

NEW COLLEGE OF FLORIDA

Operational Audit



BOARD OF TRUSTEES AND PRESIDENT

Members of the Board of Trustees and President who served during the 2010-11 fiscal year are listed below:

Robert M. Johnson, Chair from 9-11-10
Elaine M. Keating, Vice Chair (1)
Colonel Walter L. "Mickey" Presha, Chair to 9-10-10 (1)
Matthew Broerman to 8-26-10 (2)
Dr. Rick Coe from 8-18-10 (3)
Audrey R. Coleman from 1-20-11
Rev. Jerome Dupree, D.D., to 1-06-11 (4)
Chelsea Dye from 8-27-10 to 12-31-10 (2)
William R. Johnston
Dr. Patrick McDonald to 8-17-10 (3)
Kenneth R. Misemer to 1-06-11 (4)
Keith D. Monda
Oliver Peckham from 1-01-11 (2)
J. Robert Peterson
Dr. Vicki Pearthree Raeburn (1)
Mary Ruiz from 1-20-11
John W. Saputo
Felice C. Schulaner

Dr. Gordon E. Michalson, Jr., President

Notes: (1) Term ended January 6, 2011, but continued to serve until reappointment or replacement.
(2) Student body president.
(3) Faculty Senate chair.
(4) Positions remained vacant from January 7, 2011, to January 19, 2011.

The audit team leader was Dawn T. Meyers, CPA, and the audit was supervised by Karen J. Collington, CPA. For the information technology portion of this audit, the audit team leader was Kathy B. Sellers, CISA, and the supervisor was Heidi G. Burns, CPA, CISA. Please address inquiries regarding this report to James R. Stultz, CPA, Audit Manager, by e-mail at jimstultz@aud.state.fl.us or by telephone at (850) 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) 487-9175; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

NEW COLLEGE OF FLORIDA

SUMMARY

Our operational audit disclosed the following:

BOARD POLICIES

Finding No. 1: The College's procedures did not ensure that minutes of all committee meetings subject to the provisions of the Sunshine Law were prepared and approved by the committees.

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

CONSTRUCTION ADMINISTRATION

Finding No. 3: The College's controls over construction contracting needed enhancements.

PURCHASING CARDS

Finding No. 4: The College's monitoring controls over its purchasing card program needed improvement.

INFORMATION TECHNOLOGY

Finding No. 5: Some inappropriate or unnecessary application access privileges existed within the College.

Finding No. 6: The College's security controls related to user authentication needed improvement.

BACKGROUND

New College of Florida (College) is part of the State university system of public universities, which is under the general direction and control of the Florida Board of Governors. The College is directly governed by a Board of Trustees (Trustees) consisting of 13 members. The Governor appoints 6 citizen members and the Board of Governors appoints 5 citizen members. These members are confirmed by the Florida Senate and serve staggered terms of five years. The faculty senate chair and student body president also are members.

The Board of Governors establishes the powers and duties of the Trustees. The Trustees are responsible for setting College policies, which provide governance in accordance with State law and Board of Governors' Regulations. The Trustees select the College President. The College 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 College.

The results of our financial audit of the College for the fiscal year ended June 30, 2011, 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, 2011, will be presented in a separate report.

FINDINGS AND RECOMMENDATIONS

Board Policies

Finding No. 1: Committee Minutes

Board of Governors Regulation 1.001(2)(h), provides that each university board of trustees (Board) is subject to the public records and open notice requirements set forth in Article I, section 24 of the State Constitution and laws implementing that section. Section 286.011(2), Florida Statutes, is commonly referred to as the Sunshine Law. Section 286.011(2), Florida Statutes, requires that all Board minutes be promptly recorded and open to public inspection.

The GOVERNMENT-IN-THE-SUNSHINE MANUAL (Manual) prepared by the Office of the Attorney General indicates, in Part I, Section C.1., that the Sunshine Law extends to any gathering, whether formal or casual, of two or more members of the same board or commission to discuss some matter on which a foreseeable action may be taken by the public board or commission. In addition, the Manual in Part 1, Section D.1., indicates that the Sunshine Law specifically applies to informal discussions and workshops and refers to the Florida Supreme Court's statement that "collective inquiry and discussion stages" are embraced within the terms of the statute.

The College has several committees in which two or more Board members serve on the committees. During the 2010-11 fiscal year, four of the committees had meetings and all were advertised. Two of the committees, the External Affairs Committee and the Presidential Evaluation Committee, held a total of six meetings; however, the committees did not maintain minutes of their meetings.

College personnel stated that minutes were not kept for the External Affairs Committee meetings because: (a) the Committee does not make recommendations for Board action and (b) the discussions of every Committee meeting are reported to the Board immediately following each meeting as documented in the Board minutes. The Presidential Evaluation Committee is an ad hoc committee whose sole purpose is to evaluate the President's performance over the past fiscal year. According to College personnel, the Presidential Evaluation Committee follows an evaluation process each year that is transparent, and is fully detailed in the final report that the Committee makes to the Board. However, when official minutes of committee meetings are not recorded and approved, attendance at such meetings and the actions taken at the meetings are not clearly documented and available for public inspection.

Recommendation: The Board should take appropriate action to ensure that minutes of all committee meetings subject to the provisions of the Sunshine Law are prepared and timely approved by each committee.

Finding No. 2: Identity Theft Prevention Program

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

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

As a result of its student tuition and fee payment plan activity, the College meets the definition of a creditor as defined by the FTC and, as such, must comply with the Rule. Although the College had begun the process of developing a written identity theft prevention program, as of June 30, 2011, it remained a draft written Program and had not been approved by the Board of Trustees. Additionally, training required by the Rule had not been provided to employees who have access to accounts or personally identifiable information that may constitute a risk to the College or its students. In these circumstances, the College or its students could be at increased risk of identity theft due to the sensitive nature of information that is obtained, held, and processed through the student tuition and fee payment plan process. In addition, noncompliance with the Rule could result in monetary penalties from the FTC. College personnel indicated the draft Program would be presented to the Board for approval at the September 2011 meeting, and employee training required by the Rule would be provided to employees in Fall 2011.

Recommendation: The College should continue its efforts to implement an identity theft prevention program as required by the Red Flags Rule.

Construction Administration

Finding No. 3: Construction Administration

Pursuant to Section 1013.45(1), Florida Statutes, the College may contract for the construction or renovation of College facilities using various delivery methods, including competitive bid or selection of a construction manager (CM). Chapter 489, Florida Statutes, establishes certain licensing requirements for specialty subcontractors such as electrical, air conditioning, plumbing, and roofing contractors. The College's Facilities Planning and Construction Office is responsible for construction administration, which includes monitoring contractor activities, implementing construction-related procedures, and ensuring compliance with applicable State laws.

We reviewed the College's administration of two CM projects involving guaranteed maximum price (GMP) contracts, totaling approximately \$8.6 million for the New Academic/Administration Building (Building) and \$952,000 for the Hamilton Center Black Box Theatre (Theatre). Under GMP contracts, the College may realize cost savings if the cost of the construction is less than the GMP. Our review disclosed that the College could enhance its controls over construction contracting, as discussed below:

- The contracts provided that the CM was responsible for selecting subcontractors using a competitive bid process, and after considering a specified minimum number of bids, would award those contracts to the most qualified and lowest bidder. In response to our request for the bid documentation and bid tabulation sheets for the subcontractors on the two CM projects, we noted for the Building project that the College had to obtain these documents from the CM because documentation was not maintained by the College. College personnel informed us that they did attend subcontractors' bid openings and the bid tabulation forms obtained subsequent to audit inquiry documented their attendance. For the Theatre project, the College also had to obtain these documents from the CM. However, the College did not attend the subcontractors' bid opening. In the absence of signed and witnessed competitive bid tabulation sheets, there is an increased risk

that College records may not demonstrate the proper handling and awarding of bids in the event of a challenge.

- College personnel had not, of record, verified that the two CM projects' subcontractors were appropriately licensed. College personnel advised us that the licensure verification was performed by the CM. However, College procedures did not include documenting its monitoring of the CM's verification of subcontractor licenses. We selected five subcontractors utilized on the Building project and verified that the subcontractors were properly licensed. Although our test disclosed no unlicensed subcontractors, monitoring the CM's verification of subcontractor licenses provides the College with additional assurance that subcontractors working on College facilities meet the qualifications to perform the work for which they are engaged.
- For both CM projects, College personnel indicated that they did not verify that the subcontractors selected during the bid process and related contract amounts agreed with the schedule of values, listing the individual components of the project, as shown on the CM pay requests. College personnel indicated that all CM contingency changes are reviewed and approved, which would make the College aware of changes in subcontracts. However, without verification of subcontractors and related amounts to the schedule of values, there is an increased risk that the College may not be aware of changes in subcontractors or may overpay the CM for subcontractor services.
- Our review of a CM payment request for the Theatre project totaling \$358,582 disclosed that there was no supporting documentation such as receipts or invoices. In response to our inquiry, the Director of the College's Facilities Planning and Construction Office stated that the architect signed the payment request to document that the work included on the invoice was completed. In addition, the Director stated he closely monitored the project. However, in the absence of procedures to ensure that CM payment requests are supported by adequate documentation, there is an increased risk that the College may not realize potential cost savings or may overpay the CM for services provided.

Recommendation: The College should enhance its procedures for the monitoring of the CM's subcontractor selection process and establish procedures to monitor the CM's verification of subcontractors' licensure status prior to commencement of work on projects. In addition, the College should enhance its procedures for monitoring CM payment requests to ensure that such requests are (1) consistent with applicable bids and contracts and (2) properly supported by adequate documentation.

Purchasing Cards

Finding No. 4: Purchasing Cards

The College administers a purchasing card program, which gives employees the convenience of purchasing items without using the standard purchase order process. The College uses purchasing cards to efficiently and effectively handle and expedite low-dollar purchases of goods and services. Purchasing cards are subject to the same rules and regulations that apply to regular College purchases and the College has established written purchasing card procedures to provide users with additional guidance on how to properly use the purchasing cards. The College issued 70 purchasing cards to employees as of June 30, 2011, who incurred charges for purchased goods and services totaling approximately \$354,000 during the 2010-11 fiscal year.

The College's single transaction limit for its purchasing card is \$999. Our review of 36 purchasing card transactions during the period July 1, 2010, through December 31, 2010, totaling \$25,846, disclosed four purchases totaling \$5,962 each of which appeared to be split into two or more transactions to circumvent cardholder transaction limits. In these instances, College procedures were not sufficient to ensure that the use of purchasing cards complied with the College's purchasing card guidelines.

Recommendation: The College should enhance its training and monitoring procedures over its purchasing card program to ensure compliance with the College’s purchasing card guidelines.

Information Technology

Finding No. 5: Access Privileges

Access controls are intended to protect data and information technology (IT) resources from unauthorized disclosure, modification, or destruction. Effective access controls provide employees access to IT resources based on a demonstrated need to view, change, or delete data and restrict employees from performing incompatible functions or functions outside of their areas of responsibility.

Our audit test of selected access privileges to the finance and human resources application disclosed that inappropriate or unnecessary access privileges existed. Specifically, within the College’s Business Office, six employees had been granted access to certain applications that provided access to add and update vendors and addresses, enter and post journal entries, make electronic funds transfers (EFTs) and direct deposits, print checks, initiate purchase requisitions, and add and create purchase orders. Additionally, four of the six employees also had the ability to setup EFTs and direct deposits for processing.

Although the College had compensating controls in place (e.g., department supervisor monitoring of budget and actual expenditures, and semi-annual review of access) to mitigate the risks of the control deficiencies noted above, the access privileges either permitted the employees to perform incompatible duties or the access privileges were not necessary for their job duties, increasing the risk of unauthorized disclosure, modification, or destruction of College data and IT resources.

Recommendation: The College should continue its process of review of the appropriateness of access privileges, including the evaluation of privileges allowed, and timely remove or adjust any inappropriate or unnecessary access detected to ensure that access privileges are compatible with employee job responsibilities.

Finding No. 6: Security Controls - User Authentication

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 issues in this report to avoid the possibility of compromising College data and IT resources. However, we have notified appropriate College management of the specific issues. Without adequate security controls related to user authentication, 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 related to user authentication to ensure the continued confidentiality, integrity, and availability of College data and IT resources.

PRIOR AUDIT FOLLOW-UP

The College had taken corrective actions for findings included in our report No. 2010-026.

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 2011 to July 2011 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. 2010-026. 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 2010-11 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
Information technology (IT) logical access controls and user authentication.	Examined security settings to determine whether authentication controls were configured and enforced in accordance with IT best practices.
IT access privileges and separation of duties.	Reviewed procedures for creating, maintaining, and reviewing access to IT resources. Tested access privileges to determine the appropriateness based on the employees' job functions and responsibilities and adequacy with regard to preventing the performance of incompatible duties.
IT termination of employee access.	Reviewed procedures to prohibit former employees' access to electronic data files. Tested access privileges for employees who terminated employment during the audit period and verified that the College timely terminated their access privileges.
IT policies and procedures.	Reviewed written policies and procedures to determine whether certain important IT control functions were addressed.
IT data loss prevention.	Examined written policies, procedures, and programs in effect governing the classification, management, and protection of sensitive and confidential information.
IT security incident response.	Examined written policies and procedures, plans, and forms related to the response to and reporting of security incidents.
IT risk management and assessment.	Reviewed the College's risk management and assessment processes and security controls intended to protect the confidentiality, integrity, and availability of data and IT resources.
Board and committee minutes	Reviewed minutes of board and committee meetings to determine whether the minutes were promptly recorded and open to public inspection.
Related party transactions.	Reviewed College policies and procedures for related party transactions and tested transactions to determine if there were any related party transactions for Board members and key administrators.
Social security number requirements of Section 119.071(5)(a), Florida Statutes.	Examined supporting documentation to determine whether the College had provided individuals with a written statement of the purpose of collecting their social security numbers.
Identity theft prevention program (Red Flags Rule).	Reviewed College policies and procedures related to its identity theft prevention program for compliance with the Federal Trade Commission's Red Flags Rule.
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, 1009.24, and 1009.286(2), Florida Statutes, and Board of Governors Regulation 7.005.
Tuition differential fees.	Tested payments from tuition differential fees collected to determine whether the College used the tuition differential fees in compliance with Section 1009.24(16)(a), Florida Statutes.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Student fees associated with distance learning fees and excess hour surcharge.	Determined whether distance learning fees and excess hour surcharges were assessed and collected as provided by Sections 1009.24(17) and 1009.286(2), Florida Statutes.
Overtime payments.	Reviewed College policies, procedures, and supporting documentation evidencing the approval of and necessity for overtime payments.
Electronic payments.	Reviewed College policies and procedures relating to electronic payments and tested supporting documentation to determine if selected electronic payments were properly authorized and supported.
Purchasing card transactions.	Tested transactions to determine whether purchasing cards were administered in accordance with College policies and procedures. Also, tested former employees to determine whether purchasing cards were timely cancelled upon termination of employment.
Construction administration.	For selected major construction projects, tested payments and supporting documentation to determine compliance with College policies and procedures and provisions of law and rules. Also, for construction management contracts, determined whether the College monitored the selection process of subcontractors by the construction manager.
Wireless communication devices.	Reviewed policies and procedures to determine whether the College limited the use of, and documented the level of service, for wireless communication devices.

**EXHIBIT B
MANAGEMENT'S RESPONSE**



Office of the President

October 13, 2011

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

Dear Mr. Martin:

Enclosed is our response to your preliminary and tentative findings and recommendations associated with New College of Florida's Operational Audit for the fiscal year ending June 30, 2011.

We continue to appreciate the assistance you and your staff provide in helping the College maintain and improve operations and accountability. Should you have any questions or need additional information, please do not hesitate to call me at 941-487-4100.

Sincerely,

A handwritten signature in blue ink that reads "Gordon E. Michalson Jr.".

Gordon E. Michalson Jr.
President

Enclosure

cc: Mr. Robert M. Johnson, Chair, Board of Trustees
Ms. Mary Ruiz, Chair, Audit Committee
Mr. John Martin, VP for Finance & Administration

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

NEW COLLEGE OF FLORIDA

Response to Preliminary and Tentative Operational Audit Findings
For the Fiscal Year Ended June 30, 2011

FINDING 1: COMMITTEE MINUTES

RECOMMENDATION:

The Board should take appropriate action to ensure that minutes of all committee meetings subject to the provisions of the Sunshine Law are prepared and timely approved by each committee.

RESPONSE:

The College concurs with the recommendation and has developed and implemented procedures to ensure that minutes of all Board of Trustees committee meeting are prepared and approved by each committee in a timely manner.

Responsible Person: Suzanne Janney, Assistant Secretary, Board of Trustees

Expected Implementation Date: September, 2011

FINDING 2: IDENTITY THEFT PREVENTION PROGRAM

RECOMMENDATION:

The College should continue its efforts to implement an identity theft prevention program as required by the Red Flags Rule.

RESPONSE:

The College concurs with the recommendation and has developed its Identity Theft Program which was reviewed and approved by the Board of Trustees at their September 10, 2011 meeting. Program implementation is underway and initial employee training will commence by the end of calendar year 2011.

Responsible Person: Ron Hambrick, Director, Environmental Health and Safety

Expected Implementation Date: October, 2011

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

NEW COLLEGE OF FLORIDA

Response to Preliminary and Tentative Operational Audit Findings
For the Fiscal Year Ended June 30, 2011

FINDING 3: CONSTRUCTION ADMINISTRATION

RECOMMENDATION:

The College should enhance its procedures for the monitoring of the CM's subcontractor selection process and establish procedures to verify subcontractors' licensure status prior to commencement of work on projects. In addition, the College should enhance its procedures for monitoring CM payment requests to ensure that such requests are (1) consistent with applicable bids and contracts and (2) properly supported by adequate documentation.

RESPONSE:

The College concurs with the recommendation and will review and strengthen its procedures for monitoring the CM's subcontractor selection process and will require the CM to verify and submit appropriate subcontractor's licenses as part of the award process. The College will also review and strengthen its procedures regarding review and approval of pay applications and required back up documentation.

Responsible Person: Jack Whelan, Senior Architect

Expected Implementation Date: October, 2011

FINDING 4: PURCHASING CARDS

RECOMMENDATION:

The College should enhance its training and monitoring procedures over its purchasing card program to ensure compliance with the College's purchasing card guidelines.

RESPONSE:

The College concurs with the recommendation and has reviewed, revised and strengthened its Purchasing Card Procedures to ensure compliance with purchasing card guidelines.

Responsible Person: Jim Bretherick, Director, Purchasing

Expected Implementation Date: February, 2011

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

NEW COLLEGE OF FLORIDA

Response to Preliminary and Tentative Operational Audit Findings
For the Fiscal Year Ended June 30, 2011

FINDING 5: ACCESS PRIVILEGES

RECOMMENDATION:

The College should continue its process of review of the appropriateness of access privileges, including the evaluation of privileges allowed, and timely remove or adjust any inappropriate or unnecessary access detected to ensure that access privileges are compatible with employee job responsibilities.

RESPONSE:

The College concurs with the recommendation and has reviewed and revised its access privileges so as to be compatible with employee job responsibilities. The review and subsequent revision process balanced the need to reduce the risk of unauthorized disclosure, modification, or destruction of College data and IT resources with the inherent limitations of a very small staff size and the necessity for the College to be able to perform essential duties and responsibilities.

Responsible Person: Kim Bendickson, Associate Controller

Expected Implementation Date: August, 2011

FINDING 6: USER AUTHENTICATION

RECOMMENDATION:

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

RESPONSE:

The College concurs with the recommendation. IT staff are working in collaboration with the regional data center supporting key College enterprise system applications to enhance security controls.

Responsible Person: Kathy Killion, Dean, Enrollment Services & Information Technology

Expected Implementation Date: November, 2011