

**Arizona State University
Office of University Audits
ASU Online
October 11, 2018**

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Summary

Summary: The ASU Online audit was included in the Arizona State University (ASU) FY 2018 audit plan approved by the Arizona Board of Regents (ABOR) Audit Committee and ASU senior leadership. The audit focused on compliance with contractual terms and oversight of key third parties. This area was last audited in FY 2012. This audit is in support of ASU's mission of Inclusion and Student Success.

Background: ASU Online is housed within EdPlus, a central enterprise unit for ASU focused on the design and scalable delivery of digital teaching and learning models to increase student success and reduce barriers in higher education. ASU Online offers more than 170 programs that are available entirely online including Undergraduate, Graduate and other Certificate programs. ASU Online students earn the same degree on-campus students receive including access to the faculty that includes Nobel Laureates, Fulbright Scholars and Pulitzer Prize winners. The program offers six start dates throughout the year and currently has over 30,000 enrolled students.

ASU and Pearson entered into an agreement to develop, provide and promote the ASU Online degree program in 2010. Responsibilities for the program have evolved since the original agreement as the program has developed and grown with many of the core functions transitioning back to ASU to ensure consistent execution focused on student success. At the time of this review, Pearson is responsible for the marketing and recruiting functions related to the ASU Online program while ASU manages the remaining processes including admissions, financial aid, student support and retention, course development and instruction. Payments are based on a percentage of the actual tuition revenue net of the reserve for uncollectible accounts.

Audit Objectives: The objectives of the engagement were focused on compliance with contractual terms and oversight of key third parties.

Scope: The review focused on ASU Online processes and transactions for fiscal years 2017 and 2018. While various third parties are utilized to support the ASU Online program, this review focused primarily on Pearson due to the materiality of this agreement.

One of the key quality controls related to the oversight of Pearson recruiting efforts involve call calibration meetings. As part of this activity, ASU and Pearson work together to assess calls with prospective ASU students based on defined criteria to ensure appropriate messaging and representation of ASU is occurring. At the time of our review, EdPlus communicated that the control was not operating as intended and was in process of redesigning the control including method, frequency and related documentation. As such, the design and effectiveness of this control could not be assessed.

Methodology: Our audit consisted of tests and procedures necessary to provide a reasonable basis for expressing our opinion. Specifically, audit work consisted of interviews with the EdPlus staff, observation of work processes, review of documented policies and procedures and substantive tests including the following areas:

- Verifying the accuracy of payments made to Pearson based on the defined contractual terms for fiscal years 2017 and 2018.
- Verifying payments made to other third parties were accurate and supportable based on the underlying contract for a selection of 20 payments made during fiscal years 2017 and 2018.
- Ensuring appropriate financial approvals were obtained for all payments tested.
- Ensuring appropriate management oversight over the Pearson relationship through the following procedures:
 - Validating that quarterly marketing plans are presented to EdPlus on a quarterly basis for a sample of four quarters.
 - Validating weekly management meetings occur between EdPlus and Pearson including capturing key issues and challenges that are being addressed and tracing to subsequent meetings to ensure necessary actions are occurring for a sample of five weeks.
 - Validating weekly communications related to ASU Online are sent to EdPlus staff regarding progress towards upcoming term enrollment for a sample of five weeks.
 - Reviewing monthly EdPlus board meeting materials to confirm there is consistent focus on progress towards ASU Online enrollment and retention goals for a sample of six monthly meetings.
 - Performing a walkthrough of the ASU dashboard and Pearson Novi dashboard, which provide real-time status on various metrics including enrollment and lead pipeline overall as well as at a college, program or corporate program level.
- Assessing EdPlus oversight of Pearson compliance to the defined security provisions included in the contract.
- Assessing appropriateness of Pearson access to ASU systems.

Conclusion: Overall, EdPlus has implemented appropriate controls to ensure the financial provisions of the various contracts are followed. Testing indicated all payments made were accurate and based on contractual terms and included appropriate fiscal approval based on university-defined policies. In addition, multiple management oversight processes have been implemented to ensure consistent oversight of the defined enrollment goals; however, additional improvement is required to ensure that Pearson is compliant with the defined security provisions included in the contract and that Pearson access into ASU's information systems is appropriately restricted.

Specifically, Pearson maintains ASU confidential data within its network in order to fulfill their marketing and recruiting functions. As such, controls should be in place to ensure Pearson is meeting the defined requirements around system scanning, secure development, patch management, access management and incident management. At the time of this review, EdPlus had not implemented oversight procedures to validate Pearson is compliant with these requirements.

In addition, Pearson employee access to the ASU PeopleSoft application is not appropriately restricted. Issues were noted related to Pearson employees having access to roles that are no longer necessary, access not being removed as Pearson employees are terminated and temporary access not being removed when no longer required. Periodic access reviews are in place; however, the reviews are not comprehensive and do not include all roles currently granted to Pearson employees. As a result, exceptions noted in this review had not been detected as part of the existing annual review.

It was also noted that the current contract contains multiple provisions that are no longer relevant to the services performed by Pearson due to functions transitioning back to ASU and does not contain performance requirements for those functions managed by Pearson. The contract automatically renewed for a two-year period as of August 2018 due to management efforts being placed on redefining the overall relationship with Pearson versus negotiating updates to the existing contract terms.

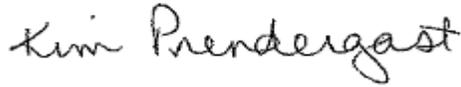
The control standards University Audit considered during this audit and the status of the related control environment are provided in the following table:

General Control Standard (The bulleted items are internal control objectives that apply to the general control standards, and will differ for each audit.)	Control Environment	Finding No.	Page No.
Reliability and Integrity of Financial and Operational Information			
<ul style="list-style-type: none"> Third party payments are accurate and in compliance with defined contractual provisions. 	Reasonable to Strong Controls in Place	N/A	N/A
<ul style="list-style-type: none"> Third party payments are approved based on defined university policies. 	Reasonable to Strong Controls in Place	N/A	N/A
Effectiveness and Efficiency of Operations			
<ul style="list-style-type: none"> Management oversight of Pearson performance towards recruiting and enrollment targets is effective. 	Reasonable to Strong Controls in Place	N/A	N/A
Safeguarding of Assets			
<ul style="list-style-type: none"> Pearson access to ASU information systems is appropriately restricted. 	Opportunity for Improvement	2	6

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<ul style="list-style-type: none">Management oversight is effective to ensure Pearson is compliant with the contractual security provisions.	Opportunity for Improvement	1	5
Compliance with Laws and Regulations	Not Applicable	N/A	N/A

We appreciate the assistance of EdPlus and ASU Online staff during the audit.



Kim Prendergast, CPA, CIA, CFE
Internal Auditor Senior



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Chief Audit Executive

Audit Results, Recommendations, and Responses

1. EdPlus has not implemented appropriate vendor management processes over Pearson to ensure compliance with required security provisions.

Condition: EdPlus has not implemented adequate third party oversight monitoring processes of Pearson to ensure they are compliant with the required security provisions of the contract.

Criteria: Pearson maintains ASU confidential data in their systems in order to fulfill their marketing and recruiting functions. Section IV(f) of the existing Master Services and License agreement requires Pearson to design, manage and operate consistent with information security best practices, including ISO 27001. EdPlus, as the vendor owner, is responsible for monitoring Pearson to ensure compliance with these requirements.

Cause: EdPlus has not implemented oversight processes to ensure Pearson is compliant with defined security provisions.

Effect: EdPlus does not have adequate visibility into Pearson's security environment to ensure ASU confidential data is appropriately protected.

Recommendation: EdPlus should implement formal procedures to monitor Pearson's compliance with security provisions. This should include annual certification from Pearson that they are compliant with the defined security provisions. As part of our review, University Audit met with Pearson to review existing policy and procedure documents related to vulnerability management, secure development, patch management access management and incident management. While various policies and procedures existed to address the security provisions, it is recommended that EdPlus consider a focused review over the effectiveness of Pearson's security environment as it relates to ASU Online to ensure controls are operating as intended.

Management Response: EdPlus is in agreement with this finding. EdPlus will assemble an expert team of ASU information security staff to define an approach that can be satisfied between ASU and Pearson to monitor Pearson's compliance with security provisions for ASU Online. ASU will obtain certification from Pearson that they are compliant with the defined security provisions before any future contract is signed. Formal monitoring procedures and annual certification will be required in the terms of any future contract.

2. Pearson's access to ASU information system is not appropriately restricted.

Condition: Access to ASU information systems is not appropriately restricted resulting in Pearson employees having unnecessary roles granted in addition to access not being removed in a timely manner when no longer required.

Criteria: Access to the ASU PeopleSoft system should be restricted to active Pearson employees that support ASU's account.

Cause: EdPlus has implemented several controls related to PeopleSoft access; however, further improvement is required to ensure access is appropriately restricted.

Effect: Testing identified that the existing annual review performed over access was not comprehensive. Nine of the 14 roles currently being utilized were excluded from this review. Of these, five are no longer required due to the change in services provided by Pearson. In addition, 18 individuals were identified that had inappropriate access to PeopleSoft including terminated employees as well as individuals that had been granted access temporarily that was not removed when no longer required.

Recommendation: EdPlus should enhance the existing controls to ensure access is appropriately restricted. Specifically, a full review of all roles should be performed and roles deemed unnecessary should be removed. Existing review processes should be improved to ensure the review covers all roles granted to Pearson employees. In addition, due to the manual nature of removing access for terminated Pearson employees, it is recommended that the periodic review process be changed from annually to quarterly.

Management Response: EdPlus has removed all non-essential roles identified by University Audit in this report as of October 8, 2018. EdPlus, in support of ASU Online, will enhance existing controls to ensure access is appropriately restricted by 1) providing the least access required for Pearson staff to fulfill their responsibilities; 2) enhancing review processes to cover all roles granted; 3) introducing additional controls within EdPlus to confirm accuracy and timeliness of role removal; 4) reviewing staff roles on a quarterly basis with Pearson. EdPlus expects the enhanced process will be in place by December 31, 2018 and will provide status updates to University Audit that confirm completion of these enhancements. Specific review cycles at a minimum will be included in any future contract between ASU and Pearson.

Distribution:

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