

POLK 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:

Teresa V. Martinez, Vice Chair to 8-21-11,
Chair from 8-22-11
Mark G. Turner from 8-05-11 (1),
Vice Chair from 8-22-11
Ricardo Garcia, Chair to 8-21-11
Daniel F. Dorrell from 8-05-11 (1)
Gregory Littleton
Linda Pilkington from 8-05-11 (1)
Ernest S. Pinner

Dr. Eileen Holden, President

Note: (1) Board member positions were vacant from
July 1, 2011, through August 4, 2011.

The audit team leader was Becky D. Grode, CPA, and the audit was supervised by David A. Blanton, 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.

POLK STATE COLLEGE

SUMMARY

Our operational audit disclosed the following:

ADMINISTRATIVE MANAGEMENT AND BOARD POLICIES

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

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

PROCUREMENT

Finding No. 3: The College’s procedures for monitoring consultant contracts needed improvement.

BACKGROUND

Polk 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 seven 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 Winter Haven and Lakeland, Florida. Additionally, credit and noncredit classes are offered in public schools and other locations throughout Polk County. The College reported enrollment of 7,667 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

Administrative Management and 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. This law also requires that electronic transactions comply with the provisions of Chapter 668, Florida Statutes, which discusses the use of electronic signatures in electronic transactions between colleges and other entities.

According to the College’s records, approximately \$87 million of electronic funds transfers were made during the 2011-12 fiscal year. In response to our inquiry, College personnel stated that the Board had not established formal written policies and procedures addressing the use of 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 that electronic transactions will not be executed in accordance with Board directives and the provisions of Chapter 668, Florida Statutes.

Recommendation: The Board should adopt written policies and procedures related to electronic funds transfers.

Finding No. 2: Identity Theft Prevention Program

In response to increasingly pervasive risks associated with the custodianship of sensitive information, Section 114 of the Fair and Accurate Credit Transactions 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 Board 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. Additionally, the Rule requires that the College train staff, as necessary, to effectively implement the Program. 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. The Board adopted Rule 5.24 on January 25, 2010, which requires the President, or designee, to prepare a written Program that includes all requirements designated in the Rule. Although the College provided training to College staff required under the Rule, as of October 24, 2012, the Board had not approved a written Program. 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.

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

Procurement

Finding No. 3: Contractual Services

The College routinely enters into contracts for goods and services. Effective monitoring controls require that contracts be prepared in a way so that services are measurable or quantifiable and services provided can be verified by College personnel. Additionally, the contract should provide for specific deliverables and the timeframe that these deliverables are to be provided to the College. Periodic vendor billings should be in sufficient detail to ensure that amounts billed are verifiable and in accordance with contract terms.

Our test of seven contracts for contractual services during the 2011-12 fiscal year disclosed the following:

- The College entered a contractual service agreement with a vendor to acquire certain professional accounting, auditing, and consultative services at the rate of \$70 per hour. The College paid a total of \$60,000 during the 2011-12 fiscal year. Although the agreement identified a broad range of duties and responsibilities, the agreement did not adequately describe how and when deliverables would be documented and presented.
- The College paid \$8,640 to a former employee to provide consulting services; however, the College did not enter into a contract with this individual outlining the terms and conditions of the consulting services to be provided or the amount to be paid. Also, the invoices did not describe the work performed or days and times worked.

Although invoices submitted by these vendors were approved by supervisory personnel based on personal knowledge of work performed, without a written understanding of the services to be provided to the College that clearly delineates the deliverables and the timeframe for providing the deliverables, there is an increased risk that the services may not be received consistent with the Board's intent.

Recommendation: The College should ensure that written agreements for contractual services clearly describe the nature and timing of deliverables, and enhance its monitoring procedures to ensure that vendor invoices are complete and in accordance with contract terms.

PRIOR AUDIT FOLLOW-UP

The College had taken corrective actions for findings included in our report No. 2011-012.

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 February 2012 to October 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:

- Evaluate management's performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse, and in administering assigned responsibilities in accordance with applicable laws, rules, regulations, contracts, grant agreements, and other guidelines.
- Examine internal controls designed and placed in operation to promote and encourage the achievement of management's control objectives in the categories of compliance, economic and efficient operations, reliability of records and reports, and the safeguarding of assets, and identify weaknesses in those controls.
- Determine whether management had taken corrective actions for findings included in our report No. 2011-012.
- Identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

This audit was designed to identify, for those programs, activities, or functions included within the scope of the audit, deficiencies in management's internal controls, instances of noncompliance with applicable laws, rules, regulations,

contracts, grant agreements, and other guidelines, and instances of inefficient or ineffective operational policies, procedures, or practices. The focus of this audit was to identify problems so that they may be corrected in such a way as to improve government accountability and efficiency and the stewardship of management. Professional judgment has been used in determining significance and audit risk and in selecting the particular transactions, legal compliance matters, records, and controls considered.

For those programs, activities, and functions included within the scope of our audit, our audit work included, but was not limited to, communicating to management and those charged with governance the scope, objectives, timing, overall methodology, and reporting of our audit; obtaining an understanding of the program, activity, or function; exercising professional judgment in considering significance and audit risk in the design and execution of the research, interviews, tests, analyses, and other procedures included in the audit methodology; obtaining reasonable assurance of the overall sufficiency and appropriateness of the evidence gathered in support of our audit’s findings and conclusions; and reporting on the results of the audit as required by governing laws and auditing standards.

The scope and methodology of this operational audit are described in Exhibit A. Our audit included the selection and examination of transactions and records occurring during the 2011-12 fiscal year. Unless otherwise indicated in this report, these transactions and records were not selected with the intent of statistically projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

An audit by its nature does not include a review of all records and actions of agency management, staff, and vendors, and as a consequence, cannot be relied upon to identify all instances of noncompliance, fraud, waste, abuse, or inefficiency.

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
IT disaster recovery plan.	Determined whether a comprehensive disaster recovery plan was in place and had been recently tested.
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.
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.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Terminal pay.	Reviewed the College’s rules and procedures for terminal pay to ensure consistent 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 did not exceed limits provided in Florida law.
President’s compensation.	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.
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, and whether contract terms were adequately supported.
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.
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 funds transfers.	Reviewed College policies and procedures related to electronic funds transfers and tested supporting documentation to determine whether selected electronic funds transfers were properly authorized and supported.
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 made donations to the College’s direct–support organizations.

EXHIBIT B
MANAGEMENT'S RESPONSE



November 19, 2012

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

Dear Mr. Martin,

Attached please find our responses to the preliminary and tentative findings which may be included in a report to be prepared on your operational audit of the:

Polk State College
For the Fiscal Year Ended June 30, 2012

delivered to us electronically on November 5, 2012. Please feel free to contact us if we can provide further information.

Yours truly,

A handwritten signature in black ink that reads 'Eileen Holden'. The signature is written in a cursive, flowing style.

Dr. Eileen Holden, President
Polk State College

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

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

Recommendation: The Board should adopt written policies and procedures related to electronic funds transfers.

Response: The College will develop written policies and procedures relating to controls over electronic funds transfer and present them to the Board for their approval.

Finding No. 2 – Identity Theft Prevention Program: The College had not established an identity theft prevention program, contrary to Section 114 of the Fair and Accurate Credit Transactions Act of 2003.

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

Response: The College will develop a written prevention program that includes all the requirements designated in the Red Flags Rule.

Finding No. 3 – Contractual Services: The College's procedures for monitoring consultant contracts needed improvement.

Recommendation: The College should ensure that written agreements for contractual services clearly describe the nature and timing of deliverables, and enhance its monitoring procedures to ensure that vendor invoices are complete and in accordance with contract terms.

Response: The College will revise the current contract for professional services to adequately describe how and when deliverables would be documented and presented. In addition, the College will ensure that future vendor invoices are complete and in accordance with contract terms.