

NORTHWEST FLORIDA STATE COLLEGE

Operational Audit



BOARD OF TRUSTEES AND PRESIDENT

Members of the Board of Trustees and President who served during the 2011-12 fiscal year are listed below:

	<u>County</u>
Sandra F. Sims, Chair (1)	Okaloosa
Brian S. Pennington, Vice Chair (1)	Okaloosa
Paul A Foster	Okaloosa
Rachel R. Gillis	Walton
Dale E. Rice, Jr. (2)	Okaloosa
Marijo Strauss	Okaloosa
Esteena K. Wells (2)	Walton
Wes Wilkerson (2)	Walton

Dr. Ty Handy, 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 Joseph D. Dykes, CPA, and the audit was supervised by James W. Kiedinger, CPA. Please address inquiries regarding this report to James R. Stultz, CPA, Audit Manager, by e-mail at jimstultz@aud.state.fl.us or by telephone at (850) 922-2263.

This report and other reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 487-9175; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

NORTHWEST FLORIDA STATE COLLEGE

SUMMARY

Our operational audit disclosed the following:

BOARD POLICIES

Finding No. 1: The Board had not adopted written policies and procedures relating to electronic funds transfers.

PERSONNEL AND PAYROLL

Finding No. 2: The College did not ensure compliance with contract provisions contained in the employment agreement with the College President, nor did it ensure that the contract provisions regarding severance pay complied with Florida law.

CONTRACT MONITORING

Finding No. 3: The College did not always have properly executed vendor contracts and did not effectively monitor compliance with vendor contract terms prior to authorizing payments.

Finding No. 4: The College did not have adequate monitoring procedures regarding its third-party service provider that disbursed student financial assistance to students.

BACKGROUND

Northwest Florida 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 eight 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 Niceville and Ft. Walton Beach, Florida and centers in DeFuniak Springs, Crestview, Eglin Air Force Base, Hurlburt Field, and South Walton County, Florida. Additionally, credit and noncredit classes are offered in public schools and other locations throughout Okaloosa and Walton Counties. The College reported enrollment of 5,589 full-time equivalent students for the 2011-12 fiscal year.

The results of our financial audit of the College for the fiscal year ended June 30, 2012, 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, 2012, will be presented in a separate report.

FINDINGS AND RECOMMENDATIONS

Board Policies

Finding No. 1: Electronic Funds Transfers

Section 1010.11, Florida Statutes, requires each college board of trustees to adopt written policies prescribing the accounting and control procedures under which funds are allowed to be moved by electronic transaction for any purpose including direct deposit, wire transfer, withdrawal, investment, or payment.

According to the College's records, approximately \$13.3 million of electronic funds transfers were made during the 2011-12 fiscal year. In response to our inquiry, College personnel stated that they did not have written policies and procedures related to electronic funds transfers. While the College had established controls over electronic funds transfers, the lack of specific guidance in the form of written policies and procedures increases the risk of misappropriation of funds occurring without timely detection.

Subsequent to our inquiry, the College developed written policies that were approved by the Board and are effective for the 2012-13 fiscal year.

Recommendation: **The College should continue its efforts to implement the Board adopted policies and procedures related to electronic funds transfers.**

Personnel and Payroll

Finding No. 2: President's Compensation

Pursuant to Section 1001.64(18), Florida Statutes, the Board has the authority to establish the College President's compensation, including benefits. On June 29, 2011, the Board approved an employment contract with the President for the term July 1, 2011, through June 30, 2014. Subsequent to the approval of this employment contract, the Board renegotiated the President's contract for the 2011-12 fiscal year on November 15, 2011, to include payment of an allowance for a cellular telephone.

Contract Provisions – Contributions to Defined Contribution Retirement Plan. The President elected to withdraw from the Florida Retirement System as permitted by Section 121.055(1)(b)2., Florida Statutes. The President's employment contract requires the College to pay 12.5 percent of the President's base salary into a defined contribution retirement plan. The President's employment contract defined the base salary for the 2011-12 fiscal year as being \$199,000. Our review of contributions made by the College to the defined contribution retirement plan disclosed that the College calculated the amount it contributed to the defined contribution retirement plan based on the President's base salary and amounts the College paid for his annuity plan and cellular telephone allowance, contrary to the provisions of the President's employment contract. As a result, the College contributed \$2,187 more to the defined contribution retirement plan than was authorized by the President's employment contract. Subsequent to our discussions with College personnel, they corrected the overpayment. Additionally, the Board renegotiated the President's contract for the 2012-13 fiscal year to include amounts contributed to the annuity plan and the cellular telephone allowance in base salary.

Contract Provisions – Severance Pay. Section 215.425(4)(a), Florida Statutes, 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(30), Florida Statutes, by the unit of government.

Subparagraph 8(b.) of the President's employment contract provides that the President shall be paid the remainder of his salary at the time of dismissal, not to exceed one year of annual salary if the President is dismissed without cause. This provision is contrary to Section 215.425(4)(a)1., Florida Statutes, since it allows for the possibility of the President receiving severance payments that exceed 20 weeks of salary. Additionally, subparagraph 8(b.) of the President's employment contract provides that if the Board terminates the President's employment with cause, the Board shall determine the amount of termination compensation, if any. This provision is contrary to Section 215.425(4)(a)2., Florida Statutes, since it allows for the possibility of severance pay if the President is fired for misconduct.

Subsequent to our discussions with the College, the Board renegotiated the President's employment contract and revised the severance pay provisions to comply with the requirements of Section 215.425(4)(a), Florida Statutes.

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

Contract Monitoring

Finding No. 3: Contract Monitoring

The College routinely enters into contracts for goods and services that cover extended periods of time. In these instances, vendors may periodically bill for goods or services on an interim basis. Effective monitoring controls require that the contracts describe the services to be acquired in a way that services are measurable or quantifiable and that the services provided can be verified by College personnel. The periodic vendor billings should be in sufficient detail to ensure that amounts billed are verifiable and in accordance with contract terms. Our review disclosed that the College's procedures for verifying vendor invoices involving periodic or progress payments could be improved as follows:

- The College paid a vendor a total of \$126,007 during the 2011-12 fiscal year for scanning services. In lieu of bidding for these services, the College selected the vendor based on a bid award issued by another State college. The College issued a purchase order to the vendor using rates established in the contract between the vendor and the other State college. The vendor's contract with the other State college provided pricing information by service provided, such as an hourly rate for document preparation services, a per-image rate for scanning files to digital format, and a key-stroke rate for indexing files. The purchase order was for \$126,402 based on scanning services of an estimated 1,526,411 images; however, a scope of work memorandum associated with this purchase order noted that the pricing would vary based on the actual volume and work performed. College personnel approved 26 invoices for these services; however, the invoices were not sufficiently detailed to document the quantity and cost rates of the services provided by the vendor. College personnel informed us that they conducted undocumented surveys to ensure the scanning services were being performed in accordance with the purchase order; however, in the absence of detailed invoices indicating the quantity of services performed and cost rate for services billed, it is unclear how

College personnel verified that the vendor's billings were accurate and amounts were reasonable prior to payment. In these circumstances, there was an increased risk of paying the vendor for services that were not performed or at an incorrect rate of pay.

- The College paid the Northwest Florida State College Foundation, Inc. (Foundation), a total of \$232,000 during the 2011-12 fiscal year for housing student athletes. The fall and spring semester payments were for different amounts, indicating the payments may have been based on the number of students; however, the College did not have a written contract with the Foundation. College personnel indicated that the College and Foundation have a verbal agreement regarding the amount the College will pay each semester. It is not clear how College personnel determined that the amounts paid to the Foundation were reasonable and agreed upon without a signed contract or purchase order detailing the services to be provided. In these circumstances, there was an increased risk of paying the Foundation for housing that was not provided or making payments that were not consistent with the Board's intent.

Recommendation: The College should ensure that contracts are executed to support amounts paid to vendors and that invoices for goods and services are in sufficient detail to ensure that invoices or requests for payment are in accordance with contract terms.

Finding No. 4: Monitoring of Third-Party Service Provider

The College contracted with a third-party service provider to disburse student financial assistance (SFA) awards to students. The third-party service provider issued pre-paid debit cards to SFA students for the balance of the student's SFA award after payment of tuition and books. According to College records, SFA students received debit cards worth approximately \$7.5 million for the 2011-12 fiscal year.

Our review of the College's monitoring of this third-party service provider disclosed that the College did not provide for monitoring of the third-party service provider's disbursements of debit cards to ensure that students received amounts due to them and the College did not obtain a service organization report as described in *Statement on Standards for Attestation Engagements No. 16* (SSAE 16), *Reporting on Controls at a Service Organization*, for the service provider. An SSAE 16 report is a report on the suitability of policies and procedures placed in operation to achieve specified control objectives and tests of operating effectiveness for a service organization and requires service organization management to provide a written assertion regarding the effectiveness of controls.

Subsequent to our inquiry, College personnel obtained the SSAE 16 report for the service provider applicable to the 2011-12 fiscal year. Although our review of the report did not disclose any findings or deficiencies that would impact the College's use of the service provider, our review does not substitute for the College's responsibility to timely review and monitor the service provider's performance.

Recommendation: The College should provide for timely monitoring of third-party service providers to ensure that transactions are executed in accordance with contract terms or require that the service provider timely provide service organization reports covering internal controls over the processing of SFA debit card disbursements.

PRIOR AUDIT FOLLOW-UP

The College had taken corrective actions for findings included in our report No. 2011-016.

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 March 2012 to July 2012 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. 2011-016. 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 2011-12 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 selected access privileges over the database and finance and human resources applications to determine the appropriateness and necessity based on employees’ job duties and user account functions and adequacy with regard to preventing the performance of incompatible duties. Tested administrator account access privileges granted and procedures for oversight of administrator accounts for the network, operating system, database, and application to determine whether these accounts had been appropriately assigned and managed.
Deactivation of employee IT 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 deactivated.
IT data loss prevention.	Determined whether there were current written security policies and procedures governing the classification, management, and protection of sensitive and confidential information.
IT disaster recovery plan.	Determined whether a comprehensive disaster recovery plan was in place and had been recently tested.
IT logical access controls and user authentication.	Reviewed selected operating system, database, network, and application security settings to determine whether authentication controls were configured and enforced in accordance with IT best practices.
IT risk management and assessment.	Determined whether a written, comprehensive IT risk assessment had been developed to document the College’s risk management and assessment processes and security controls intended to protect the confidentiality, integrity, and availability of data and IT resources.
IT security awareness and training.	Determined whether a comprehensive IT security awareness and training program was in place.
Board and committee meetings.	Reviewed Board and committee minutes to determine whether Board approval was obtained for policies and procedures in effect during the audit period and for evidence of compliance with Sunshine Law requirements (i.e., proper notice of meetings, ready access to public, maintain minutes).
Fraud policy and related procedures.	Examined written policies, procedures, and supporting documentation related to the College’s fraud policy and related procedures.
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.

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

Scope (Topic)	Methodology
Student loans.	Determined whether the College had established procedures for students that transferred from other institutions of higher education, to verify that the student was not in default on student loans or was not past due on a student receivable.
Donation, acquisition, or construction of capital assets involving outside entities.	Reviewed documentation for donation, acquisition, or construction of capital assets involving an outside entity and determined whether such transactions and agreements were appropriate.
Florida residency determination and tuition.	Tested student registrations to determine whether the College documented Florida residency and correctly assessed tuition in compliance with Sections 1009.21 and 1009.22, Florida Statutes, and State Board of Education Rule 6A-10.044, Florida Administrative Code.
Distance learning fees.	Determined whether distance learning fees were assessed and collected as provided by Section 1009.23(16)(b), Florida Statutes.
Distance learning on-line registration process for transient students.	Determined whether the on-line registration process for transient students was in compliance with Section 1004.091(2)(b), Florida Statutes.
Laboratory and other user fees.	Reviewed the College's procedures and determined whether they were approved by the Board of Trustees. Tested laboratory and other user fees and examined supporting documentation to determine whether the College properly calculated these fees.
Textbook affordability.	Examined supporting documentation to determine whether the College's policies and procedures regarding textbook affordability were in accordance with Section 1004.085, Florida Statutes.
Overtime payments.	Reviewed College policies, procedures, and supporting documentation evidencing the approval of, and necessity for, overtime payments. Performed analytical procedures to determine the reasonableness of overtime payments.
Terminal pay.	Reviewed the College's rules and procedures for terminal pay to ensure consistency with Florida law. Tested former employees to determine appropriateness of terminal pay. Additionally, reviewed severance pay provisions in contracts entered into after July 1, 2011, to determine whether the College was in compliance with Florida Statutes.
Administrative employees' compensation.	Reviewed administrative employees' compensation to determine whether compensation exceeded limits provided in Florida law.
Compensation for Presidents.	Determined whether the President's compensation was in accordance with Florida law, rules, and Board policies.
Bonuses.	Determined whether employee bonuses were paid in accordance with Section 215.425(3), Florida Statutes.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
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 executive foreign and out-of-state travel expenses to determine whether the travel was reasonable, adequately supported, and for College purposes.
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 awarded and executed, that contract terms were adequately supported, and that vendors carried adequate insurance. Also, reviewed the third-party service provider contract to determine whether the College adequately monitored the service provider and obtained and reviewed the third-party service provider's report.
Florida College System Program Fund.	Tested expenditures from the Florida College System Program Fund to ensure such funds were not expended on the education of State or Federal inmates.
Construction administration.	For selected major construction projects, tested payments and supporting documentation to determine compliance with College policies and procedures and provisions of laws and rules. Also, for construction management contracts, determined whether the College monitored the selection process of architects and engineers, construction managers, and subcontractors by the construction manager.
Earmarked capital project resources.	Determined, on a test basis, whether Public Education Capital Outlay and other restricted capital outlay expenditures were expended in compliance with the restrictions imposed on the use of these resources.
Electronic payments.	Reviewed College policies and procedures related to electronic vendor payments and tested supporting documentation to determine whether selected electronic payments were properly authorized and supported.
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.
Direct-support organizations.	Tested payments, transfers, and loans between the College and its direct-support organization to determine the legal authority of such payments.
Direct-support organizations – conflicts of interest.	Determined whether the College had established policies and procedures to avoid potential conflicts of interest with vendors who were doing business with the College and had also made donations to the College's direct-support organization.

EXHIBIT B
MANAGEMENT'S RESPONSE

MEMORANDUM

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

From: Ty J. Handy

Date: September 26, 2012

Subject: Response to Preliminary and Tentative Operational Audit Findings

NORTHWEST FLORIDA STATE COLLEGE
Operational Audit 2011-2012
Preliminary and Tentative Findings

Board Policies

Finding No. 1: Electronic Funds Transfers
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Finding:

The College Board of Trustees did not have a Board policy prescribing the accounting and control procedures to allow funds to be moved by electronic transaction.

Recommendation:

The College should continue its efforts to implement the Board adopted policies and procedures related to electronic funds transfers.

Response:

Subsequent to the audit inquiry, the College developed written policies that were approved by the Board and are effective for the 2012-13 fiscal year.

Personnel and Payroll

Finding No. 2: President's Compensation
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Finding:

Pursuant to Section 1001.64(18), Florida Statutes, the Board has the authority to establish the College President's compensation, including benefits. June 19, 2012, the Board approved an employment contract with the President for the term July 1, 2011, through June 30, 2014. Subsequent to the approval of this employment contract, the Board renegotiated the President's

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

contract for the 2011-2012 fiscal year on November 15, 2011, to include payment of an allowance for a cellular telephone.

Contract Provisions- Contributions to Defined Contribution Retirement Plan: The President's employment contract required the College to pay 12.5 percent of the President's base salary into a defined contribution retirement plan. The contract defined the base salary for the 2011-12 fiscal year as being \$199,000. The College made a contribution of 12.5% of the President's base salary plus amounts the College paid for his annuity plan and cellular telephone allowance. As a result, the College contributed \$2,187 more to the defined contribution retirement plan than was authorized by the President's employment contract.

Contract Provisions – Severance Pay:

The President's Contract was not in compliance with Section 215.425(4)(a), Florida Statutes.

Recommendation:

The College should ensure that retirement contributions are calculated in accordance with employment agreements, and that employment agreements, including the President's employment agreement, contain provisions for severance pay that are in accordance with Section 215.425(4)(a), Florida Statutes.

Response:

June 19, 2012 the Board of Trustees renegotiated the President's employment contract and revised the severance pay provisions to comply with the requirements of Section 215.425(4)(a), Florida Statutes.

Finding No. 3: Contract Monitoring

Finding:

The College routinely enters into contracts for goods and services that cover extended periods of time. In these instances, vendors may periodically bill for goods or services on an interim basis. Effective monitoring controls require that the contracts describe the services to be acquired in a way that services are measurable or quantifiable and that the services provided can be verified by College personnel. The periodic vendor billings should be in sufficient detail to ensure that amounts billed are verifiable and in accordance with contract terms. Our review disclosed that the College's procedures for verifying vendor invoices involving periodic or progress payments could be improved.

Recommendation:

The College should ensure that contracts are executed to support amounts paid to vendors and that invoices for goods and services are in sufficient detail to ensure that invoices or requests for payment are in accordance with contract terms.

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

Response:

The College will require all vendor invoices to have sufficient detail for verification by quantity and amount. All invoices will be reviewed and approved by the budget manager initiating the purchase of goods and services prior to payment authorization.

The College and Northwest Florida State College Foundation (Foundation) are drafting an agreement for approval to provide space in the Foundation Apartment complex for scholarship students. The College will make two annual payments to the Foundation on behalf of the scholarship students.

Finding No. 4: monitoring of Third-Party Service Provider

Finding:

The College contracted with a third-party service provider to disburse student financial assistance (SFA) awards to students. The third-party service provider issued pre-paid debit cards to SFA students for the balance of the student's SFA award after payment of tuition and books. According to College records, SFA students received debit cards worth approximately \$7.5 million for the 2011-12 fiscal year.

The review of College's monitoring of this third-party service provider disclosed that the College did not provide for monitoring of the third-party service provider's disbursements of debit cards to ensure that students received amounts due to them and the College did not obtain a service organization report as described in Statement on Standards for Attestation Engagements No 16 (SSAE 16), Reporting on Controls at a Service Organization, for the service provider.

Recommendation:

The College should provide for timely monitoring of third-party service providers to ensure that transactions are executed in accordance with contract terms or require that the service provider provide service organization reports covering internal controls over the processing of SFA debit card disbursements.

Response:

Subsequent to the Auditor's inquiry, College personnel obtained the SSAE 16 report for the service provider applicable to the 2011-12 fiscal year. The College will request a copy of the SSAE 16 each year.

The College has put procedures in place to review a sample from each disbursement to verify the accuracy of the funds disbursed to students. A recommended sample of 5% to 10% of the number of students in the issued disbursement will be tested to verify the accuracy of the disbursement. In the event errors are found, the sample will be enlarged and the service provider will be notified immediately to make corrections. Records will be maintained of each sample.