REPORT NO. 2015-057
DECEMBER 2014

VALENCIA COLLEGE

Operational Audit

STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD OF TRUSTEES AND PRESIDENT

Members of the Board of Trustees and President who served during the 2013-14 fiscal year are listed below:

	County
Maria C. Grulich, Chair	Osceola
Lewis M. Oliver, III, Interim Vice Chair to 7-15-13, Vice Chair from 7-16-13	Orange
Lucas D. Boyce from 8-15-13 (1)	Orange
Jerry D. Buchanan to 2-27-14	Orange
Dr. Bruce A. Carlson from 8-15-13 (2)	Osceola
John M. Crossman from 2-28-14	Orange
Guillermo Hansen (3)	Osceola
Lori Kifer Johnson to 2-27-14	Orange
Daisy Lopez-Cid from 8-15-13	Osceola
Raymer F. Maguire, III, from 2-28-14	Orange
Fernando J. Perez (3)	Orange
Jo Quittschreiber to 8-14-13	Osceola

Dr. Sanford C. Shugart, President

Notes: (1) Position was vacant from July 1, 2013, through August 14, 2013.
(2) A ninth Board position was created in accordance with State Board of Education Rule 6A-14.024, Florida Administrative Code.
(3) Board member served beyond the end of term, May 31, 2014.

The audit team leader was Robyn D. Bishop, CPA, and the audit was supervised by Brenda C. Racis, CPA. 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.

This report and other reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 412-2722; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

VALENCIA COLLEGE

EXECUTIVE SUMMARY

ADMINISTRATIVE MANAGEMENT AND BOARD POLICIES

Finding No. 1: The College's Compliance and Auditing Department, contrary to its charter and professional standards, did not provide for a required external quality assurance review.

PERSONNEL AND PAYROLL

Finding No. 2: The College needed to implement procedures to ensure documented supervisory review and approval of exempt employees' work time.

INFORMATION TECHNOLOGY

Finding No. 3: The information technology access privileges of some former College employees were not timely deactivated.

BACKGROUND

Valencia 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 was 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 Kissimmee, Orlando, and Winter Park, Florida, and two centers and a criminal justice institute located in Orlando, Florida. Additionally, credit and noncredit classes are offered in public schools and other locations throughout Orange and Osceola Counties. The College reported enrollment of 29,612 full-time equivalent students for the 2013-14 fiscal year.

The results of our financial audit of the College for the fiscal year ended June 30, 2014, 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, 2014, will be presented in a separate report.

FINDINGS AND RECOMMENDATIONS

Administrative Management and Board Policies

Finding No. 1: Internal Audit Function

An internal audit function can provide assurance that management and internal controls are adequately designed and functioning effectively, and can ensure compliance with Board-approved policies and procedures, as well as with State and Federal laws, regulations, and guidelines. The College's Compliance and Auditing Department (CAD) maintains an institution-wide compliance and audit function. The Board established CAD to report administratively to the Vice President of Operations and Finance, and functionally to the Board. CAD's Charter sets the role and responsibilities of the Department and requires that audit and compliance activities be performed in accordance with *International Standards for the Professional Practice of Internal Auditing (Standards)* published by the Institute of Internal Auditors (IIA),

and *Government Auditing Standards (GAS)* issued by the Comptroller General of the United States. CAD completed and issued 16 reports during the period July 1, 2011, through June 30, 2014.

IIA *Standards* require the Chief Audit Executive to establish and maintain a quality assurance and improvement program to provide management with reasonable assurance that the internal audit activity operates in conformity with applicable auditing standards. According to the *Standards*, a quality assurance and improvement program should include ongoing monitoring of the performance of internal audit activity, as well as periodic reviews performed through self-assessment, and an external assessment review, at least once every five years, by a qualified independent reviewer from outside the organization to determine the adequacy of the quality assurance and improvement program. Similarly, *GAS* requires that organizations performing audits in accordance with *GAS* establish and maintain a system of quality control that is designed to provide reasonable assurance of conformity with applicable professional standards, and undergo an external peer review at least once every three years. Our review disclosed that an external quality assurance review, or peer review, of CAD had not been performed in the last ten years.

Without an adequate quality assurance review process for its internal audit function, the College cannot have reasonable assurance that the internal audit function operates in conformity with applicable auditing standards or in accordance with the Board's directives.

Recommendation: The Board should ensure that its Compliance and Auditing Department undergoes a timely external quality assurance review of its internal audit function in accordance with *IIA and GAS Standards*.

Personnel and Payroll

Finding No. 2: Payroll Processing – Time Records

Effective internal controls require supervisory approval of time worked and leave used by employees to ensure that compensation payments are appropriate and leave balances are accurate. The College pays employees classified as "exempt" (Administrative and Faculty) on a payroll by exception basis (i.e., the employee is paid the same salary each pay period unless there is an exception). However, although the College did maintain records of leave used by employees, the College did not have procedures requiring supervisory personnel to review and approve exempt employees' work time. Under these conditions, there is an increased risk that exempt employees may be incorrectly compensated and employee leave balances may not be accurate.

Recommendation: The College should implement procedures to document supervisory review and approval of exempt employees' work time.

Information Technology

Finding No. 3: Timely Deactivation of Access Privileges

Effective management of system access privileges includes the timely deactivation of employee information technology (IT) access privileges when employment terminations occur. Prompt action is necessary to ensure that IT access privileges are not misused by the former employees or others to compromise data or IT resources.

Our review of employee records for 121 employees who were terminated during the 2013-14 fiscal year disclosed that the access privileges for 110 of the former employees remained active from 6 to 194 days after termination of

employment. Upon inquiry, College personnel indicated that, in some instances, the access privileges could not be removed until after the employee's last paycheck; none of the 110 employees had accessed or logged into the system after their termination date; and the Human Resources Department is developing a procedure that will terminate the employee's access on the employee's last work day.

Although application access had been eventually removed for these individuals, when the access privileges of former employees are not timely deactivated, there is an increased risk of unauthorized use, modification, or destruction of College data and IT resources by the former employees or others. A similar finding was noted in our report No. 2013-035.

Recommendation: The College should ensure that access privileges of former employees are timely deactivated.

PRIOR AUDIT FOLLOW-UP

The College had taken corrective actions for findings included in our report No. 2013-035, except that finding No. 3 was also noted in prior audit report No. 2013-035 as finding No. 6.

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 2014 to October 2014 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of this operational audit were to:

- Evaluate management's performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse, and in administering assigned responsibilities in accordance with applicable laws, rules, regulations, contracts, grant agreements, and other guidelines.
- Examine internal controls designed and placed in operation to promote and encourage the achievement of management's control objectives in the categories of compliance, economic and efficient operations, reliability of records and reports, and safeguarding of assets.
- Determine whether management had taken corrective actions for findings included in our report No. 2013-035.
- 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, weaknesses 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 2013-14 fiscal year. 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 College 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) policies and procedures.	Reviewed the College's written IT policies and procedures to determine whether they addressed certain important IT control functions.
Deactivation of employee IT access.	Reviewed procedures to prohibit former employees' access to electronic data files. Determined whether the access privileges for former employees had been timely deactivated.
IT data loss prevention.	Reviewed the College's written security policies and procedures governing the classification, management, and protection of sensitive and confidential information.
IT disaster recovery plan.	Determined whether a comprehensive IT disaster recovery plan was in place and had been recently tested.
IT logical access controls and user authentication.	Reviewed selected operating system, database, network, and application security settings to determine whether authentication controls were configured and enforced in accordance with IT best practices.
IT risk management and assessment.	Determined whether a written, comprehensive IT risk assessment had been developed to document the College's risk management and assessment processes and security controls intended to protect the confidentiality, integrity, and availability of data and IT resources.
IT security awareness and training.	Determined whether a comprehensive IT security awareness and training program was in place.
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).
Internal audit function.	Reviewed the internal audit function to determine whether the College followed professional requirements and provided for peer review of reports issued. Reviewed organizational charts, audit plans, and audit agendas to verify that the internal auditor reports directly to the Board, as required by Section 1012.855(1)(b), Florida Statutes. Determined whether the internal auditor develops audit plans based on annual risk assessments that use input from other finance and administrative management.
Fraud policy and related procedures.	Determined whether the College had developed a fraud policy and procedures to provide guidance to employees for communicating known or suspected fraud to appropriate individuals.
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.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Fund equity controls.	Determined whether the unencumbered balance in the unrestricted current fund of the College Board of Trustees' approved operating budget was below five percent of the total available fund balance at June 30, 2014, and if so, whether the College notified the Florida Department of Education, as required by Section 1011.84(3)(e), Florida Statutes. Performed analytical procedures to determine whether financial transactions in other funds may require resources from other unrestricted funds that would cause a significant reduction in available unrestricted current or auxiliary funds.
Direct-support organization.	Reviewed payments to the College's direct-support organization to determine appropriateness of such payments.
Investments.	Determined whether the Board established investment policies and procedures as required by Section 218.415, Florida Statutes, and whether investments during the fiscal year were in accordance with those policies and procedures.
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.
Florida residency determination and tuition.	Tested student registrations to determine whether the College documented Florida residency and correctly assessed tuition in compliance with Sections 1009.21 and 1009.22, Florida Statutes, and State Board of Education Rule 6A-10.044, Florida Administrative Code.
Dual enrollment programs.	Reviewed College policies and procedures related to dual enrollment programs. Determined, on a test basis, whether revenues collected for dual enrolled students were consistent with the applicable dual enrollment agreement and Section 1007.271, Florida Statutes.
Auxiliary operations contract compliance.	Examined selected auxiliary operations contracts to determine whether the College was properly monitoring compliance with the contract terms regarding fees, insurance, and other provisions. Also, performed analytical procedures to determine whether the College's auxiliary services were self-supporting.
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.
Personnel and payroll.	For selected employees, determined the accuracy of the rate of pay, validity of employment contracts, adequacy of qualifications, completion of performance evaluations, accuracy of leave records, and certifications by supervisory personnel of employee time reports.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Severance pay.	Reviewed severance pay provisions in selected contracts to determine whether the College was in compliance with Florida Statutes.
Administrative employees' compensation.	Reviewed administrative employees' compensation to determine whether compensation did not exceed limits provided in Florida law.
President's compensation.	Determined whether the President's compensation was in accordance with Florida law, rules, and Board policies.
Background screenings.	Reviewed the College's policies and procedures for obtaining background screenings for personnel. Determined whether employees in sensitive positions, such as positions in direct contact with minors, had undergone the appropriate background screenings.
Eligibility for health insurance benefits.	Reviewed College policies and procedures to ensure health insurance was provided only to eligible employees, retirees, and dependents and that such insurance was timely cancelled upon employee termination.
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 the purchasing cards of former employees were timely cancelled upon termination of employment.
Rebate revenues.	Determined whether rebate revenues received from purchasing card and e-Payable programs were allocated to the appropriate College funds.
Travel expenses.	Tested travel expenses to determine whether the travel expenses were reasonable, adequately supported, for valid College purposes, and limited to amounts allowed by Florida law.
Contractual agreements.	Determined whether contractual services were supported by Board-approved contracts. Also, examined and tested the aforementioned contracts to ensure that they were properly awarded and executed, that contract terms were adequately supported, and that vendors carried adequate insurance.
Construction administration.	For selected major construction projects, tested payments and supporting documentation to determine compliance with College policies and procedures and provisions of Florida laws and rules. Also, for construction management contracts, determined whether the College monitored selection of subcontractors by the construction manager.
Earmarked capital project resources.	Determined, on a test basis, whether Public Education Capital Outlay (PECO) and other restricted capital outlay expenditures were expended in compliance with the restrictions imposed on the use of these resources. Determined whether PECO funds were properly encumbered by the required reversion date.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
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.
Procurement of goods and services.	Reviewed College policies and procedures related to the procurement of goods and services to ensure the competitive vendor selection process. Tested disbursements to determine whether purchase orders were issued prior to the College incurring an obligation for the goods or services. Tested purchases subject to competitive bids/proposals to determine whether executed in compliance with bid requirements.
Employee payments.	Tested employee payments, other than travel and payroll payments, to determine whether such payments were reasonable, adequately supported, and for valid College purposes. Also, determined whether such payments were for employees doing business with the College, contrary to Section 112.313, Florida Statutes.
Related-party transactions.	Reviewed College policies and procedures related to identifying potential conflicts of interest. For selected College officials, reviewed Department of State, Division of Corporation, records; statements of financial interest; and College records to identify any potential relationships that represent a conflict of interest with vendors used by the College.

EXHIBIT B
MANAGEMENT'S RESPONSE

VALENCIA COLLEGE

December 4, 2014

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

Dear Mr. Martin:

Pursuant to Florida Statutes Section 11.45(4)(d), Valencia College is submitting to you a written statement of explanation, including our current proposed corrective actions, in response to the preliminary and tentative findings of your operational audit for the fiscal year ended June 30, 2014.

Finding No. 1: Internal Audit Function

An internal audit function can provide assurance that management and internal controls are adequately designed and functioning effectively, and can ensure compliance with Board-approved policies and procedures as well as with State and Federal laws, regulations, and guidelines. The College's Compliance and Audit Department (CAD) maintains an institution-wide compliance and audit function. The Board established CAD to report administratively to the Vice President of Operations and Finance, and functionally to the Board. CAD's Charter sets the role and responsibilities of the Department and requires that audit and compliance activities be performed in accordance with *International Standards for the Professional Practice of Internal Auditing (Standards)* published by the Institute of Internal Auditors (IIA), and *Government Auditing Standards (GAS)* issued by the Comptroller General of the United States. CAD completed and issued 16 reports during the period July 1, 2011, through June 30, 2014. IIA *Standards* require the Chief Audit Executive to establish and maintain a quality assurance and improvement program to provide management with reasonable assurance that the internal audit activity operates in conformity with applicable auditing standards. According to the *Standards*, a quality assurance and improvement program should include ongoing monitoring of the performance of internal audit activity, as well as periodic reviews performed through self-assessment, and an external assessment review, at least once every five years, by a qualified independent reviewer from outside the organization to determine the adequacy of the quality assurance and improvement program. Similarly, *GAS* requires that organizations performing audits in accordance with *GAS* establish and maintain a system of quality control that is designed to provide reasonable assurance of conformity with applicable professional standards, and undergo an external peer review at least once every three years. Our review disclosed that an external quality assurance review, or peer review, of CAD had not been performed in the last ten years.

Valencia College
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Orlando, FL 32802-3028
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EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

Recommendation: The Board should ensure that its Compliance and Auditing Department undergoes a timely external quality assurance review of its internal audit function in accordance with *IIA* and *GAS Standards*.

College Response:

As the only institution in the Florida College System with an internal audit function, we will take your recommendation under advisement and will explore ways of complying that will not require excessive costs to the College.

Finding No. 2: Payroll Processing – Time Records

Effective internal controls require supervisory approval of time worked and leave used by employees to ensure that compensation payments are appropriate and leave balances are accurate. The College pays employees classified as "exempt" (Administrative and Faculty) on a payroll by exception basis (i.e., the employee is paid the same salary each pay period unless there is an exception). However, although the College did maintain records of leave used by employees, the College did not have procedures requiring supervisory personnel to review and approve exempt employees' work time. Under these conditions, there is an increased risk that exempt employees may be incorrectly compensated and employee leave balances may not be accurate.

Recommendation: The College should implement procedures to document supervisory review and approval of exempt employees' work time.

College Response:

The College appreciates the importance of ensuring that all employees are properly compensated for work performed. In fact, the College has implemented a number of internal controls to ensure proper payment and requires that exempt employees properly document leave (paid and unpaid) through our electronic certificates of absence (which require supervisory approval). While we do agree with the assertion that compensation and leave balances should be accurate and that internal controls are important to ensure such, we are confident that our current practices meet all legal requirements and are consistent with best practices in Human Resources.

Finding No. 3: Timely Deactivation of Access Privileges

Effective management of system access privileges includes the timely deactivation of employee information technology (IT) access privileges when employment terminations occur. Prompt action is necessary to ensure that IT access privileges are not misused by the former employees or others to compromise data or IT resources.

Our review of employee records for 121 employees who were terminated during the 2013-14 fiscal year disclosed that the access privileges for 110 of the former employees remained active from 6 to 194 days after termination of employment. Upon inquiry, College personnel indicated that, in some instances, the access privileges could not be removed until after the employee's

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

last paycheck; none of the 110 employees had accessed or logged into the system after their termination date; and the Human Resources Department is developing a procedure that will terminate the employee's access on the employee's last work day.

Although application access had been eventually removed for these individuals, when the access privileges of former employees are not timely deactivated, there is an increased risk of unauthorized use, modification, or destruction of College data and IT resources by the former employees or others. A similar finding was noted in our report No. 2013-035.

Recommendation: The College should ensure that access privileges of former employees are timely deactivated

College Response:

The College agrees with your assessment that "effective management of system access privileges includes the timely deactivation of employee information technology (IT) access privileges when employment terminations occur." We are currently working to develop an automated process that will terminate systems access based on the actual last working day of the employee. Our current processes have been developed using the "termination date" of our HR system and we believe the process can be improved by using the last working date. This new process should allow us to terminate systems access in a more timely manner that is unaffected by the payroll processing schedule.

Please contact me if you need further information.

Sincerely,

Sanford C. Shugart
President

c: Brenda Racis
bc: Amy Bosley
Sherri Dixon
Keith Houck
Jackie Lasch
Joe Livingston
Bill Mullowney
Joyce Romano
Undria Stalling
Bill White