STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

Report No. 2018-016
September 2017

NEW COLLEGE OF FLORIDA



Sherrill F. Norman, CPA
Auditor General

Board of Trustees and President

During the period January 2016 through December 2016, Dr. Donal O'Shea served as President of New College of Florida and the following individuals served as Members of the Board of Trustees:

Felice C. Schulaner, Chair from 9-11-16, Vice Chair to 9-10-16
William R. Johnston, Vice Chair from 9-11-16
Keith D. Monda, Chair to 9-10-16 [a]
Bradford D. Baker
Audrey R. Coleman
Keith Fitzgerald from 8-7-16 [b]
Miles Matthew Wainwright Iton from 7-1-16 [c]
Elaine M. Keating
Charlene "Charlie" J. Lenger
John Lilly from 1-21-16
Fermin C. Miranda from 2-8-16 [d]
Paige Pellaton to 6-30-16 [c]
Mary Ruiz to 1-20-16
Dr. Suzanne Sherman to 8-6-16 [b]
George A. Skestos
Steven L. Snyder to 2-7-16
Norman Worthington III from 2-8-16

[a] Trustee position vacant 9-11-16, through 12-31-16.
[b] Chair of the Faculty Senate.
[c] Student Body President.
[d] Trustee position remained vacant 1-1-16, through 2-7-16.

The team leader was Svetlana V. Izmailova, CPA, and the audit was supervised by Rachel P. Sellers, CPA.

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

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NEW COLLEGE OF FLORIDA

SUMMARY

This operational audit of New College of Florida (University) focused on selected University processes and administrative activities and included a follow-up on findings noted in our report No. 2015-026. Our operational audit disclosed the following:

Finding 1: The University did not have a mechanism for exempt employees to report time worked and needs to implement procedures requiring supervisors to document the review and approval of such time.

Finding 2: Controls over assessing tuition differential fees need improvement.

BACKGROUND

New College of Florida (University) is part of the State university system of public universities, which is under the general direction and control of the Florida Board of Governors (BOG). The University is directly governed by a Board of Trustees (Trustees) consisting of 13 members. The Governor appoints 6 citizen members and the BOG appoints 5 citizen members. These members are confirmed by the Florida Senate and serve staggered 5-year terms. The Faculty Senate Chair and Student Body President also are members.

The BOG establishes the powers and duties of the Trustees. The Trustees are responsible for setting University policies, which provide governance in accordance with State law and BOG Regulations. The University President is selected by the Trustees and confirmed by the BOG. The University President serves as the executive officer and the corporate secretary of the Trustees and is responsible for administering the policies prescribed by the Trustees for the University.

This operational audit focused on selected University processes and administrative activities and included a follow-up on findings noted in our report No. 2015-026. The results of our financial audit of the University for the fiscal year ended June 30, 2017, will be presented in a separate report. In addition, the Federal awards administered by the University 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, 2017, will be presented in a separate report.

FINDINGS AND RECOMMENDATIONS

Finding 1: Payroll Processing – Time Records

Effective internal controls require that time records document the time worked and leave used by employees and also require supervisory approval of such time to ensure that compensation payments are appropriate and leave balances are accurate. The University pays exempt employees (i.e., administrative and professional employees and faculty) on a payroll-by-exception basis whereby employees are paid a fixed authorized gross amount for each payroll cycle unless the amount is altered.

A payroll-by-exception methodology assumes, absent any payroll actions to the contrary, that an employee worked or used available accumulated leave for the required number of hours in the pay period.

During the period January 2016 through December 2016, the University reported salary costs of $14.2 million for 284 exempt employees. According to University personnel, exempt employees document their leave on leave request forms that are submitted to supervisors for review and approval. Additionally, exempt employees manually enter leave for the pay period into a work time system, which also provides for supervisory approval, and the information is downloaded into the payroll system. However, the University does not require exempt employees to maintain attendance or other records to document their time worked. In response to our inquiry in April 2017, the Human Resources Director indicated that the pay-by-exception method provides for the completion of payroll processing much faster without losing quality. In addition, he indicated that the University's exempt employees do not prepare time sheets or other records to document their time worked and that there is no requirement by the United States Department of Labor that mandates an employer to perform timekeeping of hours worked by exempt employees.

Notwithstanding the Human Resources Director's response, without records documenting exempt employee time worked and supervisory review and approval of such records, there is limited assurance that exempt employee services were provided consistent with the Trustees' expectations. In addition, without records documenting exempt employees' time worked and supervisory review and approval, there is an increased risk that exempt employees may be incorrectly compensated, employee leave balances may not be accurate, and University records may not be sufficiently detailed in the event of a salary or leave dispute. Although our test of exempt employee compensation payments did not disclose any instances of incorrect payments, our procedures cannot substitute for management's responsibility to implement adequate controls to document exempt employee time worked and supervisory review and approval of such time.

Recommendation: The University should establish a mechanism for exempt employees to report time worked and implement procedures requiring supervisors to document the review and approval of such time.

Finding 2: Tuition Differential Fees

State law[1] authorizes the University Board of Trustees to establish a tuition differential for undergraduate courses upon receipt of approval from the Board of Governors (BOG). The tuition differential is to promote improvements in the quality of undergraduate education and provide financial aid to undergraduate students who exhibit financial need. The University assesses the tuition differential fee on all undergraduate courses using the block tuition rate, whereby students pay a flat rate for each semester instead of paying by the credit hour. According to University personnel, the University has established procedures for training personnel to properly assess tuition differential fees and the Registrar's Office is responsible for manually assessing these fees each semester for each student based on these procedures.

[1] Section 1009.24(16), Florida Statutes.

During the period January 2016 through December 2016, the University assessed and collected tuition differential fees totaling $901,911. As part of our audit, we examined University records supporting the tuition differential fee assessments for 40 selected undergraduate students and found that 8 students enrolled in the Spring 2016 Semester were not assessed tuition differential fees totaling $7,384. Our expanded testing and University personnel's response to audit inquiry indicated that, for our audit period, these 8 students were the only students who were not assessed tuition differential fees.

In response to our additional inquiry in March 2017, University personnel indicated that the 8 students were not assessed the fees because new personnel in the Registrar's Office were in training at the time the fees should have been assessed and the new personnel were unaware that tuition differential fees had to be assessed each semester. Without effectively monitoring and verifying tuition differential fee assessments, there is an increased risk that the fees may not be assessed and collected properly.

Recommendation: The University should enhance procedures to ensure that tuition differential fees are properly assessed to and collected from students enrolled in eligible undergraduate courses.

PRIOR AUDIT FOLLOW-UP

The University had taken corrective actions for findings included in our report No. 2015-026.

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 January 2017 through May 2017 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, and identify weaknesses in those controls.
- Determine whether management had taken corrective actions for findings included in our report No. 2015-026.

- 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.

As described in more detail below, for those programs, activities, and functions included within the scope of our audit, our audit work included, but was not limited to, communicating to management and those charged with governance the scope, objectives, timing, overall methodology, and reporting of our audit; obtaining an understanding of the program, activity, or function; exercising professional judgment in considering significance and audit risk in the design and execution of the research, interviews, tests, analyses, and other procedures included in the audit methodology; obtaining reasonable assurance of the overall sufficiency and appropriateness of the evidence gathered in support of our audit findings and conclusions; and reporting on the results of the audit as required by governing laws and auditing standards.

Our audit included transactions, as well as events and conditions, occurring during the audit period of January 2016 through December 2016. Unless otherwise indicated in this report, these records and transactions were not selected with the intent of statistically projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

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

In conducting our audit, we:

- Reviewed University information technology (IT) policies and procedures to determine whether the policies and procedures addressed certain important IT control functions, such as security, systems development and maintenance, and disaster recovery.
- Reviewed University procedures for maintaining and reviewing access to IT resources. Specifically, from the population of 81 employees with access to the University database and finance and human resources applications during the audit period, we examined University records supporting the access privileges for the 12 employees with maintenance access to finance and human resources applications to determine the appropriateness and necessity of the access privileges based on the employees' job duties and user account functions and whether access prevented the performance of incompatible duties.
- Evaluated University procedures for protecting student social security numbers (SSNs). Specifically, we examined University records supporting the access privileges of the 26 employees who had access to SSNs during the audit period to determine the appropriateness and necessity of the access privileges based on the employees' assigned job responsibilities.

- Evaluated University security policies and procedures during the audit period governing the classification, management, and protection of sensitive and confidential information.
- Reviewed operating system, database, network, and application security settings to determine whether authentication controls were configured and enforced in accordance with IT best practices.
- Examined Board of Trustees, committee, and advisory board meeting minutes to determine whether the Trustees' approval was obtained for the policies and procedures in effect during the audit period and for evidence of compliance with Sunshine Law requirements (i.e., proper notice of meetings, meetings readily accessible to the public, and properly maintained meeting minutes).
- Examined University records for the audit period to determine whether the University informed students and employees at orientation and on its Web site of the existence of the Florida Department of Law Enforcement sexual predator and sexual offender registry Web site and the toll-free telephone number that gives access to sexual predator and sexual offender public information as required by Section 1006.695, Florida Statutes.
- Examined University records to determine whether the University had developed an anti-fraud policy and procedures to provide guidance to employees for communicating known or suspected fraud to appropriate individuals. Also, we examined University records to determine whether the University had implemented appropriate and sufficient procedures to comply with its anti-fraud policies.
- Examined University records for 3 selected student accounts receivable totaling $21,648 from the population of 210 student accounts receivable totaling $103,650 as of December 31, 2016 and evaluated the adequacy of University collection efforts and whether restrictions on student records and holds on transcripts and diplomas were appropriate and enforced for students with delinquent account balances. Also, we performed analytical procedures to determine whether University student accounts receivable balances were consistent and reasonable.
- Examined University records to determine whether uncollectible accounts written off during the audit period totaling $16,420 were properly approved.
- Evaluated University policies and procedures to determine whether the University assessed and expensed tuition differential fees in compliance with Section 1009.24(16)(a), Florida Statutes. Specifically, we initially examined University records supporting the fee assessments during the audit period for 40 selected undergraduate students and expanded our records review and inquiry for all students who should have been assessed tuition differential fees.
- From the population of 801 students enrolled as Florida residents during the Spring 2016, Summer 2016, and Fall 2016 Semesters, examined University records for 31 selected students to determine whether the University 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.
- From the population of 483 students enrolled in courses with associated lab fees for 48 courses during the Spring and Fall 2016 Semesters, examined University records for 30 students to determine whether the lab fees were properly assessed and in accordance with University Regulation 3-1002 Tuition and Fees.
- Examined University records supporting the University's two auxiliary operation contracts, which generated food service revenue totaling $252,055 for the audit period and bookstore revenue totaling $26,806 for the 2015-16 fiscal year, to determine whether the University properly monitored compliance with the contract terms for fees, insurance, and other provisions.
- Examined supporting documentation for the 676 textbooks added for the Fall 2016 and Spring 2017 Semesters to determine whether University policies and procedures for textbook affordability complied with Section 1004.085, Florida Statutes.

- From the population of 767 employees compensated a total of $18.3 million during the audit period, selected 30 payroll transactions totaling $73,758 and examined the related payroll and personnel records to determine the accuracy of the rate of pay, validity of employment contracts, completion of performance evaluations, accuracy of leave records, and whether supervisory personnel reviewed and approved employee reports of time worked.
- Evaluated University procedures for payments of accumulated annual and sick leave (terminal leave pay) to determine whether the procedures promoted compliance with State law. Specifically, from the population of 37 employees who separated from University employment during the audit period and were paid $144,973 for terminal leave, we selected 3 employees who received terminal leave payments totaling $62,220 and examined the supporting records to evaluate the payments for compliance with Section 110.122, Florida Statutes, and the University's Employee Handbook.
- Examined severance pay provisions in the one employee contract that contained such provisions during the audit period to determine whether the provisions complied with Section 215.425(4), Florida Statutes.
- Examined University records for the two employees who received severance pay totaling $26,980 during the audit period to determine whether the severance payments complied with Section 215.425(4), Florida Statutes, and University regulations.
- Examined University records for 117 administrative employees (including the President) who received compensation totaling $6 million during the audit period to determine whether the amounts paid did not exceed the limits established in Sections 1012.975(3) and 1012.976(2), Florida Statutes.
- Evaluated University policies and procedures for obtaining personnel background screenings to determine whether employees in positions of special trust and responsibility, such as positions with direct contact with persons under age 18, had undergone the appropriate background screenings.
- Examined University expenditure documentation to determine whether the expenditures were reasonable, correctly recorded, adequately documented, for a valid University purpose, properly authorized and approved, and in compliance with applicable laws, rules, and contract terms; and whether applicable vendors were properly selected and carried adequate insurance. From the population of expenditures totaling $22 million for the audit period, we examined University documentation supporting:
  - 30 selected payments for general expenditures totaling $1.8 million.
  - 30 selected payments for contractual services totaling $513,070.
  - The competitive selection of 9 vendors paid a total of $828,587.
- From the population of 2,988 purchasing card (P-card) transactions totaling $492,118 during the audit period, examined University records supporting 30 selected P-card transactions totaling $40,425 for 22 cardholders to determine whether the P-card program was administered in accordance with University policies and procedures and transactions were not of a personal nature. We also determined whether the University promptly cancelled the P-cards of the 11 cardholders who separated from University employment during the audit period.
- Examined University records supporting the President and Board member travel expense reimbursements for the audit period totaling $4,472 to determine whether the expenses were reasonable, adequately supported, for valid University purposes, and limited to amounts allowed by Section 112.061, Florida Statutes.
- From the population of 405 payments totaling $64,241 for the audit period made to employees for other than travel and compensation, examined University records supporting 10 selected

payments totaling $12,877 to determine whether the payments were reasonable, adequately supported, for valid University purposes and whether the payments were related to employees doing business with the University, contrary to Section 112.313, Florida Statutes.

- For the one major construction project with contract amounts totaling $6.8 million and total construction costs totaling $1.5 million and in progress during the audit period:
  - Evaluated University documentation to determine whether the University adequately monitored the process for selecting design professionals and construction managers for compliance with State law; the University adequately monitored the process for selecting subcontractors; the Trustees had adopted a policy establishing minimum insurance coverage requirements for design professionals; and design professionals provided evidence of required insurance.
  - Selected 4 payments totaling $944,215 and examined University records to determine whether the payments were made in accordance with contract terms and conditions, University policies and procedures, and provisions of applicable State laws and rules.
- Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.
- Prepared and submitted for management response the findings and recommendations that are included in this report and which describe the matters requiring corrective actions. Management's response is included in this report under the heading ***MANAGEMENT'S RESPONSE***.

AUTHORITY

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



Sherrill F. Norman, CPA
Auditor General

MANAGEMENT'S RESPONSE

New College
THE HONORS COLLEGE of Florida
Office of the President

September 25, 2017

Sherrill F. Norman, CPA
Auditor General
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111 West Madison Street
Tallahassee, Florida 32399-1450

Subject: Preliminary and Tentative Audit Findings

Dear Auditor General Norman,

Please accept our responses below to the preliminary and tentative findings related to our Operational Audit this past spring.

Finding #1: The University did not have a mechanism for exempt employees to report time worked and needs to implement procedures requiring supervisors to document the review and approval of such time.

Our response: We believe that our payroll process for exempt employees is sufficient and fully meets required federal and state laws concerning exempt employees. While we believe that having exempt employees complete a time sheet in addition to documenting leave away from work does not provide a significant benefit to the payroll process, we are examining options to determine what reporting methodology will most efficiently accomplish the intent of the finding.

Finding #2: Controls over assessing tuition differential fees need improvement.

Our response: We agree that controls over assessing tuition differential need improvement. The Office of the Registrar has inserted a system of checkpoints into its work plan to ensure that students will be correctly charged for tuition differential. Before each semester, the Office of the Registrar will conduct a review of active student records to determine if a tuition differential should be assessed. Based on this review, they will make any necessary adjustments to student accounts so that the student will be accurately charged. This review will take place before billing statements are sent to students and should help to ensure that students will receive accurate billing statements. This process will be implemented before the spring 2018 semester.

We appreciate the time and effort given by you and your staff during this engagement and we will continue to work to make New College of Florida an even better place.

Sincerely,

Don O'Shea
President