REPORT NO. 2014-042
NOVEMBER 2013

GULF COAST STATE COLLEGE

Operational Audit

STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

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Notes: (1) Board member served beyond the end of term, May 31, 2012.
(2) Board member served beyond the end of term, May 31, 2013.
(3) Board member resigned on August 23, 2012, and position remained vacant until February 21, 2013.

The audit team leader was Juan A. Fernandez, CPA, and the audit was supervised by Patricia S. Crutchfield, CPA, CFE. For the information technology portion of this audit, the audit team leader was Nathaniel Seabrooks, CPA, 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) 412-2869.

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GULF COAST STATE COLLEGE

EXECUTIVE SUMMARY

Our operational audit disclosed the following:

ADMINISTRATIVE MANAGEMENT AND BOARD POLICIES

Finding No. 1: The Board needed to enhance its written policies and procedures relating to electronic funds transfers.

Finding No. 2: The College had not implemented an identity theft prevention program, contrary to Section 114 of the Fair and Accurate Credit Transactions Act of 2003.

CONTRACT ADMINISTRATION

Finding No. 3: The College did not always have properly executed written contracts with vendors, and some contracts were entered into by a College employee who did not have the authority to do so.

STUDENT RECEIVABLES

Finding No. 4: The College needed to enhance its procedures related to the collection of student receivables.

STUDENT TUITION AND FEES

Finding No. 5: College procedures for calculating and assessing user fees needed improvement.

CONSTRUCTION ADMINISTRATION

Finding No. 6: The College needed to improve its procedures for negotiating guaranteed maximum price contracts for construction projects.

Finding No. 7: The College needed to establish policies and procedures for negotiating, documenting, and monitoring general conditions costs for its guaranteed maximum price projects.

Finding No. 8: The College had not established procedures for monitoring the subcontractor selection process for construction projects.

Finding No. 9: The College had not established procedures to verify subcontractors' licensure status.

Finding No. 10: The College needed to enhance its procedures for monitoring construction payment requests.

STATE CAPITAL OUTLAY APPROPRIATIONS

Finding No. 11: The College retained Public Education Capital Outlay appropriations that were subject to reversion to the State.

INFORMATION TECHNOLOGY

Finding No. 12: Some inappropriate or unnecessary information technology (IT) access privileges existed, indicating a need for an improved review of access privileges. In addition, the College had not developed written policies and procedures for the annual review of user access privileges.

Finding No. 13: College IT security controls related to user authentication and logging and monitoring of system activity needed improvement.

BACKGROUND

Gulf Coast State College (College) is under the general direction and control of the Florida Department of Education, Division of Florida Colleges, and is governed by State law and State Board of Education rules. A board of trustees (Board) governs and operates the College. The Board constitutes a corporation and is composed of nine members

appointed by the Governor and confirmed by the Senate. The College President serves as the executive officer and the corporate secretary of the Board, and is responsible for the operation and administration of the College.

The College has campuses in Panama City and Port St. Joe, Florida. Additionally, credit and noncredit classes are offered in public schools and other locations throughout Bay, Gulf, and Franklin Counties. The College reported enrollment of 4,505 full-time equivalent students for the 2012-13 fiscal year.

The results of our financial audit of the College for the fiscal year ended June 30, 2013, will be presented in a separate report. In addition, the Federal awards administered by the College 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, 2013, will be presented in a separate report.

FINDINGS AND RECOMMENDATIONS

Administrative Management and Board Policies

Finding No. 1: Electronic Funds Transfers

Section 1010.11, Florida Statutes, requires each college board of trustees to adopt written policies prescribing the accounting and control procedures under which funds are allowed to be moved by electronic transaction for any purpose including direct deposit, wire transfer, withdrawal, investment, or payment. This law also requires that electronic transactions comply with the provisions of Chapter 668, Florida Statutes, which discusses the use of electronic signatures in electronic transactions between colleges and other entities.

According to the College records, $93 million in electronic funds transfers (EFTs) were made during the 2012-13 fiscal year for transactions such as employee payments, retirement payments, investment transactions and interbank transfers. Board Policy 5.050 authorizes the transfer of funds by electronic or other medium by the Vice President of Administration and Finance or designee. However, the Policy does not prescribe accounting and control procedures for payments by EFTs or address the use of electronic signatures when conducting electronic transactions with other entities. While the College had established controls over EFTs, the lack of specific guidance in the form of Board-approved written policies and procedures increases the risk that electronic transactions will not be executed in accordance with Board directives and provisions of Chapter 668, Florida Statutes.

Recommendation: The Board should enhance its written policies and procedures to prescribe accounting and control procedures for electronic funds transfers, including the use of electronic signatures.

Finding No. 2: Identify Theft Prevention Program

In response to increasingly pervasive risks associated with the custodianship of sensitive information, Section 114 of the Fair and Accurate Credit Transactions Act of 2003 (Act) expanded on the Federal Trade Commission's (FTC) Fair Credit Reporting Act of 1970 to provide clear guidance to businesses and other organizations that process certain personal information that places them at high risk for identity theft. The Act was implemented by the Red Flags Rule (Rule), which went into effect November 1, 2008, and enforcement of the Rule began on January 1, 2011. The Rule requires financial institutions and creditors that hold consumer accounts designed to permit multiple payments or transactions or any other account for which there is a reasonable foreseeable risk of identity theft to develop and implement an identity theft prevention program (Program) for new and existing covered accounts. The Rule requires

the College Board to approve the initial written Program. The Program should be designed to detect, prevent, and mitigate identity theft through the identification of warning signs, or "red flags," in day-to-day operations. Additionally, the Rule requires that the College train staff, as necessary, to effectively implement the Program. The Program must be appropriate for the College's size and complexity and the nature and scope of its operations and must contain reasonable policies and procedures to: (1) identify relevant patterns, practices, and specific forms of activity, the red flags, that signal possible identity theft for the covered accounts; (2) detect red flags; (3) respond appropriately to any red flags detected to prevent and mitigate identity theft; and (4) ensure the Program is updated periodically to reflect changes in risks for identity theft.

As a result of its student lending activity, the College meets the definition of a creditor as defined by the FTC and, as such, must comply with the Rule. As of June 30, 2013, the College did not have an identity theft prevention policy approved by the Board of Trustees. Additionally, the College had not provided the required training to employees who have access to accounts or personally identifiable information. In these circumstances, the College or its students could be at increased risk of identity theft due to the sensitive nature of information that is obtained, held, and processed through the student lending process. In addition, noncompliance with the Rule could result in monetary penalties from the FTC. College personnel indicated that an identity theft prevention program pursuant to the Rule was not implemented during the 2012-13 fiscal year because it was their understanding that the College did not meet the definition of a creditor.

Recommendation: The College should implement an identity theft prevention program and provide training to employees as required by the Red Flags Rule.

Contract Administration

Finding No. 3: Contractual Services

The College routinely enters into contracts for goods and services. As a matter of good business practice, contractual arrangements should be evidenced by written contracts employing all provisions and conditions of the procurement of such service. The use of a well written, complete, and properly executed written contract protects the interests of both parties, defines the services to be performed, and provides a basis for payment. In addition, the College is responsible for establishing controls to ensure that payments to contractors are for services actually performed and in accordance with agreed-upon terms. College Policy 5.025 delegates authority for issuing contracts and acquisition of goods and services to the President, Vice President of Administration and Finance, and the Director of Procurement for purchases not exceeding specified amounts.

Our test of payments to 13 vendors for contractual services totaling $634,725 during the 2012-13 fiscal year disclosed the following:

- We reviewed payments to three vendors that supplied temporary staffing to the College during the 2012-13 fiscal year. Although invoices and timesheets submitted by these vendors were in sufficient detail to document personnel assigned, hours worked, and rates, and were approved by authorized College personnel, there was no properly approved contract for two of the vendors, as follows:

  - The College paid one vendor $200,098 for various temporary employees, for example, an analyst at an hourly rate of $27, general assistant at an hourly rate of $16, and a clerk at an hourly rate of $13. There was no written contract delineating the services to be provided or the rates to be paid for payments totaling $198,821. Additionally, in December 2012, the Coordinator of Human Resources entered into a contract with the vendor for a customer service representative with payments totaling $1,276; however,

the Coordinator of Human Resources is not authorized by College Policy 5.025 to enter into a contract for the purchase of goods or services.

- The College paid one vendor $137,178 for various temporary employees, for example, painters at an hourly rate that ranged from $14 to $16, janitors at an hourly rate of $12, grounds keepers at an hourly rate of $14, landscapers at an hourly rate of $14, custodians at an hourly rate of $18, and administrative assistants at an hourly rate of $16. There was no written contract delineating the services to be provided or the rates to be paid for payments totaling $115,391. Additionally, in May 2013, the Coordinator of Human Resources entered into a contract with the vendor for temporary employees with payments totaling $21,786; however, the Coordinator of Human Resources is not authorized by College Policy 5.025 to enter into a contract for the purchase of goods or services.

- The College paid $179,009 for legal services at hourly rates ranging from $170 to $415. The acquisition of these services was approved during a Board of Trustees meeting and detailed invoices documenting hours worked were submitted and approved by authorized College personnel. However, there was no written contract with the law firm. College personnel indicated that the Board attorney had reviewed and approved the hourly rates charged and that they were comparable to what is charged to other governmental agencies.

- The College paid $50,000 for consulting services related to the submission of the Annual Capital Improvement Plan. Although invoices were submitted and approved by authorized College personnel, there was no written contract.

Although invoices and timesheets submitted by these vendors were in sufficient detail to determine the deliverables, and prices charged, and were approved by authorized College personnel based on personal knowledge of work performed, absent written agreements specifying the nature of the services to be performed and rates of pay, the College has limited assurance that it is receiving services to which it is entitled at agreed upon rates and may be limited in its ability to require satisfactory performance in the event of a dispute.

Recommendation: The College should ensure that written contracts are executed by authorized College personnel to support amounts paid to vendors and that invoices for goods and services are verified to the contract to ensure that payments are are in accordance with contract terms and conditions. Written contracts should clearly describe the basis of compensation to be paid, the goods or services to be acquired, and the date such goods and services are to be delivered.

Student Receivables

Finding No. 4: Collection Procedures

Section 1010.03, Florida Statutes, provides that a Florida College System institution board of trustees shall exert every effort to collect all delinquent accounts and may employ the services of a collection agency when deemed advisable in collecting delinquent accounts. The Statute further states the board of trustees may adopt rules to implement provisions of this section, including setoff procedures, and restrictions on release of transcripts, awarding diplomas, and access to other College resources and services. College Policy 5.056 allows accounts to be turned over to a collection agency after a delinquent period of ten days. In addition, the Policy requires delinquent accounts older than two years to be analyzed and, if determined to be uncollectible, to be written off. College personnel indicated that the current procedure, when an account becomes delinquent, is to place a hold on the student's account and send a letter notifying the student of the purpose of the amount owed. The College then waits approximately two semesters before submitting the delinquent account to a collection agency since students attempting to re-enroll the following semester would be required to bring their accounts current.

The College reported student receivables, totaling $587,215 net of allowance for doubtful accounts, for the fiscal year ended June 30, 2013. On June 20, 2013, the Board approved the write-off of $373,083 in student receivables that were at least two years old, and deemed uncollectible. Our test of 30 delinquent student accounts totaling $32,536 disclosed the following:

- For 2 (6.7 percent) of the 30 student accounts, totaling $1,437, College records did not evidence that a collection letter had been sent to the students.
- Student delinquent accounts had not been submitted to a collection agency since July 18, 2011, contrary to Board policy.

Effective controls over student receivables should include progressively stronger collection efforts, such as the repeated notification of students of delinquent amounts and the timely use of collection agencies to assist in the collection of amounts due from students.

Recommendation: The College should improve its collection efforts for the collection of student receivables, including repeated notification to students with delinquent accounts and the timely submission of delinquent accounts to collection agencies.

Student Tuition and Fees

Finding No. 5: User Fees

Section 1009.23(12), Florida Statutes, authorizes college boards of trustees to establish certain specified user fees, such as laboratory fees, that are not to exceed the cost of services provided and may only be charged to persons receiving the service. Additionally, the Florida College System Council of Business Affairs and the Florida Department of Education, Division of Florida Colleges, have issued guidelines for assessing user fees. These guidelines provide that each board of trustees establish policies for the implementation and justification of additional user fees, defining which costs are in excess of base instructional costs, describing the documentation required to support the fees, the time period for review of such fees, and the manner of presenting such fees to the board of trustees for approval. During the 2012-13 fiscal year, the College collected $335,000 for laboratory fees and $467,000 for parking and ID access fees.

College Policy No. 7.024, Laboratory and Special Course Fees, establishes policies and procedures to be used for laboratory, special course fees, and non-instructional services that incur unusual costs. The Policy provides, in part, that such cost will be calculated based on the most recently completed fiscal year's actual expenditures and supporting documentation must be submitted with a completed lab/special fee justification form. The fees are to be submitted for final approval to the Board prior to inclusion in the College catalog and a review of the fees will be conducted annually. Our review of 12 laboratory, parking, and ID access fees assessed disclosed the following:

- For 5 user fees, ranging from $2 to $805 during the 2012-13 fiscal year, College personnel indicated that supporting documentation for the fees could not be located. Absent documentation supporting the calculation of these user fees, College records did not demonstrate that the fees assessed, totaling $29,083, were properly calculated and did not exceed the costs of services provided.
- For 4 fees, ranging from $25 to $58 during the 2012-13 fiscal year, College personnel did not perform a review of the user fees within the past year, contrary to College Policy. Required reviews of user fees are necessary to ensure that fees will be timely adjusted to reflect changes in costs.
- The College assessed students a parking fee and an ID access fee of $2.00 and $1.95 per credit hour, respectively, for all students whether or not the students used parking services or accessed the College's

facilities. College personnel indicated that since all students benefit from the availability of parking and the use of certain campus facilities, for example, pool and library, assessing the fee to each credit hour is the most equitable way to ensure that the fee does not exceed the cost of providing the services and is charged to the students who receive the service. However, since all students may not use parking facilities or access certain campus facilities that require an ID access, the College may be assessing fees to students not receiving these services.

Recommendation: The College should ensure that documentation supporting the calculation of user fees is maintained, and reviews of fees are performed annually as required by College Policy. The College should also ensure that user fees are charged only to persons receiving the service, in accordance with Section 1009.23(12), Florida Statutes.

Construction Administration

Section 1013.45(1), Florida Statutes, authorizes the College to contract for the construction or renovation of facilities using various delivery methods, including competitive bid or selection of a construction management entity (CME). The College entered into a guaranteed maximum price (GMP) contract with a CME for the construction of the Advanced Technology Center (ATC) at an estimated cost of $32 million. College personnel anticipate that this project will be completed during the 2013-14 fiscal year. Under GMP contracts, the College may realize cost savings if the cost of construction is less than the GMP and, as such, a GMP contract requires close monitoring by College personnel to ensure that the cost of construction is adequately documented. Our review disclosed that the College's construction administration procedures could be improved as discussed in Finding Nos. 6 through 10.

Finding No. 6: Guaranteed Maximum Price Contract

Section 1013.45(1)(c), Florida Statutes, authorizes the College to contract for the construction or renovation of facilities with a CME. Under the CME process, contractor profit and overhead are contractually agreed upon, and the CME is responsible for all scheduling and coordination in both the design and construction phases and is generally responsible for the successful, timely, and economical completion of the construction project. A CME may also be required to offer a GMP. A GMP contract allows for the difference between the actual cost of the project and the GMP amount, or the net cost savings, to be returned to the College.

Our review of the contract with the CME for the ATC project disclosed that a final GMP proposal was not, of record, negotiated for the total construction cost of the project prior to the start of construction. Instead the College approved five partial GMP amendments and 21 change orders from July 15, 2010, through June 30, 2013, as follows:

Guaranteed Maximum Price Summary

GMP College Approval Date	GMP Amendments	Description	Amount
7/15/10	Partial GMP 1	Site Work	$ 2,687,128
11/4/10	Partial GMP 2	Fiber Optic Relocation	562,652
12/9/10	Partial GMP 3	Precast Pile Installation	1,067,742
6/16/11	Partial GMP 4	Signage Demolition & Electrical	61,724
9/15/11	Partial GMP 5	Main Project	27,624,950
Subtotal		GMP excluding change orders	32,004,196
6/21/12	Change Order 13	Addition to Culinary Space	2,718,537
11/8/12	Change Order 16	Addition to Culinary Space	344,750
Various	Other Change Orders	Direct Materials Purchase	(9,820,881)
Final GMP			$ 25,246,602

In response to our inquiries, College personnel stated that partial GMPs and change orders were approved due to scope revisions and funding constraints. However, by starting construction without an approved GMP for total construction costs with caps for each component, the College may have limited its ability to evaluate and ensure that the overall cost of the project was fair, competitive, and reasonable, and to negotiate with the next most qualified firm should it be necessary.

Recommendation: The College should evaluate, and revise as appropriate, its procedures for contracting with CMEs to ensure that a GMP contract is based on a detailed final proposal for total construction costs that is established prior to the start of construction.

Finding No. 7: General Conditions Costs

The contract with the CME included a provision for general conditions costs of $1.912 million, which is billed to the College monthly on a reimbursement basis over the life of the project. General conditions costs included such items as direct and indirect salary costs of project managers, costs of jobsite office space, equipment, supplies, and communication and utility costs. Our tests of the general conditions costs disclosed the following:

- The College had not established written policies and procedures addressing the methodology to be applied and factors to be considered during the negotiation process for general conditions costs. The general conditions costs for the ATC project were determined through a negotiation process between the CME, the College, the College's Architect, and consulting engineers. Although requested, we were not provided documentation of the methodology applied and factors considered during the negotiation process for general conditions costs. Instead, College personnel provided a response from the Architect that the costs were compared to typical costs assigned to general conditions for similar projects and negotiated to what was reasonable for a total budgeted figure for all general conditions costs. Absent documentation of the methodology applied and factors considered in the negotiation process, College records did not evidence the general conditions costs were reasonable and appropriate.
- During our test of the CME's applications for payment, we noted that detail documentation was not available to support the amounts charged, such as payroll records to support the amount charged for labor burden. In response to our inquiry, College personnel indicated that the College generally relied on the Architect's review

of the charges, although College personnel performed a limited review on individual line items on the schedule of values. Subsequent to our inquiry, the CME provided Cost Transactions Reports, which provided line item detail of amounts charged to each category of general conditions cost from the beginning of the project. While these reports supported amounts billed and paid to date by the College, no further supporting documentation, such as payroll records or paid invoices, was provided to support the individual line item amounts. Absent adequate monitoring of charges to general conditions costs, the College may be limited in its ability to determine the propriety of the payment requests or to recover cost savings associated with the project, should they occur.

Recommendation: The College should establish written policies and procedures addressing negotiation and monitoring of general conditions costs. Such policies and procedures should require documentation of the methodology used and factors considered in negotiating such costs, and the submittal and review of sufficiently detailed documentation supporting CME payment requests for payment of general condition costs.

Finding No. 8: Subcontractor Selection

The CME contract for the ATC project provided that the CME was responsible for obtaining bids from subcontractors using a competitive bid process, making them available to the College, and in coordination with the College, awarding contracts to the most qualified and lowest bidder. The College had not established written procedures addressing monitoring of the subcontractor selection process. Our review of the bid tabulations for five subcontractors used on the project disclosed that the College did not maintain copies of the bids and subsequent contracts. Further, for two bids awarded totaling $4,726,713, College personnel were not present for the bid openings.

In the absence of competitive bid tabulation sheets signed and witnessed by College personnel, College records did not evidence that the subcontractor services were obtained at the lowest price consistent with acceptable quality and that the College realized maximum cost savings. Also, in these circumstances, the College may be limited in its ability to demonstrate the proper handling and awarding of subcontractor bids in the event of legal disputes by subcontractors not selected.

Recommendation: The College should establish written procedures requiring documented monitoring of the subcontractor selection process.

Finding No. 9: Verification of Subcontractor Licensure Status

Chapter 489, Florida Statutes, establishes certain licensing requirements for specialty subcontractors such as electrical, air conditioning, plumbing, and roofing contractors. Although the CME verified licensure of subcontractors, College procedures did not include monitoring of the CME's verification of subcontractor licenses. Monitoring of the CME's verification of subcontractor licenses provides the College additional assurance that subcontractors working on College facilities meet the qualifications to perform the work for which they are engaged.

We selected four specialty subcontractors used on the project and requested that the College provide evidence of licensure of the subcontractors. The College obtained this documentation from the CME and forwarded it to us for our review. Although we were able to determine that the selected subcontractors were properly licensed, our procedures do not substitute for the College's responsibility to monitor construction activities.

Recommendation: The College should establish procedures to monitor the verification of subcontractors' licensure status prior to commencement of work on projects.

Finding No. 10: Monitoring Payment Requests

During the 2012-13 fiscal year, the College made payments to the CME totaling $11,797,411 for the ATC project. College personnel are responsible for construction administration on behalf of the College, which includes monitoring contractor activities, implementing construction-related procedures, and ensuring compliance with applicable State laws. In response to our inquiry, College personnel indicated that, upon receipt of payment requests from the CME, College personnel conduct a review of the application and certificate for payment that includes verifying the mathematical accuracy of the request, recalculating retainage, reconciling direct purchases to College records, and verifying prior payments were properly applied to payment requests. However, as part of these procedures, College personnel did not verify the payment request to the applicable original subcontractor contract or the amounts requested for payment on corresponding cost line(s) on the schedule of values to detailed invoices or other supporting documentation. Without procedures to reconcile each line in the schedule of values for each payment request to the original bids, which support the negotiated GMP, there is an increased risk that the College may overpay for subcontractor services or may not realize potential cost savings.

We tested six cost lines on five payment requests, representing $9,569,705 from the schedule of values, to verify that the payment requests agreed with original bids, after approved adjustments or change orders, and subcontractor invoices or other documentation of currently billed work. These items represented various subcontractors performing individual components of the project. In response to our request for the bid documents and change orders, College personnel informed us that this information was not available. Subsequent to our inquiries, we were provided with additional information supporting the items selected for testing, which was provided by the CME. As also noted in finding No. 7 for the general conditions costs, no detail documentation of current charges was provided. In the absence of adequate controls over the monitoring of construction payments, there is an increased risk that the College may fail to realize potential cost savings or may overpay for services provided.

Recommendation: The College should enhance its procedures for monitoring construction payment requests to require a documented detailed review by cost line for major construction projects.

State Capital Outlay Appropriations

Finding No. 11: Public Education Capital Outlay – Reversion of Appropriations

The State allocates Public Education Capital Outlay (PECO) funds to the College on an annual basis. The College's annual PECO allocation consists of specific State-defined project categories and appropriation amounts, each of which has its own restrictions governing use. Section 216.301(2), Florida Statutes, provides that the unexpended balance of any appropriation for fixed capital outlay for the educational facility that is not contracted, or committed to be expended, prior to February 1 of the third fiscal year, shall revert on February 1 of such year to the fund from which it was appropriated.

College records showed cash balances of $85,659 and $288,144 at June 30, 2013, for the 2008-09 fiscal year PECO General Renovation and Remodeling appropriation and the Public Safety appropriation, respectively. However, the College reported to the Florida Department of Education (FDOE) that these appropriations had been fully expended

or committed under terms of a binding contract prior to the February 1, 2011, reversion date. College records also showed a cash balance of $333,682 at June 30, 2013, for the 2010-11 fiscal year PECO Remodeling, Renovation, Maintenance, Repair and Site Improvements appropriation. However, the College reported to the FDOE that this appropriation had been fully expended prior to the February 1, 2013, reversion date. Subsequent to the reversion dates, funds from these appropriations, totaling $707,485, were on hand, and not committed under the terms of a binding contract or otherwise committed to be expended, as of June 30, 2013.

College personnel indicated that due to changes in accounting software, capital outlay subsidiary records may not have been brought forward with the correct available balances and expenditures may have been misclassified in the project records resulting in incorrectly reported available balances of each restricted appropriation. Without proper accountability for individual appropriations and related expenditures and encumbrances, College records did not demonstrate compliance with the spending timeframes for these resources and the College is at risk of losing this funding.

Recommendation: The College should establish procedures to ensure adequate accountability for State appropriations subject to reversion pursuant to Section 216.301(2), Florida Statutes. In addition, the College should document compliance with this Statute to the FDOE or return the $707,485 of uncommitted PECO funds to the FDOE.

Information Technology

Finding No. 12: Access Privileges

Access controls are intended to protect data and information technology (IT) resources from unauthorized disclosure, modification, or destruction. Effective access controls provide employees' access to IT resources based on a demonstrated need to view, change, or delete data and restrict employees from performing incompatible functions or functions inconsistent with their assigned job responsibilities. For example, access privileges should typically be configured to enforce a separation of IT and application end-user duties whereby only the responsible end users can originate or correct transactions and initiate changes to data files and IT employees are restricted from performing end-user functions. Periodic reviews of IT access privileges are necessary to ensure that employees can only access IT resources that are necessary to perform their assigned job responsibilities and that the assigned access privileges enforce an appropriate separation of incompatible responsibilities.

Our tests of selected access privileges to the College's Enterprise Resource Planning (ERP) system, including finance, human resources (HR), student, and financial aid applications, and the supporting database, disclosed some access privileges that were unnecessary or that permitted employees to perform incompatible functions. Specifically:

- The Chief Information Officer (CIO) had the ability to update all critical transactions within the ERP applications. In response to our inquiry, College management indicated that access privileges granted to the CIO were the result of established business processes when full implementation of the College's ERP system occurred in 2013. However, these access privileges for the CIO were incompatible based on the assigned IT duties related to administering and managing the technical support of the College's ERP system.
- Fourteen employees and one IT contractor had unnecessary database administrator privileges to seven ERP system accounts and four test accounts used in the initial set up of the ERP system. Database administrator privileges provide full control over the database and are typically limited to those employees who are responsible for performing database administration duties or services that require complete access to the database. In response to our inquiry, College management indicated that they are in the process of evaluating the impact of removing the database administrator privileges from each account.

- Two employees had update privileges to all critical functions within the finance application, including inputting, updating, and approving requisitions, purchase orders, and invoices; adding or modifying vendors; processing warrants for payment; and inputting and updating journal entries. One of the two employees also had the ability to sign accounts payable warrants. These access privileges were incompatible based on their job responsibilities.
- One of the employees described in the bullet above and an additional employee had update privileges to critical functions within the HR application that, in combination, allowed the employees control over the employment payment process, including adding new employees, adjusting salaries, processing payroll warrants, and signing warrants. These access privileges were unnecessary based on their job responsibilities.
- Four employees had the ability to add new employees and adjust salaries and two other employees had the ability to add employees within the HR application, which was unnecessary based on their assigned job responsibilities.
- Ten user identifiers not individually assigned to employees and five employees had update privileges to the journal entry function within the finance application, which were unnecessary for the ten user identifiers and for two of the five employees' based on their job responsibilities. For the other three employees, these access privileges were incompatible based on their job responsibilities. In response to our inquiry, College management indicated that the access privileges assigned to the ten user identifiers were an oversight and removed the privileges on June 24, 2013.

Various controls related to approvals and review of supporting documentation may compensate, in part, for the deficiencies described above. However, our testing disclosed that the College had not implemented compensating controls over the preparation of journal entries to ensure journal entries were properly authorized and accurately recorded or over payroll transactions to ensure only approved employees were paid. For journal entries, College personnel indicated that documentation of supervisory approval authorizing and ensuring the entry was properly recorded in the accounting records by someone independent of the preparing and posting employees was not always obtained. For payroll transactions, College staff indicated that no one was comparing all manual time certifications to final payroll to ensure that only employees who performed their assigned duties were issued a payroll check.

Although College personnel indicated that reviews of user access privileges were supposed to have been performed annually, the College had not developed written policies and procedures to provide for the periodic review of employee access privileges.

While our tests did not disclose any instances of errors or fraud, the existence of the inappropriate or unnecessary access privileges noted above indicated a need for an improved review of access privileges and increased the risk of unauthorized disclosure, modification, or destruction of College data and IT resources.

Recommendation: The College should modify access privileges assigned within the ERP system to ensure that the privileges enforce an appropriate separation of IT and application end-user duties. In addition, the College should develop written policies and procedures providing for the periodic review of employee access privileges and timely remove any inappropriate or unnecessary access privileges detected.

Finding No. 13: Security Controls – User Authentication and Logging and Monitoring of System Activity

Security controls are intended to protect the confidentiality, integrity, and availability of data and IT resources. Our audit disclosed certain College security controls related to user authentication and logging and monitoring of system activity that needed improvement. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising College data and IT resources. However, we have notified appropriate College management of the specific issues. Without adequate security controls related to user authentication and logging and

monitoring of system activity, the risk is increased that the confidentiality, integrity, and availability of College data and IT resources may be compromised.

Recommendation: The College should improve its IT security controls related to user authentication and logging and monitoring of system activity to ensure the continued confidentiality, integrity, and availability of College data and IT resources.

PRIOR AUDIT FOLLOW-UP

The College had taken corrective action for the finding included in our report No. 2011-019.

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 2013 to September 2013 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, safeguarding of assets, and identifying weaknesses in those controls.
- Determine whether management had taken corrective actions for findings included in our report No. 2011-019.
- 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 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 records and transactions occurring during the 2012-13 fiscal year, and selected transactions taken prior thereto. Unless otherwise indicated in this report, these records and transactions were not selected with the intent of 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 (Topic)	Methodology
Information technology (IT) access privileges and separation of duties.	Reviewed procedures for maintaining and reviewing access to IT resources. Tested selected access privileges over the operating system, database, network, and Enterprise Resource Planning finance and human resources applications to determine the appropriateness and necessity based on employees' job duties and user account functions and adequacy with regard to preventing the performance of incompatible duties.
IT user authentication.	Reviewed selected operating systems, database, network, and application security settings to determine whether authentication controls were configured and enforced in accordance with IT best practices.
IT logging and monitoring.	Reviewed procedures and reports related to the review, maintenance, and retention of selected system and security event logs.
IT data loss prevention.	Reviewed the College's written policies, procedures, and programs in effect governing the classification, management, and protection of sensitive and confidential information.
IT security incident response.	Reviewed the College's written policies and procedures, plans, and forms related to security incident response and reporting.
Board and committee meetings.	Reviewed Board and committee minutes to determine whether Board approval was obtained for policies and procedures in effect during the audit period and for evidence of compliance with Sunshine law requirements (i.e., proper notice of meetings, ready access to public, and maintenance of minutes).
Textbook affordability.	Examined supporting documentation to determine whether the College's policies and procedures regarding textbook affordability were in accordance with Section 1004.085, Florida Statutes.
Identity theft prevention program (Red Flags Rule).	Reviewed the College's policies and procedures related to its identity theft prevention program for compliance with the Federal Trade Commission's Red Flags Rule.
Social security number requirements of Section 119.071(5)(a), Florida Statutes.	Examined supporting documentation to determine whether the College had provided individuals with a written statement of the purpose of collecting their social security numbers.
Electronic funds transfers and payments.	Reviewed College policies and procedures related to electronic funds transfers and payments. Tested supporting documentation to determine whether selected electronic funds transfers and payments were properly authorized and supported.
Student receivables.	Determined whether student receivables were properly authorized, adequately documented, and properly recorded. Determined adequacy of collection efforts and whether uncollectible accounts written-off were properly approved. Determined whether restrictions on student records and holds on transcripts and diplomas were adequate and enforced for delinquent accounts.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Florida residency determination and tuition.	Tested student registrations to determine whether the College documented Florida residency and correctly assessed tuition in compliance with Section 1009.21 and 1009.22, Florida Statutes, and State Board of Education Rule 6A-10.044, Florida Administrative Code.
Distance learning fees.	Determined whether distance learning fees were assessed and collected as provided by Section 1009.23(16)(b), Florida Statutes.
Laboratory and other user fees.	Reviewed the College's procedures and determined whether they were approved by the Board of Trustees. Tested laboratory and other user fees to determine whether they were assessed only to students who received the services and examined supporting documentation to determine whether the College properly calculated these fees.
Presidents' compensation.	Determined whether the President's compensation was in accordance with Florida law, rules, and Board policies.
Administrative employees' compensation.	Reviewed administrative employees' compensation to determine whether compensation did not exceed limits provided in Florida law.
Terminal pay.	Reviewed the College's policies and procedures for terminal pay to ensure consistency with Florida law. Tested former employees to determine appropriateness of terminal pay.
Purchasing card transactions.	Tested transactions to determine whether purchasing cards were administered in accordance with College policies and procedures. Also, tested former employees to determine whether purchasing cards were timely cancelled upon termination of employment.
Direct-support organizations – conflicts of interest.	Determined whether the College had established policies and procedures to avoid potential conflicts of interest with vendors who were doing business with the College and made donations to the College's direct-support organization.
Purchasing agreements/State contracts.	Determined whether the Board adopted policies to ensure compliance with Section 1001.64, Florida Statutes, requiring the use of purchasing agreements and State term contracts pursuant to Section 287.056, Florida Statutes, or entered into consortia and cooperative agreements to maximize purchasing power for goods and services.
Travel expenses.	Tested travel expenses to determine whether the travel expenses were reasonable, adequately supported, for valid College purpose, and limited to amounts allowed by Florida law.
Construction administration.	For selected major construction projects, tested payments and supporting documentation to determine compliance with College policies and procedures and provisions of laws and rules. Also, for construction management contracts, determined whether the College monitored the selection process of subcontractors by the construction manager.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Earmarked capital project resources.	Determined, on a test basis, whether Public Education Capital Outlay and other restricted capital outlay expenditures, were expended in compliance with the restrictions imposed on the use of these resources.
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, and that contract terms were adequately supported.

EXHIBIT B
MANAGEMENT'S RESPONSE

GULF COAST STATE COLLEGE
SINCE 1957

November 8, 2013

Mr. David W. Martin, CPA
Auditor General
State of Florida
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450

Dear Mr. Martin,

Attached are Gulf Coast State College's responses to the preliminary and tentative findings resulting from the operational audit for the fiscal year ended June 30, 2013.

Should you have any questions or need additional information, please contact me at (850) 872-3800 or jkerley@gulfcoast.edu.

Respectfully,

Jim Kerley, Ph.D.
President

5230 West U.S. Highway 98
Panama City, Florida 32401
850.769.1551 T 800.311.3685
www.gulfcoast.edu

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

Gulf Coast State College

Responses to Preliminary and Tentative Findings of the

Operational Audit for the Fiscal Year Ended June 30, 2013

ADMINISTRATIVE MANAGEMENT AND BOARD POLICIES

Finding No. 1: The Board needed to enhance its written policies and procedures relating to electronic funds transfers.

College staff agrees with this finding and has amended its policies and procedures relating to electronic funds transfers to meet all requirements of Section 1010.11, Florida Statutes. College Policy 5.061, amended to meet these requirements, was approved by the District Board of Trustees on October 3, 2013.

Finding No. 2: The College had not implemented an identity theft program, contrary to Section 114 of the Fair and Accurate Credit Transactions Act of 2003.

College staff agrees with this finding and has prepared for and received District Board of Trustees approval of new Policy 5.062 which establishes the written policy and procedures, including requirements for employee training, intended to reduce the risk of identity theft related to the collection and storage of personal information needed by the College to conduct business and comply with the Federal Trade Commission Red Flags Rule.

CONTRACT ADMINISTRATION

Finding No. 3: The College did not always have properly executed written contracts with vendors, and some contracts were entered into by a College employee who did not have the authority to do so.

College staff agrees with this finding and are taking steps to ensure that all College contractual services are secured in compliance with Florida Statutes and College Policy 5.025. As stated in the finding, a number of the contracted services were obtained with approval by those authorized in policy, on behalf of organizations for which the College serves as fiscal agent, or with minimal documentation that might not fully detail the scope of services provided. Engagements of all future contractual service providers will be preceded by issuance of signed contracts or purchase orders and include a detailed description of services to be performed and rates of pay, approved by authorized College personnel.

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

STUDENT RECEIVABLES

Finding No. 4: The College needed to enhance its procedures related to the collection of student receivables.

College staff agrees with this finding that collection efforts for the audit period were not in keeping with efforts as in previous years and needed improvement. Since the audit, collection letters, not specifically required by statute or College policy, have resumed and all debts have been lodged with a collections service in accordance with College policy. College staff are aware of the time sensitivity related to collection of delinquent obligations and will be directing additional resources to recovery efforts for the future.

STUDENT TUITION AND FEES

Finding No. 5: College procedures for calculating and assessing user fees needed improvement.

College staff agrees with this finding and is taking reasonable steps to correct any noncompliance issues with statute and/or College policy. The College's academic departments that determine the need for, and amount of, laboratory and special course fees will be implementing a checklist system, under the supervision of the vice president of academic affairs, to be completed annually to ensure proper review and documentation of these calculations in accordance with statute and College policy.

The College has also recently adopted a policy that requires all Gulf Coast State College students to have a student identification card whether or not they utilize any of the College services such as the weight room, athletic events, etc. as a safety measure. And although the College refers to another fee as a parking fee, the intent was to assess the fee to support and maintain many other services provided to students other than just parking of personal vehicles such as trolley stops for access to the public transportation system, outdoor covered waiting areas, safety escorts, etc. However, College staff will review each fee and ensure that its assessment is in compliance with statute and policy, and will make changes as needed.

CONSTRUCTION ADMINISTRATION

Finding No. 6: The College needed to improve its procedures for negotiating guaranteed maximum price contracts for construction projects.

College staff agrees with this finding as the College did indeed begin construction on certain portions of the project prior to establishment of the final guaranteed maximum price (GMP). While the intent was to complete the project on schedule while still negotiating the details of the final GMP, it is clearly not the normal process for a construction management delivery method project. College staff are reaching out to other Florida colleges with significant experience in

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

such projects for assistance in developing appropriate, Board-approved policies and procedures, to include a requirement to establish a detailed final proposal for total construction costs prior to the start of construction, prior to utilizing this delivery method in the future.

Finding No. 7: The College needed to establish policies and procedures for negotiating, documenting, and monitoring general conditions costs for its guaranteed maximum price projects.

College staff agrees with this finding and are reaching out to other Florida colleges and professionals with significant experience in such projects for assistance in developing appropriate, Board-approved policies and procedures, that would include methodology for and documentation of negotiation and monitoring of general conditions costs, prior to utilizing this delivery method in the future. These policies and procedures will be consistent with Florida Statutes and allowable charges under general conditions will be stated in the contract and monitored on an ongoing basis throughout the project. College staff, the architect, and the CME on the Advanced Technology Center are also currently reviewing every charge on the recently completed project and will make any appropriate payment adjustments when completed.

Finding No. 8: The College had not established procedures for monitoring the subcontractor selection process for construction projects.

College staff agrees with this finding as it was believed that the responsibility for the subcontractor selection process for construction projects would be the responsibility of the contractor engaged by the College for the project. However, College staff are requesting assistance from other Florida colleges and professionals with significant experience in such projects in developing appropriate, Board-approved policies and procedures prior to utilizing this delivery method in the future. Any future CME projects will require by contract that College representatives attend and document participation in the subcontractor selection process.

Finding No. 9: The College had not established procedures to verify subcontractors' licensure status.

College staff agrees with this finding as it was believed that the responsibility for ensuring proper licensure of subcontractors would be the responsibility of the contractor that hired them and was engaged by the College for the project. College staff are reaching out to other Florida colleges and professionals with significant experience in such projects for assistance in developing appropriate, Board-approved policies and procedures related to verification of subcontractors' licensure status prior to utilizing this delivery method in the future. Future CME projects will require by contract that the CME provide the College with copies of all subcontractor licenses prior to the subcontractor performing any work on the project.

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

Finding No. 10: The College needed to enhance its procedures for monitoring construction payment requests.

To comply with recommendations provided in this finding, College staff and the CME's representative on any future CME projects will review all subcontractors' applications for payment no less than on a monthly basis. The College will also require, and maintain for audit purposes, copies of all Certificate of The Subcontractor Waiver and Release of Lien Upon Progress Payment forms provided to the CME's representative by subcontractors.

STATE CAPITAL OUTLAY APPROPRIATIONS

Finding No. 11: The College retained Public Education Capital Outlay appropriations that were subject to reversion to the State.

Based on the initial information provided to the Auditor General's staff, the assessment that College records did not demonstrate compliance with the spending timeframes for these resources is correct. However, knowing that the funds had been expended within the allowable period, College staff reviewed all revenues and expenditures for all Unexpended Plant Fund project appropriations, including PECO appropriations, and verified that funds were spent appropriately and has corrected beginning budget balances and expenditures in the College's accounting records in fiscal year 2013-14. Regardless of staffing and software conversion challenges, College staff understands the importance of being able to demonstrate compliance and will implement a regular quarterly reconciling process to ensure accounting records are accurate.

INFORMATION TECHNOLOGY

Finding No. 12: Some inappropriate or unnecessary information technology (IT) access privileges existed, indicating a need for an improved review of access privileges. In addition, the College had not developed written policies and procedures for the annual review of user access privileges.

College staff agrees access privileges for various employees must be modified to ensure an appropriate separation of duties, both within departments and between Information Technology and application end-user duties. Many of these accesses resulted from the conversion by the College to a new administrative software system over the last two years with accesses granted to ensure the continuity of business operations without a full understanding of the rights granted with the access. Many of these issues have been already resolved, and the module owners, such as finance, student records, human resources and financial aid are reviewing access to the systems under their responsibility to ensure an appropriate level of segregation among duties exists.

The College has had a written procedure for annual access privileges review that is being updated to reflect the new Banner ERP system. Annual reviews with module data owners will

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

commence in November 2013. The following is the procedure update for the new Banner ERP system.

Data Owners Process – On an annual basis, the Information Technology Services (ITS) department will print lists containing all employees who possess Lighthouse Administrative Systems access, the screens they have access to, and the rights allowed for each screen. The lists are distributed to the Data Owners listed below. Each Data Owner will review their lists and request corrections to any employee whose current position does not match their current access levels. The Data Owners then sign and return the lists to ITS where the appropriate ITS staff member will adjust the access levels per the Data Owner's requests.

- Finance: Comptroller and Bursar
- Human Resources: HR Director and Comptroller
- Student: Director of Enrollment Services, Director of Academic Advising and Success, Director of Continuing Education
- Accounts Receivables: Bursar
- Financial Aid: Director of Financial Aid
- General: Manager of Enterprise Systems

- Gulf Coast State College has one Database Administrator. Due to this limited resource, the CIO has also been given access needed to support the responsibility for administering and managing the College's ERP system. Reports will be made available to review areas by the user.

- Database Administrator access has been removed from these accounts.

- The Director of Human Resources has received the reports of all employees with access to HR forms. Due to a recent turnover and reorganization of the HR Department, access is being reviewed to determine what is needed based on specific job responsibilities.

- The Director of Human Resources and the Comptroller are reviewing employee access to determine appropriate separation of duties based on job responsibilities.

- The ten users not individually assigned to employees had privileges removed as indicated in finding.

- The update privileges for the five named employees have been reviewed and found necessary to maintain institutional processes with our limited staff. Compensating controls are in place to limit exposure. Controls have been put in place to ensure accuracy for over journal entries and payroll transactions.

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

Finding No. 13: College IT security controls related to user authentication and logging and monitoring of system activity needed improvement.

ITS has made changes to, and is continuing review of, current practices, procedures, policies to ensure the greatest protection of confidential information. Security controls have been updated to reflect industry best practice. Additional changes are being reviewed as needed.