

CHIPOLA COLLEGE

Operational Audit

For the Fiscal Year Ended
June 30, 2009



BOARD OF TRUSTEES AND PRESIDENT

Members of the Board of Trustees and President who served during the 2008-09 fiscal year are listed below:

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Dr. Gene Prough, President

The audit team leader was Pamela L. Thompson, CPA, and the audit was supervised by Patricia S. Crutchfield, 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) 922-2263.

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) 487-9024; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

CHIPOLA COLLEGE

SUMMARY

Our operational audit for the fiscal year ended June 30, 2009, disclosed the following:

Finding No. 1: The College did not have a Board approved written methodology for calculating user fees and procedures for documenting user fees needed improvement.

Finding No. 2: The College did not have a Board approved written policy providing for the amount and type of professional liability insurance requirements for design professionals.

Finding No. 3: The College's controls over credit card transactions needed improvement.

Finding No. 4: The College had not developed and tested a formal disaster recovery plan for its information technology operations.

BACKGROUND

Chipola 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 has a main campus in Marianna, Florida. Additionally, credit and noncredit classes are offered in public schools and other locations throughout Jackson County. The College reported enrollment of 1,640 lower-level and 105 upper-level full-time equivalent students for the 2008-09 fiscal year.

The results of our financial audit of the College for the fiscal year ended June 30, 2009, 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, 2009, will be presented in a separate report.

FINDINGS AND RECOMMENDATIONS

Finding No. 1: Student User Fees

Section 1009.23(12), Florida Statutes, authorizes each college board of trustees to establish fee schedules for certain user fees, such as laboratory fees, that are not to exceed the cost of the services provided and may only be charged to persons receiving the service. State Board of Education Rule 6A-14.054(6), Florida Administrative Code, authorizes each board of trustees to establish user fees in addition to tuition fees for services that incur unusual costs. 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, and 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 for approval.

College revenues from laboratory and user fees totaled approximately \$143,000 for the 2008-09 fiscal year. The College indicated that individual departments were responsible for determining the amount of student user fees for each course.

Our tests of ten courses for which student user fees, including laboratory fees, ranging from \$6 to \$160 were assessed, disclosed the following:

- For eight of the ten courses tested, although requested, supporting documentation was not provided to support the supplemental fees assessed.
- For one of the ten courses tested, a user fee of \$15 was charged, based, in part, on a calculation of repair costs estimated each year and allocated across 5 different laboratory classes, and was also, in part, based on the cost of a teaching aid spread across a time period of 10 years. Allocating costs over various courses and over an extended period of time may result in user fees that are charged to persons other than those receiving the services.
- For one of the ten courses tested, a supplemental fee of \$5 included items such as “per copy” costs of various printed materials, including student catalogs and planners, provided to students in the course which College personnel indicated were in lieu of a required textbook for this course. However, we noted that many of the same printed materials were made available at no cost to other students, other instructors, and other College personnel.

These deficiencies may have occurred, in part, because the College did not have a written methodology for determining which courses should assess such a fee and how the fees should be determined. A Board approved written methodology for establishing user fees would provide assurance that user fees are properly calculated, reviewed for accuracy, and reflect only the usual costs associated with each course. Factors that should be considered in developing a written methodology include the following:

- Definitions of which costs are considered unusual;
- The documentation required to support the anticipated unusual costs and expected number of students;
- The period of time used in making the determination;
- The review process to ensure that only appropriate costs are included in the fee calculations;
- The manner and frequency of presentation of the proposed fees for approval by the Board; and
- The frequency that such fees should be reevaluated.

Recommendation: The College should develop and implement a written methodology for establishing user fees to ensure compliance with the above-cited law, rule, and guidelines and submit this methodology to the Board for review and approval. In addition, the College should ensure that documentation is retained to support the user fees assessed.

Finding No. 2: Design Professionals - Insurance

The College contracts with design professionals such as architects and engineers for its construction projects. The Florida Department of Education (FDOE), in its current *Guidelines for State Requirements for Educational Facilities*, recommends that the Board develop a policy requiring either the Board or the design professional carry professional liability insurance.

Our review disclosed that the Board had not developed a policy providing for the type and amount of professional liability insurance required for design professionals. Our review disclosed that the same design professional used for two projects carried general coverage of \$500,000 of professional liability insurance per claim, which may not be sufficient considering the approximate construction costs for the projects were \$1.8 million and \$2.7 million. Additionally, for these contracts, the College publicly advertised a request for proposals that requested “a letter from an insurance company showing insurability in accordance with Board of Trustee’s policy.” However, as previously

mentioned the Board had not adopted such policy, and the contract with the design professional did not address design professional insurance. We also noted that the professional liability policies for the two projects and a design build contract with another firm were single-year policies written on a claims-made basis. A claims-made policy provides coverage only during the period in which a claim is made, rather than the period in which the event occurs that gives rise to the claim. Claims-made liability policies may not provide the College with sufficient protection if, for example, a design or construction flaw was discovered subsequent to the construction period and the responsible architect no longer carried such insurance, carried an insufficient amount of insurance, or was no longer in business. A written policy or procedure approved by the Board would provide clear guidance as to the Board's risk management philosophy and would notify design professionals of the College's insurance requirements, both during contract negotiations with prospective design professionals, and during the contract period for each particular project.

Since professional liability insurance options, such as per occurrence or per claim, that offer better coverage may be more costly, these options should be a factor to consider when developing policies on professional liability insurance. Other factors to consider would include the risk involved in construction projects and the approach management should take to mitigate those risks as well as the extent of risk the Board is willing to accept when deciding on the type and amount of required professional liability insurance. The level of acceptable risk may differ by type of project.

Additionally, our review disclosed that the College did not always verify that design professionals maintained professional liability insurance. For the three projects reviewed, the College had not obtained evidence of professional liability insurance. Subsequent to our inquiry, the College obtained and provided evidence of professional liability insurance for the design professionals.

Recommendation: Management should evaluate the College's exposure to design risk for construction projects and develop policies and procedures to ensure that the College obtains evidence of the appropriate type and amount of professional liability insurance that is consistent with the Board's risk management philosophy. Such policies and procedures should be submitted to the Board for its review and approval.

Finding No. 3: Credit Card Transactions

The College utilized eight credit cards for the procurement of certain goods and services. The cards are used primarily for travel purposes. The College issued one credit card to the College President and issued the remaining cards to employees on an as-needed basis. The credit limits on these cards ranged from \$5,000 to \$20,000, with four cards limited to \$5,000, one card limited to \$10,000, and three cards limited to \$20,000. College personnel used the credit cards to incur expenses totaling approximately \$139,000 during the 2008-09 fiscal year.

The College does not have formal policies or procedures concerning employee use of credit cards. The College does require employees assigned credit cards to complete a credit card release form that includes a statement that "the card is only to be used for legitimate expenses of Chipola College in relation to the travel indicated" on the form. The release form does not specify dollar transaction limits or limits on the types of purchases that could be made.

We reviewed 189 credit card purchases totaling \$69,755 to determine if employees appropriately used the credit cards for authorized purposes. Our review disclosed the following:

- We noted six instances, totaling \$3,451, in which employees used College credit cards to pay for the personal travel expenses for individuals who were not College employees. The College received reimbursements from the employees, totaling \$1,858, for four of these six instances. The College was reimbursed from 24 to 92 days after the charges were incurred. For the remaining two charges, totaling \$1,593, the College was reimbursed by the Chipola College Foundation. Although these six purchases for personal travel expenses

were subsequently reimbursed to the College, the practice of using College credit cards to pay for personal travel expenses of family members and other individuals not employed by the College is not consistent with good public policy.

- We noted one instance, totaling \$466, where an individual not employed by the College rented a car using a College credit card. Documentation supporting this payment does not evidence that the authorized user of the credit card approved the charge. We were subsequently provided documentation that indicated the rental car was used for a valid College purpose; however, the credit card was provided to and charges were approved by a person that was not a College employee.

Because the College has not established Board approved written policies and procedures to provide specific instructions governing the appropriate use of credit cards, the College has a greater risk that employees may use College credit cards in a manner that is inconsistent with the Board's intended use. Written policies and procedures, approved by the Board, would provide clear guidance to College employees on the Board's directives governing the proper use of College credit cards to ensure that credit card use is limited to authorized College employees and that purchases are valid expenses of the College, serve a valid public purpose, and are made in accordance with State laws and administrative rules.

Recommendation: The College should develop written policies and procedures to provide guidance to College employees on the proper administration and use of College credit cards. Such policies and procedures should be presented to the Board for its review and approval.

Finding No. 4: Disaster Recovery Plan

An important element of an effective internal control system over information technology (IT) operations is a disaster recovery plan to help minimize data and asset loss in the event of a major hardware or software failure. A disaster recovery plan should identify the critical applications, provide for backups of critical data sets, and provide a step-by-step plan for recovery. Also, the success and effectiveness of a disaster recovery plan requires the establishment of specific procedures for utilization of alternate facilities, including written agreements as to the rights and responsibilities between the College and the entity that will be providing the alternate facilities. In addition, plan elements should be tested periodically to disclose any areas not addressed and to facilitate proper conduct in an actual disruption of IT operations.

College personnel indicated they were aware that a catastrophic event could adversely affect the College's IT operations and that certain measures had been taken to safeguard mission-critical data if such an event were to occur. However, the College had not completed a formal written disaster recovery plan for its IT operations detailing the measures to be taken in response to a disaster and had not entered into a formal agreement with another entity to serve as an alternate-processing site. A similar finding was noted in our report Nos. 2006-011 and 2008-096.

Without a written disaster recovery plan, and testing thereof, there is an increased risk that, in the event of a disaster, prompt and effective continuation of College IT operations may not occur.

Recommendation: The College should prepare and implement a formal written disaster recovery plan, and should periodically test the feasibility of the plan when it is complete. The College should also enter into a formal agreement with another appropriate entity to serve as an alternate-processing site for critical operations.

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the College had taken corrective actions for findings included in our report No. 2008-096.

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 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: (1) obtain an understanding and make overall judgments as to whether College internal controls promoted and encouraged compliance with applicable laws, rules, regulations, contracts, and grant agreements; the economic and efficient operation of the College; the reliability of records and reports; and the safeguarding of assets; (2) evaluate management’s performance in these areas; and (3) determine whether the College had taken corrective actions for findings included in our report No. 2008-096. Also, pursuant to Section 11.45(7)(h), Florida Statutes, our audit may identify statutory and fiscal changes to be recommended to the Legislature.

The scope of this operational audit is described in Exhibit A. Our audit included examinations of various records and transactions (as well as events and conditions) occurring during the 2008-09 fiscal year.

Our audit methodology included obtaining an understanding of the internal controls by interviewing College personnel and, as appropriate, performing a walk-through of relevant internal controls through observation and examination of supporting documentation and records. Additional audit procedures applied, to determine that internal controls were working as designed, and to determine the College’s compliance with the above-noted audit objectives, are described in Exhibit A. Specific information describing the work conducted to address the audit objectives is also included in the individual findings.

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
Written formal disaster recovery plan.	Requested copy of disaster recovery plan to determine if the College had a formal written disaster recovery plan.
Procedures for timely preparation and approval of bank reconciliations.	Reviewed bank reconciliations to determine if they were prepared timely and appropriately approved.
Procedures for credit card expenditures.	Tested credit card purchases to determine if the transactions were adequately supported, reasonable, and appropriate.
Travel to a terrorist state.	Tested travel expenses to determine that College funds were not used for travel to a terrorist state.
Travel expenses.	Tested travel expenditures to determine if the transactions were adequately supported, mileage and per diem rates were in accordance with Florida statutes, and were for College purposes.
Promotion and public relations expenditures.	Requested the College's policy for auxiliary enterprise funds and undesignated gifts to ensure the policy was consistent with Florida law. Tested transactions to ensure that items were not of a personal nature. Reviewed total amount spent for promotion and public relations to ensure the amount did not exceed that allowed by Florida law.
Contractual agreements (other than capital outlay).	Tested payments for contractual services and examined supporting documentation to ensure that payments were in accordance with Board approved contract terms. Also, reviewed the aforementioned contracts to ensure they were properly awarded.
Tuition for baccalaureate courses.	Compared tuition fees charged for baccalaureate courses to amounts authorized to ensure these fees were less than 85 percent of tuition and out-of-state fees charged by the nearest public university.
Annual fire safety, casualty safety, and sanitation inspection reports.	Requested copies of the most recent annual fire safety, casualty safety, and sanitation inspection reports. Compared the most recent reports to the prior reports on a test basis to determine if corrective actions were taken.
Procedures over construction projects (change order approval, penalty clause included in contract).	Reviewed construction projects to determine if contracts included penalty clauses and if change orders were timely approved.
Grade change and diploma issuance procedures.	Reviewed procedures for grade changes and diploma issuance. Tested grade changes and determined if changes were authorized. Tested diplomas issued and determined if transcripts supported the requirements for graduation.
Textbook affordability.	Examined supporting documentation to determine whether the College's procedures regarding textbook affordability were in accordance with Section 1004.085, Florida Statutes.

EXHIBIT A (Continued)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Security awareness and training program.	Examined supporting documentation related to the College's information technology (IT) security awareness and training program.
Procedures to timely prohibit former employees' access to electronic data files.	Tested employees who terminated employment during the audit period and examined supporting documentation evidencing when the College terminated access privileges.
Sunshine Law requirements for Board meetings (i.e., proper notice of meetings, ready access to public, maintain minutes).	Read Board minutes and, for selected Board meetings, examined supporting documentation evidencing compliance with Sunshine Law requirements.
Student activity and service fees assessed.	Reviewed the student activity and service fee to verify the fee did not exceed 10 percent of the total tuition fee.
Procedures for calculating user and laboratory fees.	Requested a copy of fees policy and reviewed to ensure that it was in compliance with Florida law. Tested user and laboratory fees to determine whether the College properly calculated these fees.
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 as to the purpose of collecting their social security numbers.
Procedures for monitoring insurance coverage of design professionals.	Tested significant construction projects in progress during the audit period to determine whether the College had obtained evidence of required insurance.
Fraud policy and related procedures.	Examined written policies, procedures, and supporting documentation related to the College's fraud policy and related procedures.

EXHIBIT B
MANAGEMENT'S RESPONSE



CHIPOLA COLLEGE

A Higher Degree of Success

Office of the President

3094 Indian Circle Marianna, Florida 32446-2053 850-718-2375
www.chipola.edu

October 21, 2009

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

Dear Mr. Martin:

In response to your letter dated September 29, 2009, and in accordance with the provisions of Section 11.45(4)(d), Florida Statutes, I submit the following statement of explanation concerning your list of preliminary and tentative audit findings and recommendations. Included below is the actual or proposed corrective action, which may be included in your operational audit report of Chipola College.

Student User Fees

The College acknowledges the position of the Auditor General concerning student user fees and will make necessary changes to ensure documented compliance with applicable laws and rules.

Design Professionals – Insurance

The College will develop a written policy providing for the amount and type of professional liability insurance requirements for design professionals.

Credit Card Transactions

The College will develop written policies and procedures to provide guidance to College employees on the proper administration and use of College credit cards.

Disaster Recovery Plan

As mentioned in your finding, college personnel are aware that a catastrophic event could adversely affect information technology operations at the college and measures have been taken to safeguard mission-critical data if such an event were to occur. We will continue our efforts to finalize a formal written disaster recovery plan and test the feasibility of the plan when it is complete. We will also seek to enter into a formal agreement with another entity to serve as an alternate-processing site for critical applications.

Mr. David Martin
October 21, 2009
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Should you have any questions regarding this response or need additional information please contact me.

Sincerely,

10/21/2009

X *Gene Prough*

Gene Prough
President

Gene Prough, Ed.D.
President