

DAYTONA STATE COLLEGE

Operational Audit



BOARD OF TRUSTEES AND PRESIDENT

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

	<u>County</u>
John W. Tanner , Chair from 9-16-10	Flagler
Dr. Christina Frederick-Recascino, Vice Chair from 9-16-10 (1)	Volusia
Dr. Steven G. Miles to 2-28-11, Chair to 9-15-10 (2)	Volusia
Donna B. Brosemer from 4-25-11	Volusia
Bob Davis (3)	Volusia
William H. Davison to 5-31-11	Flagler
Lloyd J. Freckleton from 6-01-11	Flagler
Mary Ann Haas	Flagler
Betty J. Holness from 4-25-11	Volusia
Forough B. Hosseini	Volusia
Dwight D. Lewis from 4-25-11	Volusia
Joseph C. Petrock to 1-27-11 (4)	Volusia
John Gregory Smith to 2-11-11 (5)	Volusia

Dr. D. Kent Sharples, President
to November 19, 2010

Frank A. Lombardo, Interim President
from November 20, 2010

- Notes: (1) Vice Chair position remained vacant from July 1, 2010, through September 15, 2010.
- (2) Board member resigned effective February 28, 2011, and the position remained vacant to April 24, 2011.
- (3) Appointed as Robert C. Davidson, known as Bob Davis.
- (4) Board member resigned effective January 27, 2011, position remained vacant to April 24, 2011.
- (5) Board member resigned effective February 11, 2011, position remained vacant to April 24, 2011.

The audit team leader was Tina Z. Myers and the audit was supervised by Keith A. Wolfe, CPA. For the information technology portion of this audit, the audit team leader was Vikki S. Mathews, 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.

DAYTONA STATE COLLEGE

SUMMARY

Our operational audit disclosed the following:

ADMINISTRATIVE MANAGEMENT AND BOARD POLICIES

Finding No. 1: The President's employment agreement included severance pay provisions that were contrary to Section 215.425(4)(a), Florida Statutes.

Finding No. 2: The College had not developed policies for communicating and reporting known or suspected fraud.

Finding No. 3: A student loan program was implemented, and resources transferred to fund the program, without prior Board approval.

TANGIBLE PERSONAL PROPERTY

Finding No. 4: College surplus tangible personal property was transferred or donated to other organizations without prior Board approval.

STUDENT TUITION AND FEES

Finding No. 5: The College's procedures for assessing laboratory and other student user fees needed improvement.

Finding No. 6: Errors in registration coding for tuition purposes resulted in errors in tuition assessments and revenue losses.

Finding No. 7: The College needed to enhance its procedures for documenting Florida residency for tuition purposes and timely updating student records for residency status changes.

INFORMATION TECHNOLOGY

Finding No. 8: The College did not always timely remove information technology (IT) access privileges of former employees.

Finding No. 9: The College's security controls related to user authentication needed improvement.

Finding No. 10: The College had not developed a written, comprehensive IT risk assessment.

BACKGROUND

Daytona 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. 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 campuses in Daytona Beach, DeLand, Deltona, New Smyrna Beach, and Palm Coast, Florida. Additionally, credit and noncredit classes are offered in public schools and other locations throughout Volusia and Flagler Counties. The College reported enrollment of 16,242 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.

FINDINGS AND RECOMMENDATIONS

Administrative Management and Board Policies

Finding No. 1: President's Employment Agreement

Chapter 2011-143, Laws of Florida, was signed into law on June 17, 2011, and amended Section 215.425(4)(a), Florida Statutes. This law provides that on or after July 1, 2011, a unit of government that enters into a contract or employment agreement, or renewal or renegotiation of an existing contract or employment agreement, that contains a provision for severance pay with an officer, agent, employee, or contractor must include provisions consistent with the following:

- A requirement that severance pay provided may not exceed an amount greater than 20 weeks of compensation.
- A prohibition of a provision for severance pay when the officer, agent, employee, or contractor has been fired for misconduct, as defined in Section 443.036(29), Florida Statutes, by the unit of government.

On July 7, 2011, the Board of Trustees approved an employment agreement with the new College President. The terms of the agreement provide for a three-year employment period commencing August 3, 2011, through August 2, 2014. Subparagraph 7.B.(i) of the employment agreement provides for the payment of one year's base salary at the time of dismissal if the President received both a negative evaluation by a super majority of the Board and a vote not to be retained by a super majority of the Board. In addition, subparagraph 7.B.(iii) provides that if the Board dismisses the President without cause, and subparagraph 7.B.(i) does not apply, then the President will be paid the remainder of the base salary at the time of termination, provided that the Board shall pay amounts in excess of such salary for 20 weeks from nontax and non-State appropriated funds. These provisions are contrary to Section 215.425(4)(a), Florida Statutes, in that they allow for the possibility of the President receiving severance payments that exceed 20 weeks of salary.

Subsequent to our inquiry, the Board and President agreed to amend the contract, and approved a revised contract during the August 18, 2011, meeting. Under the terms of the amended agreement, subparagraph 7.B.(i) was revised to provide that if the Board dismisses the President without cause, then the President will be paid not less than 20 weeks of base salary, and subparagraph 7.B.(ii) provides that if the Board terminates the President's employment for cause for "misconduct" as defined in Section 443.036(29), Florida Statutes, the Board will not pay the President any severance pay in excess of 6 weeks as set forth in Section 215.425(4)(a), Florida Statutes.

Recommendation: The College should ensure that future employment agreements, including the President's contract, contain provisions for severance pay that are in accordance with Section 215.425(4)(a), Florida Statutes.

Finding No. 2: Policies for Reporting Fraud

As similarly noted in our report No. 2010-001, the College had not developed policies for communicating and reporting known or suspected fraud. In response to our inquiry, College personnel indicated that College Policy No. 3.01, Code of Ethics (Policy), provides that College personnel, including Board members, "shall become familiar with and comply with Section 112.311, Florida Statutes et. seq. regarding the Code of Ethics and the Detection, Prevention, and Reporting of Fraud for Public Officers and Employees." However, the cited statute is the State

ethics policy and does not address fraud. A fraud policy should clearly identify actions constituting fraud, incident reporting procedures, responsibility for fraud investigation, and consequences for fraudulent behavior. Fraud policies are necessary to educate employees about proper conduct, create an environment that deters dishonesty, and maintain internal controls that provide reasonable assurance of achieving management objectives and detecting dishonest acts. In addition, such policies serve to establish the responsibilities for investigating potential incidents of fraud, taking appropriate action, reporting evidence of such action to the appropriate authorities, and avoiding damage to the reputations of persons suspected of fraud but subsequently exonerated. Further, in the absence of such written policies, the risk increases that a known or suspected fraud may be identified but not reported to the appropriate authority.

College personnel advised us that they were in the process of developing and approving a formal written fraud policy.

Recommendation: The College should continue its efforts to develop and implement policies for the detection, prevention, and reporting of fraud.

Finding No. 3: Student Loan Program

State Board of Education (SBE) Rule 6A-14.077, Florida Administrative Code (FAC), provides for the operation or contracting for auxiliary services and enterprises, and specifies uses of funds generated from such operations or contracts. SBE Rule 6A-14.077(1)(b), FAC, states that the “board of trustees may authorize other uses of such funds for the benefit of the college through its rules or by special action of the board” provided such funds are transferred to the appropriate fund and included in the appropriate budget. The Board adopted Policy No. 5.03, Budgets, which authorizes the President or his designee to reallocate funds between organizational units and object codes within a fund or between funds, transfer appropriations from one fund to another, and make budget amendments for other purposes requiring State Board of Education approval based upon executed budget amendments with subsequent Board of Trustee reaffirmation.

On July 30, 2010, a transfer of \$2,095,463 was made from the auxiliary fund to the loan fund for the College’s student loan program. Upon inquiry, College personnel indicated that loans made pursuant to the student loan program were referred to as “bridge” loans and were granted to students who were late in applying for student financial aid, but had not received the aid at the time the students’ tuition and fees were due. College records did not evidence that the student loan program and \$2,095,463 transfer from the auxiliary fund had been approved by the Board. Subsequent to our inquiry, on June 16, 2011, the Board approved the \$2,095,463 transfer and, in doing so, evidenced its approval of the student loan program.

When new student loan programs and the source of funding such programs are not submitted for Board approval prior to implementing the program, there is an increased risk that College funds may be used for unauthorized purposes or would not be used in conformity with Board directives.

Recommendation: The College should enhance its procedures to ensure prior Board approval for new student loan programs and transfers to fund such programs.

Tangible Personal Property

Finding No. 4: Disposal of Surplus Tangible Personal Property

Section 1013.28(2)(a), Florida Statutes, requires colleges to dispose of surplus tangible personal property “in accordance with the procedure established by chapter 274.” Section 274.05, Florida Statutes, provides, in part, that a governmental unit may offer surplus property to other governmental units in the county or district for sale or donation or may offer the property to private nonprofit agencies as defined in Section 273.01(3), Florida Statutes, by sale or donation. Under Section 273.01(3), Florida Statutes, a private nonprofit agency is defined as a nonprofit charitable organization held to be tax exempt under the provisions of Section 501 of the Internal Revenue Code of 1954, and which has as its principal mission: public health and welfare; education; environmental restoration and conservation; civil and human rights; or the relief of human suffering and poverty. In addition, the College has adopted Policy No. 5.12, Sale of Surplus Property (Policy), which requires that the names of governmental units in Volusia and Flagler counties and private nonprofit agencies, as defined in Section 273.01, Florida Statutes, and the number of computers and computer equipment to be sold or donated to such entities, to be preapproved by the Board. This Policy also provides for College personnel to report, at the next Board meeting, surplus computers and computer equipment that have been sold or donated.

In February 2011, we began making inquiries of College personnel in connection with our follow up of certain allegations pertaining to tangible personal property purchased and disposed of prior to the 2010-11 fiscal year. Our inquiries and review of College records disclosed the following instances in which surplus computers and related peripheral equipment had been transferred or donated to other organizations without Board approval:

- During Board meetings on February 19, April 8, and June 17, 2004, the Board approved 227 computers and related peripheral equipment, as well as other College equipment, as surplus. On June 18, 2004, the College shipped 50 of these computers, with a historical cost of \$75,602, to the McCall Technology Institute, Inc. (MTI), a State of Idaho registered nonprofit entity located in McCall, Idaho. An articulation agreement between the College and MTI provided for the use of College computers, after the submission of a request by MTI for the computers. However, neither the articulation agreement nor College records indicated the terms of usage of the computers, including how long MTI was allowed to retain custody of the computers. In addition, the articulation agreement did not provide for the permanent transfer or donation of the computers to MTI, and College records did not evidence Board approval to transfer or donate these computers to MTI. Subsequent to our inquiries, College personnel determined that MTI was dissolved in March 2009, and MTI had donated the computers to an educational institution in Riggins, Idaho.
- On January 13, 2006, the College shipped five computers to the Bahamas Sportfishing Conservation Association (BSCA), a 501(3)(c) nonprofit under the Internal Revenue Code, registered in the State of Texas, and located in Nassau, Bahamas. College records indicated these computers had been purchased in March 2001 at a cost of \$5,015. During Board meetings on May 19, 2005, and September 15, 2005, the Board approved these items to be “junked, sold, or traded in on other equipment.” College records did not indicate the terms of usage of the computers, including how long BSCA was allowed to retain custody of the computers, and did not evidence Board approval to transfer or donate these computers to BSCA.
- The College contracted to provide educational consulting services to the Ministry of Education, Youth, Sports & Culture of the Commonwealth of the Bahamas, for the Bahamas Technical Vocational Institute (BTVI). The contract, and subsequent amendments, did not include any provisions for the use or loan of College equipment. On February 8, 2008, the College shipped to BTVI 60 computers, acquired in February 2005, and related peripheral equipment, with a historical cost of \$61,023. The College also purchased, and provided to BTVI, additional computer-related equipment, at a cost of \$6,183, to provide network capabilities for the 60 computers. College personnel provided correspondence between the former President and BTVI personnel regarding the use of these computers as “on loan.” College records did not indicate the terms of

usage of the computers, including how long BTVI was allowed to retain custody of the computers and related equipment, and did not evidence Board approval to transfer or donate the computers and related equipment to BTVI. During its April 21, 2011, meeting, the Board, due to the age of the equipment and the cost to ship the equipment back to the College, agreed to transfer ownership of the computers and related equipment to BTVI as a final contract amendment to close the agreement.

Subsequent to our inquiries, the College requested an internal audit of the disposals of this equipment. The internal audit report, dated June 21, 2011, noted that while two of the entities (MTI and BSCA) were nonprofit entities, local nonprofit entities within the College service area (Volusia and Flagler counties) could have also benefitted from the equipment. In addition, the internal audit report provided that those organizations receiving College property through either sale or donation should be approved by the Board, in accordance with College policy.

Recommendation: The College should strengthen procedures to ensure prior Board approval of the disposal of surplus tangible personal property to other organizations.

Student Tuition and Fees

Finding No. 5: User Fees

Section 1009.23(12), Florida Statutes, authorizes each college board of trustees to establish user fees, such as laboratory fees, that are not to exceed the cost of the services provided and may only be charged to persons receiving the service. State Board of Education Rule 6A-14.054(6), Florida Administrative Code, authorizes each board of trustees to establish user fees in addition to tuition fees for services that incur unusual costs. Additionally, the Florida College System Council of Business Affairs and the Florida Department of Education, Division of Florida Colleges, issued guidelines for assessing user fees. These guidelines provide that each board of trustees establish policies for the implementation and justification of additional user fees, defining which costs are in excess of base instructional costs, and describing the documentation required to support the fees, the time period of review of such fees, and the manner of presenting such fees to the board for approval.

College revenues from laboratory fees and access fees totaled approximately \$2.1 million and \$1.3 million, respectively, for the 2010-11 fiscal year. Our tests disclosed that the College's procedures for assessing laboratory and other user fees needed improvement, as follows:

- During the 2010-11 fiscal year, the College assessed all students an access fee of \$30 per semester, which was to offset costs of providing access to College resources, such as the library, the computer commons, the Learning and Writing Center, The Academic Support Center, the parking areas, and use of the College's Web site. Since all students may not use all of the services related to the access fee, the College is at risk of assessing the access fee to students not receiving these services, contrary to Florida law.
- Our test of laboratory or special course fees assessed during the 2010-11 fiscal year for ten courses disclosed the following:
 - For one math and one English course, each with multiple sessions, 746 and 3,870 students, respectively, enrolled during the Fall 2010 and Spring 2011 terms, were assessed a \$10 lab fee for use of the Academic Support Center. However, these students had also been assessed a \$30 access fee that also included the use of the Academic Support Center. This additional lab fee, which resulted in these students being assessed fees twice for use of the Academic Support Center, generated additional revenues totaling \$46,160.
 - One music course had a \$25 fee for paper and duplication materials. Although requested, supporting documentation was not provided to support the calculation of this fee, which was assessed to a student during the Fall 2010 and Spring 2011 terms.

- Technology enhancement fees of \$2.50 and \$3.04 were charged for a math course for the purchase of 33 “smart boards” (electronic blackboards) and College IT support, and for a human relations course (for technology enhancements), respectively. Fall 2010 and Spring 2011 enrollment for these two courses, each having multiple sessions, totaled 746 (math) and 149 (human relations) students, resulting in fee revenues of \$1,865 and \$453, respectively, totaling \$2,318. However, these students had also been assessed a \$3.65 technology fee per credit hour, which, according to the 2010-11 College Catalog, is assessed “to enhance instructional technology resources...” In addition, College records for the human relations course did not support how the additional technology enhancement fees were calculated and how the additional services were provided.
- Fees were assessed for three courses, a math, a human relations, and an English course, each having multiple sessions, ranging from \$.20 to \$2.50 for paper, toner, test worksheets, and handouts, which generated revenues totaling \$6,782. College records did not evidence that the fees were for items that were unusual in nature, contrary to the Board’s policy.

Recommendation: The College should review and document the costs of course and user fees to ensure that the fees do not exceed the costs incurred to provide services, that the fees are not duplicated, and that the fees are charged in accordance with Florida law and SBE rules. The College should also implement a fee structure that ensures that user fees are charged only to those persons receiving the service for which the fee is being assessed.

Finding No. 6: Student Tuition Assessments

Section 1009.23(4), Florida Statutes, authorizes each college board of trustees to establish tuition and out-of-state fees. Section 1009.285, Florida Statutes, provides that a student enrolled in the same undergraduate credit class more than twice must pay tuition at 100 percent of the full cost of instruction and not be included in calculations of full-time equivalent enrollments for State funding purposes.

Our audit tests of student tuition assessed to 25 students disclosed the following:

- One nonresident student enrolled in baccalaureate degree of education program (program) courses was incorrectly charged the Florida resident tuition rate of \$148 per credit hour rather than the nonresident tuition rate of \$579 per credit hour rate. According to College personnel, this was caused by a computer input error in the Assessment Table used to calculate the tuition fees and was isolated to nonresident students enrolled in the program whose residency status was assigned as “unknown.” The “unknown” residency status is assigned by the College when a student registers and does not provide sufficient information to establish residency status, and they are to be assessed nonresident tuition rates until documentation is provided to establish in-state status. However, because of the computer input error in setting up the Assessment Table this student was incorrectly charged Florida resident tuition rates. As a result, the College undercharged this student \$3,884 for tuition fees.
- Another student was not charged the correct tuition rate for a baccalaureate degree program course attempted more than twice. This student was charged \$368 for each credit hour and should have been charged \$580 per credit hour, the tuition rate necessary to cover the full cost of instruction, as this was the student’s third attempt to complete the class. According to College personnel, this error was caused by another input error in the Assessment Table set up process in the student records system. We subsequently requested a list of all baccalaureate degree seeking students attempting the same class for the third time, and this listing disclosed 12 additional students who were not charged 100 percent of the full cost of instruction contrary to law. Subsequent to our testing, one student subsequently petitioned the College to withdraw from the class and requested a refund of the total tuition paid and another student requested a refund by requesting a full cost tuition waiver. The remaining 11 students were undercharged tuition in amounts ranging from \$635 to \$1,906, totaling \$11,010. In addition, the College included in the calculations of full-time equivalent enrollments for State funding purposes the 17 classes (16 three credit hour and 1 four credit hour) taken by these students more than twice, contrary to law.

Effective controls to properly monitor student residency and tuition fees in the student records system would reduce the risk that tuition fees will be incorrectly assessed resulting in errors in the amounts collected.

Recommendation: The College should ensure that effective controls are in place to properly monitor student enrollment and calculate and collect tuition. Additionally, the College should contact the Florida Department of Education, Division of Florida Colleges, to determine the action needed to correct the errors noted in the reporting of student enrollment for State funding purposes.

Finding No. 7: Student Residency Status

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 residence must be established and maintained in Florida for at least 12 months immediately prior to his or her initial enrollment in an institution of higher learning. Section 1009.21(3)(c), Florida Statutes, provides that a college shall affirmatively determine that an applicant who has been granted admission to that institution as a Florida resident meets the residency requirements of this section at the time of initial enrollment. Additionally, this law provides that residency determination must be documented by the submission of written or electronic verification that includes two or more specified documents (a Florida voter's registration card, a Florida driver's license, a State of Florida identification card, or a Florida vehicle registration). This law further provides that no single piece of evidence shall be conclusive. State Board of Education Rule 6A-10.044, Florida Administrative Code, provides that for initial determination of residency, a dependent student who attended a Florida high school for a minimum of two academic years immediately preceding his or her initial enrollment in an institution of higher education and graduated from a Florida high school or earned a Florida GED within the last 12 months may use their high school transcript or the GED transcript as evidence of Florida residency. At least one additional document identified in Sections 1009.21(3)(c)1. or 1009.21(3)(c)2., Florida Statutes, must be presented evidencing parental legal residence.

Our test of 25 students' records disclosed the following:

- For 3 students classified as Florida residents for tuition purposes, the College did not document the student's submission of the written or electronic documentation required to establish Florida residency, contrary to law. College records disclosed that the students graduated from high schools outside of Florida, and each student signed a Florida Residency affidavit form certifying that they met Florida residency requirements, completing a section of the form requesting information regarding two of the three documents required to support Florida residency. For these three students, the Florida Residency affidavit included the student's voter registration card number, driver's license number, or vehicle registration number. However, for these students, the Florida Residency affidavit form or other College records did not evidence that College personnel had performed the required written or electronic verification of these documents. College personnel provided us the Senate Bill 1696 Technical Assistance Paper, which stated "written or electronic verification may be based on the submission of the Residency Affidavit/Statement," and asserted that they are not required to document the verification of the documents listed on the Florida Residency affidavit form as the submission of such form is sufficient. However, absent evidence, such as notations on the Florida Residency affidavit form that College personnel have examined two or more of the required documents to verify the student met the statutory Florida residency requirements at the time of initial enrollment, the College has not demonstrated compliance with Section 1009.21(3)(c), Florida Statutes.
- One student, who was a resident of the Bahamas, was assessed Florida resident tuition rates. College personnel indicated that this student was eligible for Florida residency status under Section 1009.21(10)(e), Florida Statutes, which provides that students from Latin America and the Caribbean who receive scholarships from the Federal or State government be classified as residents for tuition purposes. However, College records did not evidence that the student met the requirements specified by this law to qualify for a

Florida resident tuition rate. Based upon the College’s response, we requested a list of students from Latin America and the Caribbean countries, and were provided a list of 15 additional students from the Bahamas. Our review of the student records for these 16 students disclosed that these students received a \$100 scholarship, each semester, from the College’s Foundation; however, College records did not evidence that these students received any scholarships from Federal or State government. In response to our inquiry, College personnel stated it was their interpretation that since the scholarship funds provided to the students were used in the annual application for State matching funds, that these would qualify as State scholarships. Although requested, the College was unable to provide support that scholarships awarded by the Foundation would be considered State scholarships as contemplated by Section 1009.21(10)(e), Florida Statutes. The classification of these students as Florida residents for tuition purposes resulted in a loss of \$59,701 of nonresident student fee revenues to the College.

- Two students were charged nonresident tuition rates although they had submitted the required documents to establish Florida residency for tuition purposes. The College classified the residency status of these students as “unknown.” Once the students completed the Florida Residency affidavit to establish Florida residency, the College did not update the residency status of these students, which resulted in an overcharge of \$1,436 to these students. Subsequent to our review, the overcharges were credited to these students’ accounts.

Absent documentation evidencing affirmation of Florida residency status, and by not maintaining accurate residency status within the student records system, there is an increased risk that the College may not properly assess tuition fees.

Recommendation: The College should obtain required documentation to ensure that students are assessed fees that are consistent with their residency status. The College should also ensure that students assessed Florida resident tuition rates pursuant to Section 1009.21(10)(e), Florida Statutes, received a Federal or State scholarship. Additionally, the College should ensure that the student records system is timely and accurately updated for changes in residency status.

Information Technology

Finding No. 8: Removal of Access Privileges
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Effective management of system access privileges includes the timely removal of employee information technology (IT) access privileges when employment is terminated. Prompt action is necessary to ensure that a former employee’s access privileges are not misused by the former employee or others.

Our test of 50 employees who terminated employment from the College during the period July 1, 2010, through February 28, 2011, disclosed that application access privileges for 6 former employees remained active from 3 to 145 days after termination of employment. For 5 of the 6 former employees, there was no evidence that the required notification was timely sent to the IT Department by the Human Resources (HR) Office to remove access privileges. For 1 of the 6 former employees, there was no evidence that the employee’s supervisor timely notified HR of the termination of employment. Although application access had been removed for all individuals tested, failure to timely remove access increases the risk that access privileges could be misused by former employees or others.

Recommendation: The College should enhance its controls to ensure the timely removal of application access privileges of former employees.

Finding No. 9: Security Controls – User Authentication

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

Finding No. 10: Risk Assessment

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 such as selected configuration settings and policies and procedures to mitigate these risks, it had not developed a written, comprehensive IT risk assessment. The absence of a written, comprehensive IT risk assessment may lessen 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.

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

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the College had taken corrective actions for findings included in our reports No. 2010-001 and No. 2011-097.

RELATED INFORMATION

As noted in our report No. 2011-097, finding No. 1, during the 2009-10 fiscal year, the College began acting as fiscal agent for the Community Cultural Foundation, Inc. (CCF), a Florida not-for-profit corporation, formerly known as the Daytona Beach International Festival. Under terms of its agreement with CCF, the College provided accounting services, accepted and deposited funds, and disbursed funds on behalf of CCF. In our report No. 2011-097, finding No. 3, we noted that the College had paid expenses for CCF for the American Music Festival for which the Board of Trustees had not authorized payments. As of February 16, 2011, CCF owed the College \$1,504,251 for payments in

excess of reimbursements by the CCF. During the 2010-11 fiscal year, the Board discussed various options available to seek reimbursement from CCF. The Board subsequently hired an attorney to evaluate the options available to the Board to resolve the amounts due to the College. The Board continues to evaluate possible actions to take to obtain reimbursement from CCF.

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 September 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 reports No. 2010-001 and No. 2011-097. 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, and selected transactions subsequent and prior thereto.

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) access privileges and separation of duties.	Tested application access privileges to determine whether access granted to sensitive financial and human resources applications promoted an appropriate separation of duties
IT access privileges and separation of duties.	Tested selected access privileges over the operating system, network, and applications 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 former employees to determine whether their access privileges had been timely disabled.
IT policies and procedures.	Reviewed the College's written IT policies and procedures to determine whether they addressed certain important IT control functions.
IT data loss prevention.	Determined whether there were current, written security standards in effect 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.
IT authentication controls.	Reviewed supporting documentation to determine whether authentication controls were configured and enforced in accordance with IT best practices.
Related parties.	For selected College officials, reviewed Department of State, Division of Corporation, records; statements of financial interest; and College records showing vendors used by the College to identify any potential relationships that represent a conflict of interest.
Fraud policy and related procedures.	Examined written policies, procedures, and supporting documentation related to the College's fraud policy and related procedures.
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.
Statements of financial interest requirements of Section 112.3145(2), Florida Statutes.	Determined whether the College President and Board members filed statements of financial interest in accordance with law.
Direct-support organizations.	Determined whether audits of direct-support organizations were filed timely with the Auditor General, were done in accordance with generally accepted government auditing standards, and otherwise complied with the applicable Rules of the Auditor General. Tested payments and transfers between the College and its direct-support organization to determine the purpose and legal authority of such payments.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Use of College personnel for non-College activities.	Interviewed departmental personnel to determine whether services were provided during regular College work hours for non-College business purposes and were such services paid from College funds.
Employment of family members.	Reviewed personnel files of selected employees to determine appropriate qualifications and salary rate.
Authorized signatures on banking agreements.	Reviewed authorized signatures for all banking agreements for timely changes in response to personnel changes.
Tangible personal property.	Interviewed College personnel regarding the purchase and disposal of certain tangible personal property prior to the 2010-11 fiscal year. Reviewed property and shipping records for accountability of assets. Tested property not located in the physical inventory and examined documentation to determine whether the College timely investigated and resolved missing property.
College property other than tangible personal property.	Interviewed College personnel, inspected property, and reviewed College property records for evidence of College property used for personal activities.
Use of College Foundation housing.	Reviewed Board minutes approving use and documentation of rental payments to the College Foundation for use of on-campus guest house.
Consulting services provided to other organizations by College personnel.	Obtained and reviewed contracts for educational consulting services provided to the Bahamas and the Dominican Republic, and reviewed accounting records for related revenues and expenses. Inquired of an out-of-state college regarding consulting contract with former College employee.
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.
Procedures for assessing, calculating, collecting, cancelling, recording, and supporting student fees.	Tested student fees to verify the authority for student fees assessed; the accuracy of calculations of fees assessed; the proper collection of late fees, if appropriate; the issuance of a receipt; and the deposit of collections to the central cashier's records. Also, tested to verify that registration was cancelled if the fees were not paid when due, and that student status and residency were supported.
Laboratory and other 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.
Electronic text books (e-readers).	Tested student fees to determine whether fees were assessed to acquire e-readers.

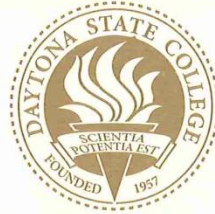
**EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY**

Scope (Topic)	Methodology
State matching grants.	Reviewed applications and supporting documentation for the Dr. Philip Benjamin and Educational Facilities Enhancement State matching grant programs. Interviewed College Foundation employees regarding fundraising activities.
Overtime payments.	Reviewed College policies, procedures, and supporting documentation evidencing the approval of and necessity for overtime payments.
Payroll and personnel.	Tested payroll transactions to determine the accuracy of the rate of pay, validity of employment contracts, adequacy of qualifications, completion of performance evaluations, accuracy of leave records, and certifications by supervisory personnel of employee time reports.
College President’s Separation and Termination Agreement.	Reviewed terms and funding source of the former President’s Separation and Termination Agreement.
Procurement policies and procedures.	Tested purchases subject to competitive bids/proposals to determine compliance with bid requirements.
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.
Travel expenses.	Tested out of district travel expenses to determine whether transactions were adequately supported, and mileage and per diem rates were in accordance with Florida Statutes, and were for College purposes.
Electronic payments.	Reviewed College policies and procedures related to electronic payment.
Contractual agreements.	Determined whether contractual services were supported by Board-approved contracts. Also, examined and tested the aforementioned contracts to ensure that they were properly executed.
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.
Expenditures of earmarked capital project resources.	Determined, on a test basis, whether Public Education Capital Outlay expenditures were in compliance with the restrictions imposed on the use of these resources.
Insuring of 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.
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 A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Enrollment reporting.	Tested student enrollment to verify enrollment information reported on the FTE Report. Traced selected student enrollment data to supporting documentation to determine reliability of data provided by the College to the Division of Florida Colleges.
Adult general education program enrollment reporting.	Examined supporting documentation on a test basis to determine whether the College reported instructional and contact hours in accordance with Florida Department of Education requirements.
Student loan program.	Reviewed College records to determine whether the student loan program and transfer to fund the program were approved by the Board.

EXHIBIT B
MANAGEMENT'S RESPONSE



Office of the President

November 18, 2011

Mr. David W. Martin, CPA
Auditor General
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1459

RE: Daytona State College Operational Audit
For Period Ended: June 30, 2011

Dear Mr. Martin,

Attached please find the response of Daytona State College to the list of preliminary and tentative findings and recommendations in the operational audit for the Fiscal Year Ended June 30, 2011. The College concurs with the findings and has aggressively implemented control mechanisms as set forth in the response to comply with the recommendations rendered. In addition, the College made several changes and implemented checks and balances within the departments in accordance with the College's response to the financial audit dated February 11, 2011.

On behalf of Daytona State College, I want to thank Jim Stultz, Keith Wolfe, and Tina Myers for their assistance in this matter.

Sincerely,



Carol W. Eaton
President

Enclosure

cc: District Board of Trustees

Daytona State College
1200 W. International Speedway Boulevard / Daytona Beach, Florida 32114
(386) 506-3000 • www.DaytonaState.edu

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

11/17/11

Finding No. 1: President's Employment Agreement

Recommendation: The College should ensure that future employment agreements, including the President's contract, contain provisions for severance pay that are in accordance with Section 215.425(4)(a), Florida Statutes.

College Response: The College noted the finding. The College concurs with the recommendation and the amendment of employment contracts.

Finding No. 2: Policies for Reporting Fraud

Recommendation: The College should continue its efforts to develop and implement policies for the detection, prevention, and reporting of fraud.

College Response: The College noted the finding and the existing College Policy was amended and approved by the District Board of Trustees on first reading on June 16, 2011 and second reading on August 25, 2011. The numerous College procedures on the subject matter shall be interpreted in accordance with the revised Board Policy. The College agrees with the recommendation to continue its efforts to develop and implement policies for the detection, prevention and reporting of fraud.

Finding No. 3: Student Loan Program

Recommendation: The College should enhance its procedures to ensure prior Board approval for new student loan programs and transfers to fund such programs.

College Response: The College concurs with the finding. State Board of Education Rules, College Policy and Procedure require District Board of Trustee approval and reaffirmation of transfers between organizational units and object codes within and between funds. This activity occurred in prior fiscal periods under a previous College Administration. The Finance and Administration Division has developed additional operation guidelines to ensure loan programs and transfer of funds in support of these initiatives are reviewed and approved in accordance with State Board Rule, College Policy and Procedures. These actions were reported and approved by the District Board of Trustees in subsequent requests and all actions of similar nature have been reported and reaffirmed by the District Board of Trustees at their meetings in accordance with Rule and Policy. In doing so, we have established a monthly Budget Amendment report to the District Board of Trustees which shows all transfers by fund and specifically identify those in excess of \$25,000 or transfers between funds and provide additional justification for the requested action.

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

11/17/11

Finding No. 4: Disposal of Surplus Tangible Personal Property

Recommendation: The College should strengthen procedures to ensure prior Board approval of the disposal of surplus tangible personal property to other organizations.

College Response: The College concurs with the finding and has strengthened procedures over the surplus of tangible personal property. The College has initiated multiple steps in the process for the disposal of property which is reported to the District Board of Trustees. When property is first designated as surplus, it is assigned a "Deletion Code" changing its status from useful equipment and reported as such to the District Board of Trustees at their regular meeting and the subsequent disposal or disposition is also reported to Board when that occurs.

Finding No. 5: User Fees

Recommendation: The College should review and document the costs of course and user fees to ensure that the fees do not exceed the costs incurred to provide services, that the fees are not duplicated, and that the fees are charged in accordance with Florida law and SBE rules. The College should also implement a fee structure that ensures that user fees are charged only to those persons receiving the service for which the fee is being assessed.

College Response: The College concurs with the finding and has initiated a process to review all departmental lab fees to ensure they do not exceed the cost incurred and are not a duplicate charge to the student. Departments are now required to submit detailed documentation to support all lab fees. Additionally, the College has implemented a two tier internal control process which includes an evaluation of the fees to document the components to substantiate the amount charged, and a review of all fees by the finance department and internal auditor prior to seeking the District Board of Trustee's approval for implementation.

Finding No 6: Student Tuition Assessments

Recommendation: The College should ensure that effective controls are in place to properly monitor student enrollment and calculate and collect tuition. Additionally, the College should contact the Florida Department of Education, Division of Florida Colleges, to determine the action needed to correct the errors noted in the reporting of student enrollment for State funding purposes.

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

11/17/11

College Response: The College concurs with the finding and is in the process of establishing new guidelines for the subsequent review by the College Controller and Internal Auditor to ensure tuition tables in the computer system are in compliance with current rules on the calculation and assessment of tuition. The College will also follow up with the Department of Education to determine any actions which may be required to correct reporting of student enrollments for State funding purposes based on this finding.

Finding No. 7: Student Residency Status

Recommendation: The College should obtain required documentation to ensure that students are assessed fees that are consistent with their residency status. The College should also ensure that students assessed Florida resident tuition rates pursuant to Section 1009.21(10)(e), Florida Statutes, received a Federal or State scholarship. Additionally, the College should ensure that the student records system is timely and accurately updated for changes in residency status.

College Response: The College concurs with the finding and entered into an agreement with the Department of Highway Safety and Motor Vehicle's Driver's License and/or Motor Vehicle Record Data Exchange to assist in verifying Florida residency. In addition, the College will indicate that documents were verified by staff upon receipt. The College concurs with the finding regarding the Bahamian students receiving a Foundation scholarship and subsequently classifying them as in-state and discontinued that program effective summer 2011. The College is developing a process to review student records when documents are turned in after registration occurs to ensure proper residency is recorded.

Finding No. 8: Removal of Access Privileges

Recommendation: The College should enhance its controls to ensure the timely removal of application access privileges of former employees.

College Response: The College concurs in part with the finding related to application access. The continuation of limited network privileges in some cases is necessary for a multitude of reasons including, but not limited to, the terminal medical condition of an employee, the Family Medical Leave Act, Florida Retirement System, Health Insurance, student grades and records, and documentation for operational business necessities. Notwithstanding the foregoing, the College concurs with the recommendations to enhance controls.

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

11/17/11

Finding No. 9: Security Controls - 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.

College Response: The College concurs with the finding and has taken steps to improve security controls related to user authentication as recommended by the auditors to management. We wish to also emphasize that the security systems previously in place at the College were at no time compromised in any way.

Finding No. 10: Risk Assessment

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

College Response: The College concurs with the finding and is aware of the importance of a comprehensive IT Risk Assessment. Furthermore, the College is engaging a third party to audit and generate a written and comprehensive IT risk assessment to identify risk and create cost-effective measures to mitigate risk, and where appropriate, formally accept residual risk.

