

# Audit Report

## eLearning

---

August 2021

## Summary – eLearning

Overall, our review disclosed that the University of Texas at Arlington’s (UTA) eLearning vendor (Vendor) was operating in accordance with the contracted terms. However, our review identified a need for UTA to establish a central point of responsibility and ownership over vendor relationship/records, an accurate analysis of program costs, formal oversight and monitoring of the program, and additional detailed contract language. Specifically, the following opportunities were identified:

Observations	Rating	Number
4	Priority	0
	High	3
	Medium	1
	Low	0

Audit Observation	Rating	Page
<p><b>1. Contract Administration</b> An opportunity exists to centralize the management and oversight of the Vendor contract by assigning a contract administrator with overall responsibility.</p>	High	Page 4
<p><b>2. Cost Price Analysis</b> An opportunity exists to improve Vendor program decisions based on complete and accurate cost information.</p>	High	Page 6
<p><b>3. Contract Monitoring</b> An opportunity exists to help ensure all services required by the contract are being performed.</p>	High	Page 8
<p><b>4. Contract Detail</b> An opportunity exists to improve contract language by including a detailed statement of work, performance measures, and monitoring provisions.</p>	Medium	Page 10

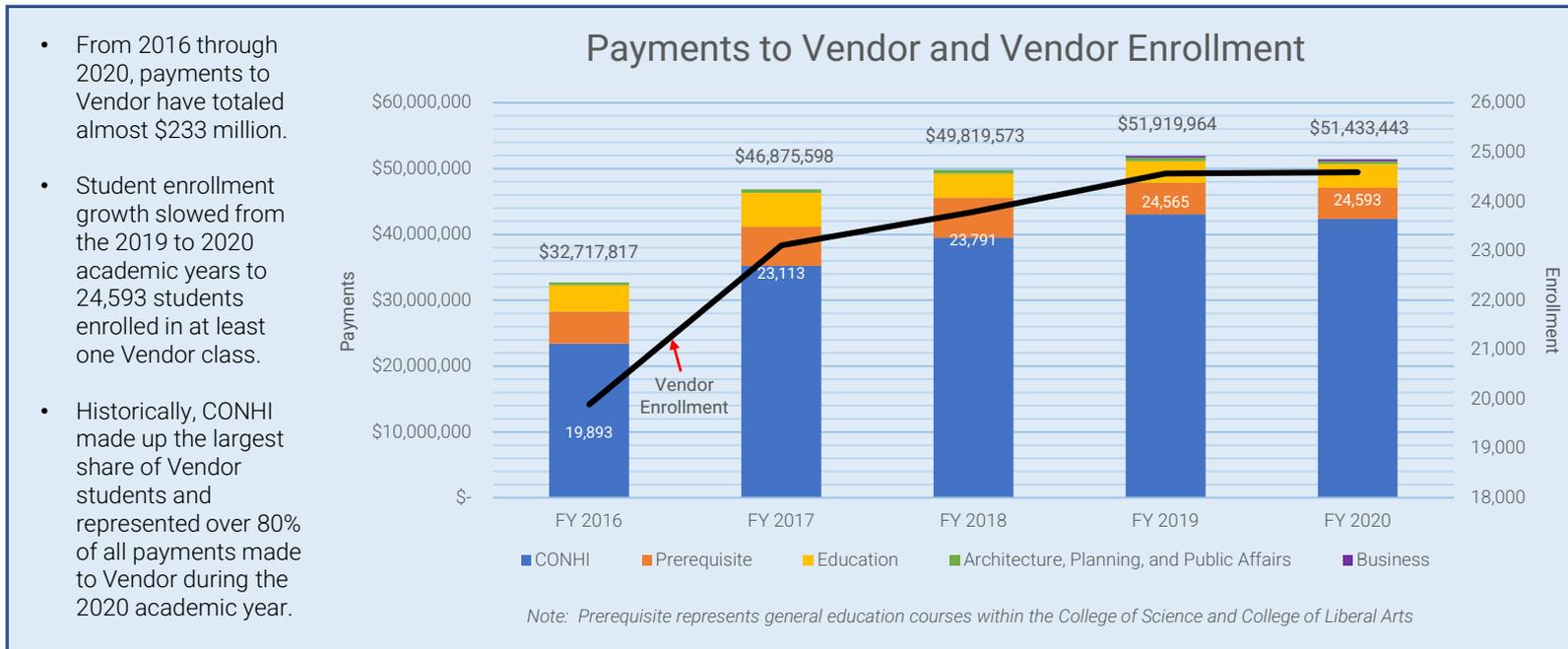
Further details can be found on the following pages. Other less significant opportunities were communicated to management separately.

We appreciate the courtesy and cooperation received from the colleges of Business, Education, and Nursing and Health Innovation; Enrollment Services; the Office of Business Services; and the Office of Procurement throughout this audit.

## Background – eLearning

In November 2011, the University of Texas (UT) System and Vendor entered into an agreement to provide Online Program Management (OPM) services. This allowed any UT Institution to order OPM services under this agreement. In March 2012, UTA signed a seven-year order with Vendor with five-year renewals. The first programs under this order were with the colleges of Education and Nursing and Health Innovation (CONHI). Subsequently, new programs were added to the order by addenda. In November 2017, an amendment was signed to renew the order through 2022, but it did not allow for any renewals.

The terms of these orders are based on a revenue sharing agreement in which Vendor would, among other things, attract and recruit students for UTA's accelerated online programs and Vendor would receive a percentage of these students' tuition revenue. The remaining tuition revenue is split evenly between the college and UTA's central revenue account, which is used to pay the academic coaches and for administrative and academic support budgets.



## Observation 1 – Contract Administration

High

In general, and as required by UTA's Contract Management Handbook, a single contract administrator should be identified along with others to assist managing the vendor relationship and contract. The contract administrator, in consultation with executive management, should assign roles and responsibilities to each member of the contract management team, including:

- Determining the sequence of activities, dependencies, required or desired outcomes, and acceptable performance levels.
- Monitoring and documenting contractor activity on a specified frequency to identify any problem areas.
- Working with project administrators and key stakeholders to monitor contractor's progress and performance of the Statement of Work to ensure goods and services conform to contract requirements.
- Establishing scope of authority, clear lines of communication and reporting protocol for individuals who will interact directly with contractor.
- Establishing control of correspondence, data and reports.

Additionally, the contract administrator should keep one complete master contract administration file. These files should hold all the information necessary to reconstruct and understand the history of the contract in the absence of the contract administrator, as well as to know what was expected and received under the contract.

While the Office of Procurement Services and Strategic Sourcing (Procurement) had assigned a contract specialist for the Vendor contract, this individual did not have overall responsibility for administering and overseeing the contract. According to Procurement management, whomever is the "owner" or key stakeholder of a project is responsible for the day-to-day management and vendor performance of the contract, which in this case is each college with a Vendor program. We also noted that there was no document that lists who is responsible for oversight of the various parts of the contract, a chain of command, or who to contact if there are performance issues related to the contract.

Additionally, the contract specialist was not provided with all relevant documentation related to the contract in order to maintain a complete master contract administration file, including how the original pricing for Vendor programs and the percentage of tuition revenue that would be paid to Vendor were determined.

Management in Procurement stated this contract was not required to follow the Contract Management Handbook procedures because it did not originate or flow through Procurement.

## Observation 1 – Contract Administration (Continued)

High

In June 2020, UTA signed a new contract with Vendor and established an Operational Governance Committee which focuses on managing the collaboration between UTA and Vendor. Primary functions of this Committee include reviewing each Party's performance of its obligations under the agreement, review of operational and performance reports, and issue management and resolution processes. However, there are no programs operating under this new contract and all current Vendor programs are operating under the 2017 agreement.

Decentralized or ineffective contract administration can result in significant contract risks including decreased performance, insufficient oversight, and lost revenues.

### Recommendation:

We recommend the Provost and Vice President for Academic Affairs assign a contract administrator with overall responsibility for oversight of the Vendor contract. Additionally, a cross-functional council should be established to oversee the performance of Vendor programs, assign roles and responsibilities for individuals involved in the oversight of Vendor programs, and make recommendations regarding Vendor program decisions currently operating under the 2017 agreement.

### Management Response:

The Office of the Provost and Vice President for Academic Affairs will assign a contract administrator who will report to the Provost. This person will be the main point of contact for Vendor and UTA as it relates to this agreement and the services being performed under this agreement. Vendor and the college representatives will continue to work together directly, under the oversight of the contract administrator. Additionally, a cross-functional council will be formed that includes the colleges and business offices involved in Vendor programs to oversee the performance of the Vendor programs and assign roles and responsibilities for individuals involved in the oversight of Vendor programs. The council will meet on a regular basis to discuss current issues and make recommendations to college and upper management regarding Vendor program decisions. The contract administrator will maintain all council meeting minutes in the master contract administration file.

**Target Implementation Date:** May 1, 2022

**Responsible Party:** Provost and Vice President for Academic Affairs

## Observation 2 – Cost Price Analysis

High

A price or cost analysis should be performed in connection with a procurement action in order to evaluate cost elements and determine a fair and reasonable price. Additionally, an appropriate allocation of indirect or overhead costs must be included to ensure an accurate evaluation of costs. Prior to adding new Vendor programs, the colleges were to perform a cost analysis; however, documentation of these cost analyses or how the prices for each program were determined was not maintained.

We obtained more recent cost analyses performed for the Nursing, Education, and Business Vendor programs. However, the methodology and level of detail varied widely between each analysis as well as the costs that were included. More so, the analyses were performed at the college level and did not include tuition revenue that went to the central revenue account.

Additionally, an analysis had not been completed on indirect costs borne by the University that would be allocable to the Vendor programs, such as University Administration/Leadership, Enrollment Management, Business Services, Financial Aid, OIT Support, and the Center for Distance Education. Overhead costs that would be allocable to faculty and staff who work on Vendor programs such as rent or debt service, utilities, internet, custodial services, and facilities/ground maintenance should also be included in these analyses.

According to Academic Resource Planning management, there are gaps in the accounting data that prevent systematically pulling complete cost data by program. Currently, determining university level indirect costs and college level support costs requires a manual and labor-intensive process.

While the total cost of the Vendor programs are unknown, we noted that the cost of tuition for Vendor courses had not increased since UTA signed the order in March 2012. **See *Average Non-Vendor Tuition (Full-Time)*.**



## Observation 2 – Cost Price Analysis (Continued)

High

Cost analysis and allocation of indirect costs are important for both pricing and planning decisions. If costs are not accurately calculated, management cannot determine the profitability of each program. More detailed cost analyses are currently being completed on these programs; however, UTA management stated historically, indirect costs have not been allocated to Vendor programs.

### Recommendation:

We recommend that the Chief Financial Officer and Vice President, and the Provost and Vice President for Academic Affairs continue efforts to conduct cost analyses of Vendor programs, including appropriate allocation of all indirect costs, to help ensure decisions made related to Vendor programs are based on complete and accurate information. The previously recommended cross-functional council should regularly review costs and profitability of Vendor programs and make recommendations to management based on these reviews and an analysis of the competitive landscape.

Long-term, UTA should continue to build on its current knowledge and skills related to online program management and consider investing resources to bring these services in-house and reduce risks associated with heavily relying on outside parties for these activities.

### Management Response:

The Chief Financial Officer and Vice President will work with the Academic Resource Planning team to refine program cost analysis by implementing the proposal currently being considered to add and utilize additional fields in UTShare Finance and HCM that will allow costs to be tracked at a more granular level. Starting in FY21-22, UTA's new budget model will provide more transparency to our online revenue streams and the administrative support costs allocated to each academic college. The Academic Resource Planning team has developed a consistent methodology for reviewing new degree proposals which incorporates data from the budget model. This will be updated annually and reviewed by the cross-functional council. The cross-functional council will review the cost analysis and make recommendations to management based on the current competitive landscape.

**Target Implementation Date:** June 30, 2022

**Responsible Parties:** Chief Financial Officer and Vice President, Provost and Vice President for Academic Affairs

## Observation 3 – Contract Monitoring

High

Performance monitoring, overseen by the contract administrator, is a key function of proper contract administration that helps confirm that a contractor is performing all its duties and obligations in accordance with the terms of the contract, and identify and address any developing problems or issues. The level of monitoring will depend on many factors including the dollar value of the contract, the complexity of the goods and services, the level of contract risk, and the University's experience with the contractor.

We conducted interviews with the Deans and Associate Deans within the colleges of Nursing, Education, and Business to determine the extent of oversight and monitoring procedures that were being performed. Through these interviews, we learned:

- The deans were not informed that it was their responsibility to monitor the contract.
- While there was some level of oversight at the colleges, no formal contract monitoring procedures were being performed.
- Assistant deans with oversight responsibilities in the Colleges of Business and Nursing were not provided a copy of the Vendor contract.
- Individuals with oversight responsibilities had not received contract management or monitoring training.

Additionally, there are contract provisions related to sharing data from the Student Information System that would be protected under the Family Educational Rights and Privacy Act (FERPA). While FERPA permits the disclosure of personally identifiable information from education records to contractors in certain circumstances; the institution is still responsible for its protection. However, UTA is not performing procedures to help ensure the proper safeguarding of education records once provided to Vendor.

The risks associated with contracted services can be mitigated by developing an effective contract monitoring system. Additionally, training in contract monitoring increases the likelihood that individuals will properly monitor contracts by giving them the appropriate background knowledge related to contracts.

## Observation 3 – Contract Monitoring (Continued)

High

### Recommendation:

We recommend that a formalized monitoring plan be developed and implemented to help ensure all services required by the contract are being performed. The previously recommended cross-functional council should identify risks; establish monitoring protocols; and review Vendor's marketing plan, contact strategy, and scripts for perspective and continuing students. Additionally, consideration should be given to establishing an oversight protocol where high level marketing plans, student contact initiatives, and interactions with students are reviewed on a regular and reoccurring basis. The monitoring plan should be overseen by a contract administrator who would be responsible for ensuring monitoring tasks are performed in accordance with the monitoring plan.

Additionally, procedures should be performed to help ensure Vendor is properly safeguarding education records that have been provided by UTA. This can be partly accomplished by obtaining a Service Organization Report (SOC 2 Type II) from Vendor on the operational effectiveness of controls in place.

### Management Response:

The cross-functional council will identify risks and establish monitoring protocols. A formalized monitoring plan will be developed based on this work and specific duties will be assigned to the appropriate colleges and offices. The contract administrator will oversee the performance of the monitoring plan and ensure timely completion of any duties. The cross-functional council will evaluate deficiencies identified and make recommendations to management regarding corrective actions.

**Target Implementation Date:** May 1, 2022

**Responsible Party:** Provost and Vice President for Academic Affairs

## Observation 4 – Contract Detail

Medium

Contracts should include sufficient detail to help ensure roles and responsibilities of each party are clearly defined and contribute to a vendor's understanding of what is required as part of a contract or agreement. This should include a detailed Statement of Work, performance measures, and provisions allowing access to records for auditing or monitoring purposes. Additionally, performance reinforcements, such as incentives or consequences for under performance, are helpful in obtaining optimal performance from the vendor. In our review of the UTA and Vendor contract, we noted the following:

- Contract provisions lacked sufficient detail and used language (such as "works with" and "assist") that did not clearly state to what extent each party would contribute to a specific task. This required UTA to develop an additional document outside of the contract to identify roles and responsibilities between Vendor, UTA's Center for Distance Education, and the academic department for the curriculum support and implementation of the online programs. Additionally, the contract required Vendor to use commercially reasonable efforts to market the programs; however, there were no specifics regarding Vendor's media and contact strategy, or other efforts utilized by Vendor to market the programs.
- The contract did not provide for the access to records for auditing or monitoring purposes. While the contract required Vendor to provide performance reports, these reports were more general and could not be used for decision making. Additionally, UTA had no assurance certain provisions were being met without the ability to monitor. For example, the contract states that students who contact Vendor regarding UTA programs will only be provided information regarding UTA's programs and not information for other institutions of higher education. However, since this is not an exclusive contract, we do not know whether Vendor referred students to another university that may result in higher amounts paid to Vendor.
- Each college utilized different levels of service from Vendor. For example, the College of Education did not rely on Vendor for program implementation and curriculum support services since this is one of their areas of expertise. Additionally, the College of Education developed their own "hub" to address Vendor student questions at a significant cost to their programs because they determined Vendor was providing inaccurate information to students. However, the percent of tuition paid to Vendor for Education programs was not adjusted to reflect this change.
- The contract did not contain performance measures or reinforcements. For example, no specific enrollment goals had been set or communicated with Vendor and there were no provisions to protect UTA in the event that enrollment goals are not met. **See *Trends in Vendor Enrollment* on next page.**

## Observation 4 – Contract Detail (Continued)

Medium

Adequately detailing each parties' responsibilities helps ensure services are performed as intended and there are no disagreements over the extent of services to be provided. Additionally, financial incentives can be an effective method of inducing a vendor to perform a desired service, while consequences for poor performance written into a contract provide the ability to take action against a vendor that fails to meet performance goals or comply with contract terms.

### Recommendation:

We recommend the Chief Legal Officer work with contracting departments to help ensure the contract scope of work and responsibilities of each party are sufficiently detailed and well defined. As applicable, performance measures and reinforcements should be incorporated into contracts as well as monitoring provisions, including access to records and specific procedures to be performed, such as on-sight monitoring and unannounced listening sessions during Vendor contact with current and prospective students.

### Trends in Vendor Enrollment

Overall, Vendor enrollment increased by an average of 2.8% from the 2017 to 2020 academic years. However, there were decreases in several colleges during this timeframe. Specifically:

- The College of Nursing, which historically has seen the largest increase in enrollment, experienced a 5.5% decrease from Spring 2019 to Spring 2020.
- The College of Education experienced an average decrease of 4.3%
- The College of Liberal Arts experienced an average decrease of 11.3%

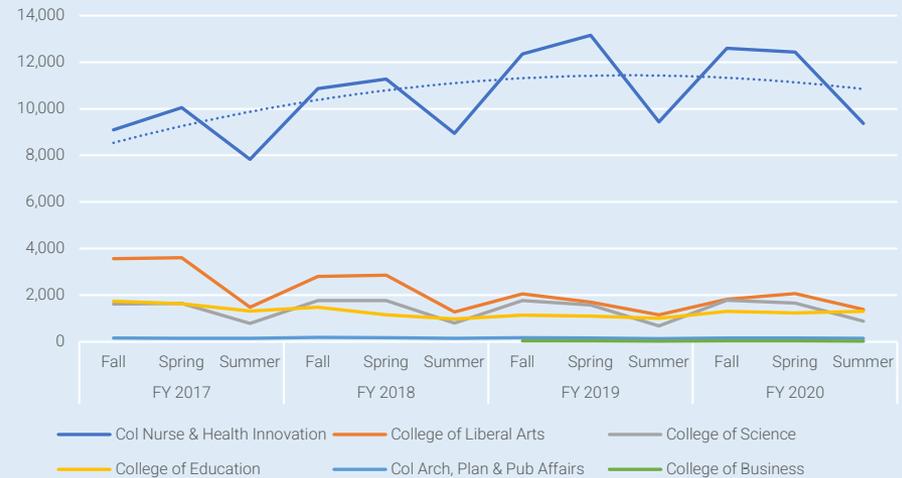
There were also noticeable decreases among career level and residency subpopulations during this timeframe :

- Undergraduate students decreased an average of 1.8%.
- Non-resident students decreased at an average of 3.8%

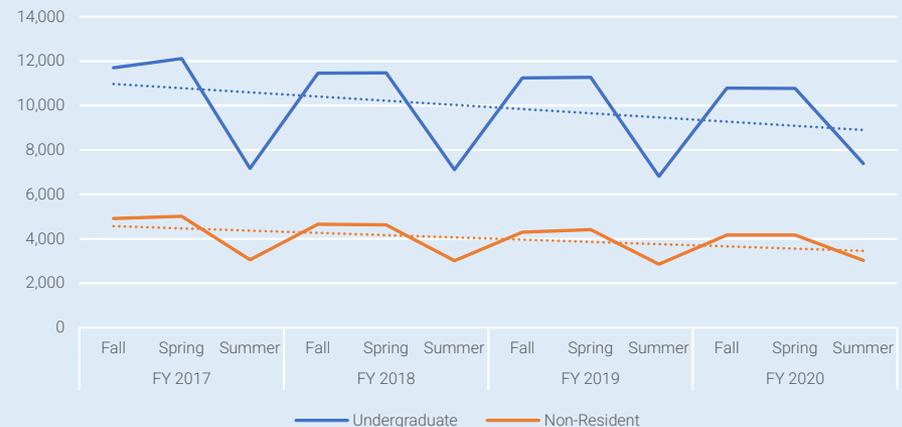
Additionally, these decreases were offset by increases in graduate enrollment. The decrease of undergraduate non-resident students averaged 9.9%.

*Note: Non-Resident students are those residing outside the state of Texas, but still within the United States.*

### Vendor Enrollment by College



### Vendor Undergraduate and Non-Resident Enrollment



## Observation 4 – Contract Detail (Continued)

Medium

### Management Response:

This contract was drafted by UT System in 2011 and services were added piece meal on a program addendum basis for years. This resulted in a more siloed approach to understanding and defining the scope of services. A new contract with Vendor has been finalized and signed and the scope of work was reviewed by the Provost, the deans of CONHI, COEd, and CAPP, and DED leadership. The new contract requires an addendum for each program, which include performance metrics for each program that must be met by year 4 of the program to receive an additional 3-year extension for that program. Going forward on any amendments to the contract, the Chief Legal Officer will work with contracting departments to help ensure contracts clearly define the roles and responsibilities of each party. As necessary, documentation will be maintained of the discussion and agreement between parties regarding the use of any unclear or ambiguous language.

**Target Implementation Date:** May 1, 2022

**Responsible Party:** Chief Legal Officer

## Audit Objective, Scope and Methodology – eLearning

### Audit Objective

The overall objectives of the audit were to determine whether Vendor is operating in accordance with the contracted terms and whether the responsibilities for UTA and Vendor are well defined and consistently followed. Additionally, we were to determine whether:

- Management evaluated the cost of Vendor programs.
- Vendor payments were made in accordance with contract terms.
- UTA and Vendor were only performing functions as set forth in the contract.
- There is appropriate oversight and adequate monitoring of contractor performance.

### Audit Scope and Methodology

The scope of the audit included contract administration, financial management, and oversight and monitoring of the 2012 order with Vendor, the 2017 amendment to the order, and all related addenda and exhibits. Audit methodology included interviewing key personnel, reviewing processes, performing analytical procedures, and testing of supporting documentation.

Our examination was conducted in accordance with guidelines set forth in the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

## Ranking Criteria – eLearning

### Ranking Criteria

All findings in this report are ranked based on an assessment of applicable qualitative, operational control and quantitative risk factors, as well as the probability of a negative outcome occurring if the risk is not adequately mitigated. The criteria for these rankings are as follows:

Priority	An issue identified by an internal audit that, if not addressed on a timely basis, could directly impact achievement of a strategic or important operational objective of UTA or the UT System as a whole.
High	A finding identified by an internal audit that is considered to have a medium to high probability of adverse effects to UTA either as a whole or to a significant college/school/unit level.
Medium	A finding identified by an internal audit that is considered to have a low to medium probability of adverse effects to UTA either as a whole or to a college/school/unit level.
Low	A finding identified by an internal audit that is considered to have minimal probability of adverse effects to UTA either as a whole or to a college/school/unit level.

None of the findings from this review are deemed as a “Priority” finding.

## Distribution – eLearning

To: Teik Lim *President ad interim, UTA*  
Randal Rose *Audit Committee Chairman*

### Audit Committee:

Pranesh Aswath *Interim Provost and Vice President for Academic Affairs, UTA*  
Shelby Boseman *University Attorney and Chief Legal Officer, UTA*  
Bill Carroll *Professor of Computer Science and Engineering, UTA*  
Kelly Davis *Chief Financial Officer and Vice President, UTA*  
Helen Dickey *Partner, Harris & Dickey LLP*  
Harry Dombroski *Dean, College of Business, UTA*  
Stephen Frimpong *Institutional Audit Committee, External Member*  
Brian Gutierrez *Vice Chancellor for Finance and Administration, Texas Christian University*  
John Hall *Vice President for Administration and Campus Operations, UTA*  
Chris Mitchell *Chief Diversity Officer, Crowe LLP*  
Bryan Samuel *Vice President for Diversity, Equity and Inclusion, UTA*  
Jewel Washington *Chief Human Resources Officer, UTA*

From: David Price *Chief Audit Executive, UTA*



cc: Jennifer Chapman *Compliance Officer, UTA*

Auditor in Charge:  
Nick Pappas *Senior Auditor II, UTA*