

STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

Report No. 2022-053
November 2021

UNIVERSITY OF CENTRAL FLORIDA



Sherrill F. Norman, CPA
Auditor General

Board of Trustees and President

During the 2020 calendar year, Dr. Alexander Cartwright served as President of the University of Central Florida during the period April 13, 2020, through December 31, 2020, and, before that period, Dr. Thad Seymour Jr. served as Interim President. The following individuals served as Members of the Board of Trustees:

Beverly J. Seay, Chair	John Lord through 1-6-20
Alex Martins, Vice Chair	Caryl McAlpin from 1-7-20
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Danny Gaekwad	Dr. William Self through 4-15-20 ^b
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Kyler Gray through 5-6-20 ^a	David Walsh
Dr. Joseph Harrington from 4-16-20 ^b	William E. Yeargin
Sabrina La Rosa from 5-7-20 ^a	

^a Student Body President.

^b Faculty Senate Chair.

The team leader was Patricia A. Tindel, CPA, and the audit was supervised by Jeffrey M. Brizendine, CPA.

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

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UNIVERSITY OF CENTRAL FLORIDA

SUMMARY

This operational audit of the University of Central Florida (University) focused on selected University processes and administrative activities and included a follow-up on findings noted in our report No. 2019-095. Our operational audit disclosed the following:

Finding 1: University controls to promote accountability and monitoring of Education and General Carryforward Spending Plan expenditures could be improved.

Finding 2: Controls over payments for contracted services need enhancement.

Finding 3: The sensitive personal information of prospective students is not periodically purged to reduce the risk of unauthorized disclosure or misuse.

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 (BOG). The University is directly governed by a Board of Trustees (Trustees) consisting of 13 members. The Governor appoints 6 citizen members and the BOG appoints 5 citizen members. These members are confirmed by the Florida Senate and serve staggered 5-year terms. The Faculty Senate Chair and Student Body President also are members.

The BOG establishes the powers and duties of the Trustees. The Trustees are responsible for setting University policies, which provide governance in accordance with State law and BOG regulations. The University President is selected by the Trustees and confirmed by the BOG. The University President serves as the Executive Officer and the Corporate Secretary of the Trustees and is responsible for administering the policies prescribed by the Trustees for the University.

FINDINGS AND RECOMMENDATIONS

Finding 1: Education and General Carryforward Spending Plan

Effective accountability and monitoring of University expenditures require the maintenance of detailed accounting records to help ensure transactions are properly executed as planned. State law¹ and Board of Governors (BOG) regulations² require each university president to prepare an operating budget, including an Education and General (E&G) Carryforward Spending Plan (Plan), for approval by the university trustees and the BOG. Additionally, expenditures from university E&G carryforward funds must be included in the actual history fiscal year reporting in the annual operating budget submissions to the BOG. For those universities that retain an E&G carryforward balance in excess of 7 percent of its State

¹ Sections 1011.40 and 1011.45, Florida Statutes.

² BOG Regulation 9.007(1), *State University Operating Budgets*.

operating budget, the Plan must include the estimated cost per planned expenditure and a timeline for completion of the expenditure. Additional BOG guidance³ indicates that a final reporting⁴ of actual activity is to be provided to the BOG subsequent to the end of the fiscal year whereby universities may be asked to explain deviations in actual spending from the original approved plan.

During the September 19, 2019, and September 10, 2020, Trustee meetings, respectively, the University Trustees approved and certified the proposed uses of E&G carryforward funds that exceeded 7 percent. The E&G carryforward balances exceeding the 7 percent totaled \$228.2 million for the 2019-20 fiscal year and \$189.8 million in the 2020-21 fiscal year. Each of the Plans included the estimated cost per planned expenditure and the estimated timeline for completion as required. The net reduction in the E&G carryforward balances indicated that the University expended \$38.4 million of the balance during the 2019-20 fiscal year. Notwithstanding, although we requested, University records were not provided to demonstrate how that reduction was supported by University expenditure records.

In August 2020, the University's Internal Audit Department prepared an analysis of the 2019-20 fiscal year Plan indicating that the University's current technology did not map actual expenditures to the Plan through use of a unique identifier or other means to track the expenditures of the planned E&G carryforward funds. In response to our request in June 2021, University personnel created a detailed report of E&G carryforward expenditures. However, University personnel indicated that the report of the expenditures could not be correlated to the Plan because the Plan is developed in a decentralized manner by various University budget units and expenditures are not maintained by planned uses of E&G carryforward funds. Our examination of University records disclosed that the Plans include several carryforward spending plan categories and that supporting supplemental Plan details include expenditure/project titles for each category; however, many of those titles are general in nature such as faculty startups, research support, and contracted services, which are not readily identifiable to specific transactions in University accounting records.

As of August 2021, the University had not developed guidance to identify what type projects and related expenditures should be included in the Plan, spending timelines for project expenditures, and the impact of deferred or unused balances. Absent University records to correlate actual expenditures to the Plan's estimated cost per planned expenditure of excess E&G carryforward funds, the University's ability to monitor the progress of Plan spending, ensure that anticipated transactions were properly executed within established project timelines, and respond to BOG inquiries regarding deviations in actual spending from the original approved Plan is limited.

Recommendation: The University should establish effective policies and procedures for developing the E&G Carryforward Spending Plan. Such policies and procedures should identify the type projects and related expenditures that should be included in the Plan, along with the spending timelines for those expenditures. The procedures should also include a mechanism to separately account for these expenditures by projects included in the Plan and appropriate monitoring of the applicable project completion timelines.

³ *Questions and Answers Carryforward Spending Plan* question (4), BOG.

⁴ True-up report designed by the BOG.

Finding 2: Contracted Services

Effective contract management requires and ensures that contract services and related costs agree with invoices before payments are made and that prepayments for services is typically prohibited. University procedures⁵ provide that contracts must specify the price, quantity, and scope of work; invoices must be submitted in detail sufficient for audit review; and prepayments are strictly prohibited for professional services, including but not limited to consulting and legal services, unless an exception is approved in writing in advance of the purchase by the Assistant Vice President for Tax, Payables, and Procurement.

To prompt compliance with University procedures, the University Legal Department approved a standard contract that is routinely used for service procurements. Standard contract billing terms require the University to only submit payment to a service contractor upon the receipt of invoices that specifically describe the services provided, the dates and hours that the services were rendered, and the fee charged. In addition, University contracts occasionally refer to an attached pricing schedule that authorizes invoices to be submitted based on a lump sum or scheduled payments.

University contracted service payments totaled \$14.3 million during the 2020 calendar year. To determine the propriety of these payments, we requested for examination University records supporting 30 selected payments totaling \$2.2 million and noted that:

- 3 invoices for contracted services totaling \$227,750 were not in sufficient detail to demonstrate compliance with the respective contracts. Specifically, the University approved:
 - An architect contract, based on the University standard contract, for classroom seating design services and the contract indicated that the fee would not exceed \$110,250, with hourly pay rates of \$55 to \$140 per hour. However, the University paid the \$110,250 lump-sum payment and neither the invoice nor other University records identified the services or hourly rates totaling the amount of the lump-sum payment.
 - A program consultant contract, based on the University standard contract, totaling \$220,000 for design and evaluation services and the contract referenced an attached pricing schedule with hourly pay rates of \$71 to \$233 per hour. The University also approved a marketing research consultant contract, based on the University standard contract, for brand research and analysis services totaling \$75,000 and the contract referenced an attached pricing schedule with service costs totaling \$60,000 to be paid in quarterly payments and \$15,000 for six on-demand reports. The University paid \$80,000 on July 21, 2020, to the program consultant and \$37,500 on May 14, 2020, to the marketing research consultant; however, contrary to the contract requirements, the invoices supporting these payments lacked service descriptions and related costs to correlate to the contracted program consultant hourly rates and marketing research consultant deliverables.
- Contrary to University procedures, without advance approval, the University prepaid \$60,000 on August 11, 2020, for approximately 11 months of contracted government relations services⁶ to be provided by a law firm.

When invoices do not specify, and payments are made without consideration of, the services provided and related hourly pay rates in accordance with the contract provisions, and prepayments are made

⁵ UCF Procurement Services Procedures Manual – Sections 3.G. – Advance Payments, 9.D. – Contractual Services, 9.C. – Contracts: Annual or Term.

⁶ According to University personnel, the government relations services were mainly for lobbying services.

without required advance approval, there is an increased risk that overpayments may occur without timely detection and recovery and that services may not be consistent with University Trustee expectations.

Recommendation: The University should enhance procedures to ensure that contract and invoiced services and related costs agree before payments are made and that prepayments are not made without required advance approval.

Finding 3: Prospective Student Sensitive Personal Information

The Legislature has recognized in State law⁷ that social security numbers (SSNs) can be used to acquire sensitive personal information, the release of which could result in fraud against individuals or cause other financial or personal harm. Therefore, public entities are required to provide extra care in maintaining the confidential status of such information.

The University collects and uses student SSNs for various purposes, such as to register newly enrolled students, comply with Federal and State requirements related to financial and academic assistance, and perform other University responsibilities. The University maintains sensitive personal records, including SSNs, of prospective, current, and former students. The University maintains former students' SSNs to provide student transcripts to universities and potential employers based on authorized requests. According to the University Director for Operations and Data Management, the University retains prospective student records indefinitely as a procedural practice for the convenience of the applicant.

As of May 2021, according to the University Chief Information Security Officer, the University IT system contained SSNs for 1,752,371 students, including 1,358,423 prospective students who elected to have their college board scores sent to the University but did not apply for admission, 322,000 alumni, and 71,948 current students. While State *General Records Schedules*⁸ require retention periods of 5 years for certain records of students who apply for admission but are denied or who did not register, the University did not have a policy requiring prospective student records to be purged and did not document the public purpose served for indefinitely maintaining that information. The existence of unnecessary access to prospective student information for prolonged periods increases the risk of unauthorized disclosure of sensitive personal information and the possibility that the information may be used to commit a fraud against University students or others.

Recommendation: To ensure sensitive personal information, including SSNs, of prospective students who apply but do not enroll in the University is properly safeguarded, the University should document the public purpose served for retaining that information beyond 5 years and, based on that purpose, establish a reasonable time frame for retention, and promptly remove the information when the time frame expires.

PRIOR AUDIT FOLLOW-UP

The University had taken corrective actions for findings included in our report No. 2019-095.

⁷ Section 119.071(5)(a), Florida Statutes.

⁸ Florida Department of State, Division of Library and Information Services - *General Records Schedule GS5 For Public Universities and College*, Item #97.

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 2021 through July 2021 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This operational audit focused on information technology resources and related controls; payments to direct support organizations; student fees; textbook affordability; compensation, construction, other expenses; and other processes and administrative activities.

For those areas, our audit objectives were to:

- Evaluate management's performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse, and in administering assigned responsibilities in accordance with applicable laws, rules, regulations, contracts, grant agreements, and other guidelines.
- Examine internal controls designed and placed in operation to promote and encourage the achievement of management's control objectives in the categories of compliance, economic and efficient operations, reliability of records and reports, and safeguarding of assets, and identify weaknesses in those controls.
- Determine whether management had taken corrective actions for findings included in our report No. 2019-095.
- Identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

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

As described in more detail below, for those programs, activities, and functions included within the scope of our audit, our audit work included, but was not limited to, communicating to management and those charged with governance the scope, objectives, timing, overall methodology, and reporting of our audit; obtaining an understanding of the program, activity, or function; identifying and evaluating internal controls significant to our audit objectives; exercising professional judgment in considering significance and audit risk in the design and execution of the research, interviews, tests, analyses, and other

procedures included in the audit methodology; obtaining reasonable assurance of the overall sufficiency and appropriateness of the evidence gathered in support of our audit findings and conclusions; and reporting on the results of the audit as required by governing laws and auditing standards.

Our audit included transactions, as well as events and conditions, occurring during the audit period of January 2020 through December 2020 and selected University actions taken prior and subsequent thereto. Unless otherwise indicated in this report, these records and transactions were not selected with the intent of statistically projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

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

In conducting our audit, we:

- Reviewed applicable laws, rules, University policies and procedures, and other guidelines, and interviewed University personnel to obtain an understanding of applicable processes and administrative activities.
- Evaluated Trustees security policies and University procedures for the audit period governing the classification, management, and protection of sensitive and confidential information.
- Evaluated University procedures for protecting the sensitive personal information of students, such as social security numbers. From the population of 144 employees who had access privileges to the sensitive personal information of students during the audit period, we examined University records supporting the access privileges granted to 30 employees to evaluate the appropriateness of and necessity for the access privileges based on the employees' assigned job responsibilities.
- Examined University records supporting the internal audit function to determine whether the University followed applicable professional requirements and provided for peer review of reports issued.
- Examined University records supporting use of the Advanced Manufacturing Sensor Project appropriation totaling \$5 million.
- Evaluated the University's compliance with Section 1004.55(2), Florida Statutes, regarding the annual fundraising requirement of 2 percent of appropriations received for the Center for Autism.
- From the population of 12,716 course sections reported to the Chancellor of the State University System for the Fall 2019 and Spring 2020 Semesters, examined University records to determine whether University Trustees policies and University procedures for textbook affordability complied with Section 1004.085, Florida Statutes.
- Determined whether the University maintained a minimum education and general appropriation carryforward balance of at least 7 percent of its State operating budget and prepared a spending plan for balances in excess of the 7 percent minimum balance as required by Section 1011.45, Florida Statutes.
- Determined whether the Trustees established investment policies and procedures as required by Section 218.415, Florida Statutes, and whether University investments during the audit period complied with those policies and procedures. Also, we determined whether any investment income was properly allocated to the funds that generated the investment income.

- From the population of student user fees collected totaling \$152 million during the audit period, we examined University records and conducted various audit procedures for athletics, capital improvements, distance learning, financial aid, health, student activities, technology, and transportation user fees totaling \$136.5 million to determine whether the fees were properly assessed and authorized, accurately calculated, and correctly recorded in accordance with Section 1009.24, Florida Statutes.
- Examined severance pay provisions in the President's contract, effective April 13, 2020, and reviewed a settlement and release agreement for the prior University President, to determine whether the provisions and payments complied with Section 215.425(4)(a), Florida Statutes.
- Evaluated University policies and procedures for obtaining personnel background screenings to determine compliance with Section 1012.915, Florida Statutes. From the population of 269 employees filling positions designated as subject to background screening, we examined records for 30 employees to determine required background screenings had been performed.
- From the population of expenses totaling \$71 million during the audit period from student user fees, determined whether the use of athletics, financial aid, health, and student activities fees complied with applicable State laws, BOG regulations, and University policies.
- Identified significant payments and transfers totaling \$70.5 million, made during the audit period, from the University to or for its direct-support organizations, and examined University records supporting payments totaling \$66.8 million to determine whether the transactions were authorized by Section 1004.28(1)(a)2. and (2), Florida Statutes.
- Examined University records to determine whether selected expenses were reasonable; correctly recorded; adequately documented; for a valid University purpose; properly authorized and approved; in compliance with applicable laws, rules, contract terms, and University policies and whether applicable vendors were properly selected. Specifically, from the population of professional services expenses totaling \$14.3 million for the audit period, we examined University records supporting 30 selected payments for contractual services totaling \$2.2 million.
- Determined whether the process for selecting collection agencies was appropriate.
- Determined whether the University had an approved ethics policy that prohibited the receipt of gifts from vendors.
- Determined whether Education and General carryforward funds were budgeted and used in accordance with BOG Regulation 9.007.
- Reviewed University records to determine major construction projects, which totaled \$50.4 million, and reviewed funding to determine whether appropriate sources were utilized for those projects.
- Examined University records to determine whether the new financial enterprise resource program to be purchased at a budgeted cost of approximately \$50 million was adequately assessed prior to purchase and properly selected through the competitive vendor selection process.
- From the population of 10 payments totaling \$4.6 million, selected and examined documentation supporting a payment of \$2.2 million during the audit period for the new software applications to determine whether the payment met the contract terms and conditions.
- Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.
- Prepared and submitted for management response the findings and recommendations that are included in this report and which describe the matters requiring corrective actions. Management's response is included in this report under the heading **MANAGEMENT'S RESPONSE**.

AUTHORITY

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

A handwritten signature in blue ink that reads "Sherrill F. Norman". The signature is written in a cursive style with a large initial 'S'.

Sherrill F. Norman, CPA
Auditor General

MANAGEMENT'S RESPONSE



UNIVERSITY OF CENTRAL FLORIDA

Office of the President
P.O. Box 160002
Orlando, FL 32816-0002

November 19, 2021

Ms. Sherrill F. Norman
Auditor General, State of Florida
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450

Dear Ms. Norman:

Attached are the responses for the University of Central Florida to the Auditor General's preliminary and tentative operational audit findings for July 2019 through June 2021.

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

Sincerely,

A handwritten signature in black ink that reads "Alexander Cartwright".

Alexander N. Cartwright, Ph.D.
President

cc: Mike Kilbride
Robert Taft

Phone: 407.823.1823 • Fax: 407.823.2264
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University of Central Florida

Response to Auditor General Operational Audit

For audit period July 2019 through June 2021

Finding No. 1: Education and General Carryforward Spending Plan

Recommendation: *The University should establish effective policies and procedures for developing the E&G Carryforward Spending Plan. Such policies and procedures should identify the type projects and related expenditures that should be included in the Plan, along with the spending timelines for those expenditures. The procedures should also include a mechanism to separately account for these expenditures by projects included in the Plan and appropriate monitoring of the applicable project completion timelines.*

Response: The University has established University Policy 3-211, University Budget Process, which identifies authorized expenditures in an E&G Carryforward Spending Plan (as identified in BOG Regulation 9.007, State University Operating Budgets and Requests) and establishes procedures for carryforward spending plan development. We will enhance procedures for developing the E&G Carryforward Spending Plan to address spending timelines for those expenditures and subsequent changes to planned projects.

The university will go-live with its new enterprise resource planning (ERP) system Workday on July 1, 2022, which will provide system controls to promote accountability and monitoring of E&G Carryforward Spending Plans. Specifically, within Workday, E&G Carryforward funds will be segregated out into its own accounting Fund and every planned use of funds identified on the E&G Carryforward Spending Plan will have its own unique identifier and include project completion timeline.

Finding No. 2: Contracted Services

Recommendation: *The University should enhance procedures to ensure that contract and invoiced services and related costs agree before payments are made and that prepayments are not made without required advance approval.*

Response: The University has reviewed the description and recommendation for Finding 2. The University agrees with the recommendation included in the finding.

We have implemented an action plan to respond to this recommendation. Outlined below, our plan includes:

- Training to be required for vendor payables staff. This training will also be offered for departmental accounting personnel. Training will address best practices for approving payment on invoices, with an emphasis on comparing invoices submitted to approved contracts.
- An updated procedure to allow for certain prepayments without additional review has been drafted: <https://fa.ucf.edu/wpcontent/uploads/sites/2/BPCW-PC-318.pdf>
- Training to be required for vendor payables staff to review the updated procedure and provide common business practices for advance payments. This training will also be extended to departmental personnel.

Finding No. 3: Prospective Student Sensitive Personal Information

Recommendation: *To ensure sensitive personal information, including SSNs, of prospective students who apply but do not enroll in the University is properly safeguarded, the University should document the public purpose served for retaining that information beyond 5 years and, based on that purpose, establish a reasonable time frame for retention, and promptly remove the information when the time frame expires.*

Response: Undergraduate Admissions agrees to comply with the State Record Retention Schedule of 5 years for retention of prospect records for applicants who did not enroll.

Undergraduate Admissions is working with UCF IT to resolve the issue of retention of prospect records in PeopleSoft, older than the requisite 5 years.

The resolution is to:

1. delete the current prospect records beyond 5 years old, and
2. set up a process to delete prospect records beyond 5 years old on an ongoing basis, as follows:
 - a. Development of the process has begun and the process of deleting existing prospect records older than 5 years will begin no later than 12-1-2021. We must move forward with an abundance of caution to ensure no financial or HR information exists for these records prior to deleting them.
 - b. Undergraduate Admissions will send an annual request to UCF IT to delete any prospect records over 5 years old on December 1st each year.