

# CHIPOLA COLLEGE

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## 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:

	<u>County</u>
Jeff Crawford, Jr., Chair (1)	Jackson
Mark S. Plummer, Vice Chair (2)	Liberty
Dr. Leisa H. Bailey	Holmes
Gary F. Clark (1)	Washington
Robert L. Jones (1)	Holmes
John W. Padgett (2)	Jackson
Jan L. Page (1)	Washington
Daniel E. Ryals, III	Calhoun
Virginia C. Stuart	Jackson

Dr. Gene Prough, President

- Notes: (1) Board member served beyond the end of term, May 31, 2011.  
(2) Board member served beyond the end of term, May 31, 2010.

The audit team leader was Jason Law, and the audit was supervised by Patricia S. Crutchfield, CPA. For the information technology portion of this audit, the audit team leader was Rebecca Ferrell, 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](mailto:jimstultz@aud.state.fl.us) or by telephone at (850) 922-2263.

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**CHIPOLA COLLEGE**

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**SUMMARY**

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Our operational audit disclosed the following:

**BOARD POLICIES**

**Finding No. 1:** 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. 2:** The College needed to establish policies and procedures for negotiating, documenting, and monitoring general conditions costs for its guaranteed maximum price construction projects.

**Finding No. 3:** The College's controls associated with monitoring the subcontractor selection process for construction projects needed improvement.

**Finding No. 4:** The College had not established procedures to verify subcontractors' licensure status.

**Finding No. 5:** The College needed to enhance its procedures for monitoring construction payment requests.

**Finding No. 6:** The College did not have an approved written policy providing for the amount and type of professional liability insurance requirements for design professionals.

**INFORMATION TECHNOLOGY**

**Finding No. 7:** The College had not developed and tested a written disaster recovery plan for its information technology (IT) operations.

**Finding No. 8:** Some inappropriate or unnecessary IT access privileges existed.

**Finding No. 9:** The College had not developed a written, comprehensive IT risk assessment.

**Finding No. 10:** The College's security controls related to user authentication needed improvement.

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**BACKGROUND**

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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 President serves as the executive officer and the corporate secretary of the Board, and is responsible for the operation and administration of the College.

The College has 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 1,666 full-time equivalent students for the 2010-11 fiscal year.

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.

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**FINDINGS AND RECOMMENDATIONS**


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**Board Policies**

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**Finding No. 1: Identity Theft Prevention Program**


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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 lending 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 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 lending process. In addition, noncompliance with the Rule could result in monetary penalties from the FTC. College personnel indicated that lack of compliance with the Rule is largely a result of confusion as to the applicability of the Rule to colleges.

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

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**Construction Administration**

Pursuant to Section 1013.45(1), Florida Statutes, the College may contract for the construction or renovation of facilities using various delivery methods, including competitive bid or selection of a design-build firm. The College entered into a guaranteed maximum price (GMP) contract with a design-build firm for the construction of the Center for the Arts Building (Center) at an estimated cost of approximately \$16 million. College personnel anticipate that this project will be completed during the 2011-12 fiscal year. Under GMP contracts, the College may realize cost savings if the cost of construction is less than the GMP and, as such, a GMP contract requires close monitoring by College personnel to ensure that the cost of construction is adequately documented.

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**Finding No. 2: General Conditions Costs**

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The contract with the design-build firm (Firm) included a provision for general conditions costs of approximately \$1.275 million, which is billed to the College on a monthly basis over the life of the project. General conditions included such items as direct and indirect salary costs of project managers and project superintendents; costs of jobsite office space, furniture, equipment, and supplies; and communication and utility costs. Some components of general conditions, including the Firm's labor components, is billed each month as a percentage of construction completion, and other components are billed each month on a reimbursement basis. Our tests of the general conditions costs disclosed the following:

- The general conditions costs for the Center project were determined through a negotiation process between the College and the Firm. In response to our request for documentation to show how the negotiated costs were determined, College personnel indicated that the College researched the typical costs assigned to general conditions for similar projects and negotiated to what College personnel felt was reasonable for a total budgeted figure for all general conditions costs. However, the College did not have procedures or guidelines specifying the methodology to be applied, and factors to be considered during the negotiation process for general conditions costs.
- Some charges to general conditions lacked adequate support to document the reasonableness of the amounts charged, such as payroll records to support the labor burden. In response to our inquiry, College personnel indicated that a limited review was performed on individual charges for general conditions, and as long as life-to-date amounts billed for general conditions appeared reasonable (as compared to percent of project completion to date) College personnel authorized the payments.
- Our review of construction pay request No. 19, paid March 17, 2011, totaling \$397,951, disclosed that the budgeted contract total on the schedule of values for general conditions costs exceeded the original budgeted and contractually-agreed upon amounts by \$15,475. Although requested, documentation supporting the reason for the \$15,475 difference, such as approved change orders or other modifications, was not provided.

Absent adequate monitoring of budgets for, and charges, to general conditions costs, the College may be limited in its ability to recover cost savings associated with the project, should they occur. Further, absent documentation of the methodology applied and factors considered in the negotiation process, College records do not clearly evidence how the College determined that the general conditions costs were reasonable and appropriate.

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**Recommendation:** The College should establish written policies and procedures addressing negotiation and monitoring of general conditions construction costs. Such policies and procedures should require documentation of the methodology used and application of various factors considered in evaluating the reasonableness of such costs.

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**Finding No. 3: Subcontractor Selection**

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Board Policy 5.280, *Construction Bids*, provides that bids for construction projects must be received, publicly opened, and tabulated by the College President or by his designee. Subsequent to subcontractor bid openings for the Center project held at the College in June 2009 and September 2009, a rebid was held in October 2010 at the Firm's home office for four bid packages. For this rebid, the bid tabulation sheets prepared by the Firm indicated that College personnel were not present for the bid openings, and although the bid sheets were signed and dated by Firm personnel, they were not signed and dated by College representatives. The four winning bids totaled approximately \$3.2 million. In the absence of competitive bid tabulation sheets signed and witnessed by College personnel, there is an increased risk that College records may not demonstrate the proper handling and awarding of the bids in the event of a dispute.

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**Recommendation:** The College should improve controls associated with monitoring the subcontractor selection process.

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**Finding No. 4: Subcontractor Verification**

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Chapter 489, Florida Statutes, establishes certain licensing requirements for specialty subcontractors such as electrical, air conditioning, plumbing, and roofing contractors. Although the Firm was required to verify licensure during prequalification procedures as indicated in the advertised request for proposals, College procedures did not include monitoring of the Firm's verification of subcontractor licenses. Monitoring of the Firm'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.

We selected 10 subcontractors utilized on the project and requested that the College provide evidence of licensure of the subcontractors. The College obtained this documentation from the Firm and forwarded to us for our review. Although we were able to determine that the selected subcontractors were properly licensed, our procedures and the procedures performed by the Firm do not substitute for the College's responsibility to monitor construction activities.

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**Recommendation:** The College should establish procedures to monitor the verification of subcontractors' licensure status prior to commencement of work on projects.

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**Finding No. 5: Monitoring Payment Requests**

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During the 2010-11 fiscal year, the College made payments totaling \$3,911,907 to the Firm. The College's Capital Projects and Facilities Administrator is responsible for construction administration on behalf of the College, which includes monitoring contractor activities, implementing construction-related procedures, and ensuring compliance with applicable State laws. In response to our inquiry, the Capital Projects and Facilities Administrator indicated that, upon receipt of payment requests from the Firm, College personnel conduct a review of the application and certificate for payment. However, as part of these procedures, College personnel do not verify the payment request to the original contract budget to verify the subcontractors or the amounts requested for payment to the corresponding cost line(s) on the schedule of values in the GMP contract documents. College personnel indicated that all contract modifications are reviewed and approved by a College representative and that each payment request is reviewed in total to ensure that the total does not exceed the GMP. However, without procedures to reconcile each line in the schedule of values for each payment request to the original bids, which support the negotiated GMP, there is an increased risk that the College may overpay subcontractors for services or may not realize potential cost savings. Our review of design payment request No. 28 for \$10,014, paid February 18, 2011, and construction payment request No. 19 for \$397,951, paid March 17, 2011, totaling \$407,965, disclosed the following:

- We selected a sample of 13 cost lines representing \$6,105,334 from the schedule of values from the GMP contract documents as of March 17, 2011, to verify that the payment requests agreed with original bids, after approved adjustments or change orders. These items represented various subcontractors performing individual components of the project. In response to our request for the bid documents and change orders, College personnel informed us that this information was not available. Subsequent to our inquiries, we were provided with additional information supporting the items selected for testing, which was provided by the Firm. However, the information supporting the test items did not always identify the specific approved adjustments or change orders by line item. As such, for 11 of the 13 items selected the amounts on the payment request were not in agreement with the amended GMP contract.

- On March 24, 2011, the College paid the architect \$35,488 for threshold inspections completed from August 28, 2010, through February 28, 2011. No supporting documentation (hourly logs, etc.) was attached to support this payment. In response to our inquiries, we were subsequently provided with copies of the detailed daily logs maintained by the architect. We noted several errors, including incorrect hourly rate assignments and incorrect calculations, which resulted in a \$1,396 overpayment by the College. Subsequent to our inquiries, College personnel informed us that the architect had been contacted and subsequent invoices will be adjusted to reflect a credit for this overpayment.

In the absence of adequate controls over the monitoring of construction payments, there is an increased risk that the College may fail to realize potential cost savings or may overpay for services provided.

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**Recommendation:** The College should modify its procedures for monitoring construction payment requests to require a detailed review by cost line for major construction projects, and should ensure that these procedures are adequately documented.

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**Finding No. 6: Design Professionals - Insurance**

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The College's Board of Trustees (Board) 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 that either the Board or the design professional carry professional liability insurance coverage. However, the Board had not developed a policy providing for the type and amount of professional liability insurance coverage required for design professionals. Our review of professional liability insurance coverage obtained by design professionals in connection with the Center project, and other projects, disclosed the following:

- Professional liability insurance with prior acts coverage was obtained to cover the professional architectural and engineering services provided by or on behalf of the design-build firm for the Center project. The amount of this coverage is \$2 million per claim with annual aggregate coverage in the same amount, as stipulated in the design and criteria specification package and the original design-build agreement. Given the larger scope of the still-ongoing Center project (approximately \$16 million), and the lack of a Board policy addressing the type and amount of professional liability insurance coverage to be required for design professionals, it was not apparent of record how College personnel determined whether the type and amount of professional liability insurance coverage provided by the design professional was sufficient to protect the College's investment in this construction project.
- The College had two contracts with another design professional. One was for several ongoing projects during the 2010-11 fiscal year, totaling approximately \$3.9 million, and the second was for architectural services provided for the Workforce Development Building project, totaling approximately \$3.2 million. This design professional carried general coverage of \$500,000 of professional liability insurance per claim, which may not be sufficient considering the approximate construction costs for these projects totaled \$7.1 million. No other professional liability insurance policies were obtained, either by the College or the design professional, for these projects. We also noted that this policy is a single-year policy 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 is discovered subsequent to the construction period and the responsible design professional no longer carries such insurance, carries an insufficient amount of insurance, or is 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 coverage requirements, both during contract negotiations with prospective design professionals, and during the contract period for a particular project.

Our review also disclosed that the College did not always verify that design professionals maintained professional liability insurance coverage. For two contracts with one design professional, the College had not obtained evidence of professional liability insurance coverage. Subsequent to our inquiry in June 2011, the College obtained from the design professional evidence of professional liability insurance coverage.

Similar findings were noted in report number 2010-039.

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**Recommendation:** Management should evaluate the College's exposure to design risk for construction projects and develop a policy for Board approval, and implement procedures to ensure that the College obtains evidence of the appropriate type and amount of professional liability insurance coverage that is consistent with the Board's risk management philosophy.

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Information Technology
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**Finding No. 7: Disaster Recovery Plan**

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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, the 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, as noted in prior audits of the College, most recently our report No. 2010-039, the College had not developed and tested a 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 appropriate entity to serve as an alternate processing site.

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 critical operations may not occur.

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**Recommendation:** The College should develop a 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.

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**Finding No. 8: Access Privileges**

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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.

Domain administrator access privileges are typically limited to employees who are responsible for performing network administration duties or services that require complete access to network and server resources. The complete network

access capabilities provided by the domain administrator group indicated a need for the College to review the responsibilities of each employee in the group and determine if additional access groups with more limited network access capabilities would be warranted.

Our test of access privileges to the College's network system disclosed that inappropriate or unnecessary access privileges existed, as follows:

- Two employees within the domain administrator group had access privileges to the College's network system that were inappropriate based on their assigned responsibilities.
- Two service accounts within the domain administrator group did not require complete access to the network and were not being actively used by the College. In response to our inquiry, the College removed these accounts from the domain administrator group.

When complete network access privileges are unnecessarily granted, the risk is increased that unauthorized or unintentional network hardware, software, or configuration changes may occur and not be timely detected. In response to audit inquiry, the College removed the two employees and service accounts from the domain administrator group.

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**Recommendation:** The College should periodically review the appropriateness of network access privileges to ensure that access is commensurate with employees' job duties.

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#### **Finding No. 9: Risk Assessment**

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Management of IT-related risks is a key part of enterprise IT governance. Incorporating an enterprise perspective into day-to-day governance actions helps an entity understand its greatest security risk exposures and determine whether planned controls are appropriate and adequate to secure IT resources from unauthorized disclosure, modification, or destruction. IT risk assessment, including the identification of risks and the evaluation of the likelihood of threats and the severity of threat impact, helps support management's decisions in establishing cost effective measures to mitigate risk and, where appropriate, formally accept residual risk.

Although the College had informally considered external and internal risks and identified security controls to mitigate these risks, it had not developed a written, comprehensive IT risk assessment. The absence of a written, comprehensive IT risk assessment may limit the College's assurance that all likely threats and vulnerabilities have been identified, the most significant risks have been addressed, and appropriate decisions have been made regarding which risks to accept and which risks to mitigate through security controls.

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**Recommendation:** The College should develop a written, comprehensive IT risk assessment to provide a documented basis for managing IT-related risks.

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#### **Finding No. 10: Security Controls - User Authentication**

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Security controls are intended to protect the confidentiality, integrity, and availability of data and IT resources. Our audit disclosed that certain College security controls related to user authentication 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.

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**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.

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#### PRIOR AUDIT FOLLOW-UP

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Except as discussed in the preceding paragraphs, the College had taken corrective actions for findings included in our report No. 2010-039.

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#### OBJECTIVES, SCOPE, AND METHODOLOGY

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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. 2010-039. 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) policies and procedures.	Reviewed the College's written IT policies and procedures to determine whether they addressed certain important IT control functions.
IT access privileges and separation of duties.	Tested application access privileges to determine whether access granted to sensitive finance, human resource, and payroll privileges promoted an appropriate separation of duties. Tested administrator account access privileges granted and procedures for oversight of administrator accounts for the network, security system, and application to determine whether these accounts had been appropriately assigned and managed.
IT authentication controls.	Examined supporting documentation to determine whether authentication controls were configured and enforced in accordance with IT best practices.
IT disaster recovery planning.	Determined whether the College had a comprehensive disaster recovery plan and had recently tested the plan.
IT security incident response.	Reviewed written policies, procedures, plans, and forms related to security incident response and reporting.
IT data loss prevention.	Inspected the College's written policies and procedures governing the classification, management, and protection of sensitive and confidential information.
IT risk management and assessment.	Determined whether a written, comprehensive IT risk assessment had been developed.
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 the College's 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 Section 1009.21, Florida Statutes, and State Board of Education Rule 6A-10.044, Florida Administrative Code.
Laboratory and user fees.	Reviewed the College's procedures and determined whether they were approved by the Board of Trustees. Tested laboratory and user fees and examined supporting documentation to determine whether the College properly calculated these fees.
Overtime payments.	Reviewed College policies, procedures, and supporting documentation evidencing the approval of and necessity for overtime payments.
Purchasing card program.	Tested transactions to determine whether the purchasing card program was administered in accordance with College policies and procedures. Also, tested former employees to determine whether purchasing cards were timely cancelled upon termination of employment.

**EXHIBIT A (CONTINUED)**  
**AUDIT SCOPE AND METHODOLOGY**

Scope (Topic)	Methodology
Construction administration.	For a selected major construction project, tested payments and supporting documentation to determine compliance with College policies and procedures and provisions of law and rules, and whether College controls over construction administration appeared to be adequate.
Insuring architects and engineers.	Determined whether the Board had adopted a policy establishing minimum insurance coverage requirements for design professionals, such as architects and engineers. Examined recent construction projects to determine whether architects and engineers provided evidence of the required insurance.
Architect payments.	Reviewed architect payments to determine if additional professional services were obtained and, if applicable, whether these additional services were competitively bid.
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



# 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 25, 2011

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 26, 2011, 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.

### Identity Theft Prevention Program

The College will continue efforts to implement a written identity theft prevention program as required by the Red Flags Rule.

### General Conditions Costs

While the College did not have written procedures specifying the methodology regarding general conditions, we believe the negotiated costs were reasonable when compared to other public projects throughout the State. The College consulted Florida Statutes, the Florida Department of Education, and other colleges with similar public projects in negotiating the general conditions portion of the Center for the Arts contract. The College relied on the same principles and agencies in determining the reasonableness of the general conditions as it did other itemized costs such as contractor's overhead & profit and bonding & insurance. In the future, the College will ensure that budgets for, and charges to, general conditions costs are adequately monitored.

### Subcontractor Selection

A College representative was present at the bid opening meeting and did verify the validity of the bid proposals. The College representative did, however, arrive 5 minutes after the initial opening of the bids due to travel distance and the time zone change. In the future, the College will ensure appropriate personnel are present for all bid openings.

**EXHIBIT B (CONTINUED)**  
**MANAGEMENT'S RESPONSE**

Mr. David Martin  
October 25, 2011  
Page Two

Subcontractor Verification

The College will ensure that verification of subcontractors' licensure is documented prior to commencing work on future projects.

Monitoring Payment Requests

The College will ensure that review of cost line items for major construction projects is adequately documented in the future.

Design Professional Insurance

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

Disaster Recovery Plan

The College is currently evaluating the Enterprise Resource Planning and Management (ERPM) systems (administrative data systems) of the Florida Community College Computer Consortium (FCCC). Because of this membership possibility, any written disaster recovery plan formulated by the College would likely be temporary.

The College understands that disaster recovery planning is important and is taking steps to protect data systems and the information they store. The College currently utilizes Northwest Regional Data Center (NWRDC) in Tallahassee to host its ERPM systems. Because of this unique relationship, the College is particularly dependent on the disaster recovery procedures established at NWRDC.

On April 8, 2011 NWRDC conducted a full scale disaster recovery test during which all data systems were replicated at a processing center in Pennsylvania. The College participated in this test and verified that all of the College's disaster recovery ERPM systems were operational.

While the sustainability of systems of NWRDC is paramount to a successful disaster recovery solution, local sustainability is required as well. Information Technology staff oversee a structured daily, weekly, and monthly backup routine of all local systems and data.

The College will continue its efforts to finalize a formal written disaster recovery plan as decisions are made regarding our future ERPM systems. Future plans also include negotiations with external public entities (county, city, or state) to provide alternate site access for mission critical personnel in case of a catastrophic event.

**EXHIBIT B (CONTINUED)**  
**MANAGEMENT'S RESPONSE**

Mr. David Martin  
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Page Three

Access Privileges

The access privilege concerns noted have been resolved. College information technology (IT) staff will periodically review the appropriateness of network access privileges to ensure that access is commensurate with employees' job duties.

Risk Assessment

College IT staff continually assess external and internal risks and have put in place significant processes to mitigate IT risks. However, the College will develop a written IT risk assessment.

User Authentication

The College has improved security controls related to user authentication as recommended.

Should you have any questions regarding this response or need additional information please contact me.

Sincerely,



Gene Prough, Ed.D.  
President