.e., proper notice of meetings, ready access to public, maintain 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.
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.
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.
Student loans.	Determined whether the University had established procedures for students that transferred from other institutions of higher education, to verify whether the student was not in default on student loans or was not past due on a student receivable.
Land acquisition.	Reviewed documentation related to the purchase of land adjacent to the University’s medical school.
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.	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 as provided by Section 1009.24(17), Florida Statutes.
Distance learning on-line registration process for transient students.	Determined whether the on-line registration process for transient students was in compliance with Section 1004.091(2)(b), Florida Statutes.
Overtime payments.	Reviewed University policies, procedures, and supporting documentation evidencing the approval of, and necessity for, overtime payments. Performed analytical procedures to determine the reasonableness of overtime payments.

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

Scope	Methodology
Terminal pay.	Reviewed the University’s policies and procedures for terminal pay to ensure consistency with Florida law. Additionally, reviewed severance pay provisions in contracts entered into after July 1, 2011, to determine whether the University was in compliance with Florida Statutes.
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.
Bonuses.	Determined whether employee bonuses were paid in accordance with Section 215.425(3), Florida Statutes.
Electronic funds transfers.	Reviewed University policies and procedures related to electronic funds transfers to determine whether the University was in compliance with Florida Statutes.
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.
Travel expenses.	Tested executive foreign and out-of-state travel expenses to determine whether the travel was reasonable, adequately supported, and for University 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.
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. Also, for construction management contracts, determined whether the University monitored the selection process of architects and engineers, construction managers, and subcontractors by the construction manager.
Earmarked capital project resources.	Determined whether Public Education Capital Outlay and other restricted capital outlay expenditures were in compliance with the restrictions imposed on the use of these resources.
Direct-support organizations – conflicts of interest.	Determined whether the University had established policies and procedures to avoid conflicts of interest with vendors who were doing business with the University and made donations to the University’s direct-support organizations.

**EXHIBIT B
MANAGEMENT'S RESPONSE**



Office of the President

December 3, 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, 2012.

If you should require additional information, please contact Amy Voelker at 407-823-2889 or amy.voelker@ucf.edu.

Cordially yours,

A handwritten signature in black ink that reads 'John C. Hitt'.

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, 2012

Finding No. 1: Board Policies - Electronic Funds Transfers

Recommendation: *The Board should continue its efforts to adopt written policies and procedures related to electronic funds transfers.*

Response: The University of Central Florida Board of Trustees approved the university's *Electronic Funds Transfer Policy*, No. 3-121, November 15, 2012.

Finding No. 2: Personnel and Payroll – Severance Pay

Recommendation: *The University should ensure that future employment agreements contain provisions for severance pay that are in accordance with Section 215.425(4)(a), Florida Statutes. The University should also take appropriate action to amend the President's employment agreement to be consistent with Section 215.425(4)(a), Florida Statutes.*

Response: The university acknowledges the apparent conflict between the language in Section 215.425(4)(a), Florida Statutes, and Section 8.2 of the President's employment agreement. Because this provision was negotiated in good faith with the President and included in a binding employment agreement, UCF's legal counsel must consult with the Board of Trustees and the President to determine how best to address this issue. The UCF Board of Trustees will take the appropriate action by July 2013.

Finding No. 3: 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: Following receipt of the original audit finding, we formed a committee with representatives from senior enterprise IT management teams to review the audit findings and develop a risk assessment scope document. We then developed and issued a Request for Quote (RFQ) for a comprehensive Risk Assessment of the Enterprise IT Environment.

Five quotes were received by the end of May 2012; they were subsequently scored and a preferred vendor was selected. Budget cuts and the associated funding uncertainties prevented us from acting on the quote during the first quarter of our 2012-13 fiscal year. In September, we requested an updated quote from the preferred vendor. The updated quote was provided and we issued a purchase order to the selected vendor November 8, 2012. Staff are currently working with the vendor to plan and carry out the comprehensive IT risk assessment.

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

University of Central Florida
Response to Auditor General Operational Audit
For the Fiscal Year Ended June 30, 2012

Finding No. 4: 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 and we continue to work on our identity management initiatives to further secure and manage administrative user credentials.