

EDISON STATE COLLEGE

Operational Audit

For the Fiscal Year Ended
June 30, 2009



BOARD OF TRUSTEES AND PRESIDENT

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Note: (1) Board member position was vacant from July 1, 2008, through August 6, 2008.

The audit team leader was Jaime N. Hoelscher, CPA, and the audit was supervised by Deirdre F. Waigand, 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.

EDISON STATE COLLEGE

SUMMARY

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

Finding No. 1: The College’s procedures for documenting Florida residency status for tuition purposes needed improvement.

Finding No. 2: The College’s procedures for establishing course and user fees needed improvement.

Finding No. 3: The College did not have a Board approved written policy providing for the amount and type of professional liability insurance required for design professionals.

Finding No. 4: The College did not always take advantage of direct material purchases to reduce costs on major construction projects.

Finding No. 5: Information technology access was not always timely removed for former employees.

Finding No. 6: The College’s security controls needed improvement in the area of user authentication.

BACKGROUND

Edison 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.

Pursuant to Section 1001.60(2)(b), Florida Statutes, the College’s Board of Trustees approved the name change from Edison College to Edison State College on August 18, 2008.

The College has campuses in Fort Myers, Port Charlotte, and Naples, Florida. Additionally, credit and noncredit classes are offered in public schools and other locations throughout Lee, Charlotte, Collier, Hendry, and Glades Counties. The College reported enrollment of 9,123 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 Residency

Section 1009.21, Florida Statutes, states, in part, that students shall be classified as residents or nonresidents for the purpose of assessing tuition. According to this Statute, to qualify as a resident for tuition purposes, legal residency must be established and maintained in Florida for at least 12 months immediately prior to qualification. Section 1009.21(3), Florida Statutes, provides that a college may require individuals to provide documentation related to legal residence and its duration in order to obtain the in-state tuition rate. The College tuition rate for nonresidents is significantly higher than the rate for residents.

State Board of Education (SBE) Rules 6A-10.044, Florida Administrative Code, establishes the documentation requirements for determining the classification or reclassification of students as Florida residents for tuition purposes. This Rule provides that a student's dependent or independent status, for determining Florida residency, will be based on a copy of a student's or their parents' most recent tax return or other documentation. Additionally, the College's Residency Guidelines defined the criteria for independent or dependent classification. For example, one independent status criteria required the student to document independent annual financial resources of at least \$6,500 per year and provide tax returns and W-2's as support to receive an independent classification for determining Florida residency.

As noted in our report No. 2008-108, the College's procedures for documenting Florida residency for tuition purposes needed improvement. We selected 20 students who were classified as Florida residents for tuition purposes and who had either an out-of-state permanent addresses or received a residency status change to Florida resident during the 2008-09 fiscal year. Our tests of the College's records for these 20 students disclosed the following:

- For three students, the residency status was based upon the student claiming independent status. Although required by the College's Residency Guidelines, the College did not retain the required documentation evidencing independent status for these three students.
- The College did not obtain a signed residency reclassification application and affidavit for one student.

Absent documentation evidencing Florida residency status, College personnel may not be properly assessing and collecting nonresident tuition fees.

Recommendation: **The College should ensure that required documentation is obtained and retained to evidence Florida residency for purposes of assessing student tuition.**

Finding No. 2: User Fees

Section 1009.23(12)(a), Florida Statutes, states, in part, that in addition to tuition fees, each college board of trustees is authorized to establish fee schedules for user fees, which do not apply to a distance learning course, and such user fees shall not exceed the cost of the services provided and shall only be charged to persons receiving the service. The College's Administrative Procedure No. 6010, states, in part, that the Board may establish fees in addition to tuition fees for courses and that these fees shall not exceed the cost of services provided and shall only be charged to persons receiving the services, or persons for whom the services were designed. The College established a User Fee Approval Form to document costs to be considered in developing user and course fees.

Our review of 20 user and course fees disclosed the following:

- For 9 of the 20 fees, the College did not have a completed and approved form to document the calculation of the fees. These nine fees ranged from \$20 to \$125.
- For 7 of the 20 fees, although the College did have a completed and approved form, the effective date of the completed forms ranged from the years 1998 through 2002. The costs of providing these services may have substantially changed in the past six to ten years. The seven fees ranged from \$6 to \$75.
- During the 2008-09 fiscal year, the College assessed all students a parking fee of \$1 per credit hour. The College collected \$353,155, from all students, including students taking on-line classes. Since all students do not use the College's parking facilities, the College may be assessing a user fee to persons not using this service, contrary to the above-cited law.

Absent completed forms containing current costs, the College is unable to document that fees for services are correctly assessed to the users of these services.

Recommendation: The College should periodically review and document the costs of course and user services to ensure that fees do not exceed the costs incurred to provide the services. Additionally, the College should ensure that the parking fee is charged only to the users of the service.

Finding No. 3: Design Professionals – Liability Insurance

The College contracts with design professionals such as architects and engineers for its construction projects. The Florida Department of Education (FDOE) in its *Guidelines for State Requirements for Educational Facilities*, recommends that the Board develop a policy requiring the College to carry professional liability insurance for its design professionals or require the design professionals to carry professional liability insurance. The College developed design and construction guidelines for construction activities and a guide for insurance requirements that provides professional liability insurance requirements for design service professionals. The College's guide for insurance requires design professional to carry \$1 million for each occurrence and \$2 million general aggregate in professional liability insurance. These guidelines were developed for use by the College, but were not presented to the Board for approval.

Our review disclosed one construction project, with construction costs of approximately \$8 million that was insured for \$1 million for each occurrence and \$1 million for general aggregate, which was less than the amount of insurance provided in the College's guide for insurance requirements. Although the College indicated that its guidelines provide the required amount and type of professional liability insurance for design professionals, these guidelines had not been approved by the Board. 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 more 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.

Recommendation: Management should continue to evaluate and document the College's exposure to design risk for each construction project to ensure that the College obtains the appropriate type and amount of professional liability insurance that is consistent with the Board's risk management philosophy. Such procedures should be provided to the Board for its review and approval.

Finding No. 4: Direct Purchases of Construction Materials

Section 212.08(7)(o), Florida Statutes, provides the College exemption status from paying State sales tax on direct purchases. The College can take advantage of this exemption by direct purchasing materials for construction projects in accordance with Florida Department of Revenue Rule 12A-1.094. Although it may not be feasible to directly purchase all construction materials from vendors, the College has the ability to direct purchase a large portion of the required construction materials and benefit from the sales tax savings.

Our review of twelve construction projects disclosed that for seven of these projects totaling \$9.8 million, the College did not make direct purchases of construction materials to take advantage of its sales tax exemption nor was there

documentation evidencing that the College determined that direct purchases would not have been cost beneficial. We identified approximately \$300,000 in possible tax savings had the College made use of the direct purchase of construction materials.

In response to our inquiry, the College indicated that they are currently in the process of developing an administrative procedure addressing the direct purchases of materials and will consider factors to determine the most cost efficient method for purchasing construction materials, including the sales tax exemption as a cost saving measure.

Recommendation: The College, to the extent practicable and efficient for construction projects, should continue its efforts to take advantage of its sales tax exemption status by making direct purchases of materials, or document why it was not in the College's best interest to do so.

Finding No. 5: Information Technology – Removal of Access Privileges

Access controls provide safeguards to assist in the prevention or detection of deliberate and accidental errors. Errors may be caused by the improper use or manipulation of data files, unauthorized or incorrect use of computer programs, and improper use of computer resources. Effective access controls include provisions for removing the access privileges of former employees in a timely manner upon an employee's termination of employment.

College procedures require the Human Resources (HR) Department to forward a Personnel Clearance Form to the Information Technology (IT) Department upon an employee's termination of employment.

Our review of 25 former employees disclosed the following:

- Network access privileges of two former employees were removed 57 and 147 days after termination of employment. The network allows employees to sign on to a College computer. Although network access privileges were also removed for the 23 other former employees tested, the College did not maintain documentation to evidence the timeliness of the removal.
- Enterprise Resource Planning (ERP) software access privileges of four former employees were removed 147 to 172 days after termination of employment. The College's ERP software encompasses student, financial aid, finance, and human resource systems.
- Prior to February 2009, the College did not lock or remove 19 former employees' internal Web site access privileges through the *Portal* software. Access to the *Portal* allows users to gain entry to various functions, including e-mail, calendar, course information, course grades, and file sharing. On February 20, 2009, the College locked all former employees' *Portal* access and College management stated that they intend to terminate the access if the former employee does not become reemployed with the College after one year. In addition, College management stated that they intend to lock all former employees' *Portal* access once the IT Department receives the Personnel Clearance Form from the HR Department.

Failure to timely remove access privileges increases the risk of unauthorized use of computer resources by former employees or others. Subsequent to our discussions with the College, access to computer resources was removed for these former employees.

To improve the timeliness and tracking of IT access removal, the College also stated that a new Web-based Termination and Tracking system was implemented in April 2009.

Recommendation: The College should continue to enhance and monitor its procedures to ensure that access to IT resources is timely removed when employees terminate employment.

Finding No. 6: Information Technology – Security Controls

Security controls are intended to protect the confidentiality, integrity, and availability of data and IT resources. Our audit disclosed certain security controls related to user authentication that needed improvement. We are not disclosing specific details of the issue in this report to avoid the possibility of compromising College data and IT resources. However, we have notified appropriate College management of the specific issue. Without adequate security controls, the confidentiality, integrity, and availability of data and IT resources may be compromised, increasing the risk that College data and IT resources may be subject to improper disclosure, modification, or destruction.

Recommendation: The College should improve security controls in the area of user authentication to ensure the continued confidentiality, integrity, and availability of College data and IT resources.

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the College had taken corrective actions for findings included in our report No. 2008-108.

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. 2008-108. 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
Security awareness and training program regarding the confidentiality of information.	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.
Security controls over passwords.	Reviewed password length and change interval procedures.
Fraud policy and related procedures.	Examined written policies, procedures, and supporting documentation related to the College's fraud policy and related procedures.
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.
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.
Student activity and service fees assessed.	Compared the activity and service fee to verify that this fee did not exceed 10 percent of the total tuition fee.
Procedures for calculating user and laboratory fees.	Reviewed the College's procedures regarding user and laboratory fees. Tested user and laboratory fees and examined supporting documentation 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.
Procurement policies and procedures.	Tested one significant contract and examined supporting documentation evidencing compliance with bid requirements.
Procedures for insuring architects and engineers.	Tested major construction projects in progress during the audit period to determine whether the College had obtained evidence of required insurance.
Textbook Affordability.	Examined supporting documentation to determine whether the College's procedures regarding textbook affordability were in accordance with Section 1004.085, Florida Statutes.
Insurance requirements for leased facilities.	Tested facility lease contracts to determine if the College was monitoring its lease agreements to ensure required insurance coverage was obtained for College property leased to others.
Rent collections for leased facilities.	Tested facility lease contracts to determine if rents collected were timely deposited and in accordance with the contracts and College procedures.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Florida residency status for in-state tuition.	Tested students to determine if the College documented Florida residency and correctly assessed tuition in compliance with Section 1009.21, Florida Statutes, and State Board of Education Rule 6A-10.044, Florida Administrative Code.
Procedures for students associated with repeated classes.	Tested students that repeated classes for compliance with Sections 1004.93(4)(d) and 1009.285, Florida Statutes.
Travel to a terrorist state.	Examined the College’s travel records and made inquiry of key personnel to determine that College funds were not used for travel to a terrorist state.
Purchasing card transactions.	Tested transactions to determine whether the purchasing card program was administered in accordance with College policies and procedures.
State sales tax exemption for direct purchases of materials.	Examined recent construction projects to determine if the College made use of its sales tax exemptions to make direct purchases of construction materials or documented its justification for not doing so.
Annual safety inspection reports.	Examined annual safety inspection reports to determine whether the College complied with the buildings life safety, fire safety, and sanitation standards prescribed by the State Board of Education.
Procedures for student grade changes.	Tested student grade changes to determine whether the changes were supported by instructor records, were reviewed for accuracy, and had required appropriate levels of approval.
Controls over blank diploma paper and procedures for issuing diplomas.	Examined the procedures related to blank diploma paper to determine whether the College had adequate safeguards to prevent unauthorized use. Tested students that were issued a diploma and reviewed the student’s records to ensure the diploma was properly issued.

EXHIBIT B
MANAGEMENT'S RESPONSE



October 20, 2009

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

Dear Mr. Martin:

Following are Edison State College's responses to the preliminary and tentative findings and recommendations pertaining to the operational audit of Edison State College for the fiscal year ended June 30, 2009.

Finding No 1:

The College needed to enhance its procedures to document Florida residency status for tuition purposes.

Response:

The College is currently reviewing its procedures regarding documentation required to evidence student residency status. The College is also in the process of enhancing its record collection process by converting all supporting documents submitted by students into digital images that will be attached to each corresponding record in the system.

Finding No. 2:

The College needed to improve its current procedures for establishing course and user fees.

Response:

The College has updated its procedures over user fees to ensure that costs incurred to provide the services are not exceeded. The procedures require the respective academic areas to perform an annual review of the fees and document the fees as appropriate by completing an approval form. In addition, the College has ceased the assessment of parking fees on students taking on-line courses.

Finding No. 3:

The College did not have a Board approved written policy providing for the amount and type of professional liability insurance required for design professionals.

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**Response:**

The College is in the process of developing a procedure which requires design professionals to provide the proper amount and type of professional liability insurance in order to evaluate and document the College's exposure to design risk for each construction project.

Finding No. 4:

The College did not consistently take advantage of direct material purchases to reduce costs on major construction projects.

Response:

The College has developed an operating procedure addressing the direct purchase of materials related to its construction projects, to the extent practicable and cost effective, in order to take advantage of its sales tax exemption status.

Finding No. 5:

Removal of access privileges was not always timely completed by information technology for former College Employees.

Response:

Access controls provide safeguards to assist in the prevention or detection of deliberate and accidental errors. Errors may be caused by the improper use or manipulation of data files, unauthorized or incorrect use of computer programs, and improper use of computer resources. Effective access controls include provisions for removing the access privileges of former employees in a timely manner upon employee termination.

College procedures require the Human Resources (HR) Department to forward a Personnel Clearance Form to the Information Technology (IT) Department upon an employee's termination of employment.

To improve the timeliness and tracking of IT access removal, the College implemented a new web-based Termination and Tracking system in April 2009. Human Resources initiate this process when there is an employee termination. For each terminated employee, the web process includes specific steps for the removal of access to the Banner ERP, removal of access to the Network, and removal of access to the web Portal. A specific person must affirm that the step has been accomplished and the date on which the step was accomplished.

In July of 2009, our Florida Auditors gave Technology Services a list of five former employees. We were asked for the specific dates when the Banner, Network and Portal access was removed. We were able to demonstrate that access for all five employees was removed in a timely manner.

Based upon the ongoing usage of the Web Termination and Tracking system and based upon our successful audit in July 2009, we believe that the recommendation has been successfully addressed by Edison State College.



Finding No. 6:

The College's security controls needed improvement in the area of user authentications.

Response:

Security controls are intended to protect the confidentiality, integrity, and availability of data and IT resources. Our audit disclosed certain security controls related to user authentication that needed improvement. We are not disclosing specific details of the issue in this report to avoid the possibility of compromising College data and IT resources. However, we have notified appropriate College management of the specific issue. Without adequate security controls, the confidentiality, integrity, and availability of data and IT resources may be compromised, increasing the risk that College data and IT resources may be subject to improper disclosure, modification, or destruction.

Edison State College has reviewed comments from the Auditor General's office and other industry best practice guidelines and has tightened the security on the Operating System, Database, Network and Banner passwords. Based upon the evidence of people using these longer, more secure passwords, we believe that the recommendation has been successfully addressed by Edison State College.

If the college can be of further assistance in this matter, please do not hesitate to contact me.

Sincerely,

Noreen Thomas
Kenneth P. Walker *for*
President *Kenneth Walker*