

LAKE-SUMTER COMMUNITY 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>
Margo S. Odom, Chair	Lake
Timothy Morris, Vice Chair	Lake
Raymond Scott Blankenship	Lake
Richard P. Bowersox	Lake
Marcia M. Butler	Sumter
Richard D. Childers to 12-07-11	Sumter
Kelly L. Flores from 12-08-11	Sumter
Emily A. Lee from 12-08-11	Lake
Joe M. Norman to 12-07-11	Lake
Kelly S. Rice from 12-08-11	Sumter
Jon A. Simpson to 12-07-11 (1)	Sumter
Vacancy (2)	Sumter

Dr. Charles R. Mojock, President

- Notes: (1) Board member served beyond the end of term, May 31, 2011.
(2) Position remained vacant from July 1, 2011, through June 30, 2012.

The audit team leader was Kayren P. Jost, CPA, and the audit was supervised by Brenda C. Racis, CPA. For the information technology portion of this audit, the audit team leader was Rebecca Ferrell, CISA, and the supervisor was Heidi G. Burns, CPA, CISA. Please address inquiries regarding this report to James R. Stultz, CPA, Audit Manager, by e-mail at jimstultz@aud.state.fl.us 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.

LAKE-SUMTER COMMUNITY COLLEGE

SUMMARY

Our operational audit disclosed the following:

ADMINISTRATIVE MANAGEMENT AND BOARD POLICIES

Finding No. 1: The Board needed to enhance its written policies and procedures relating to electronic funds transfers.

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

Finding No. 3: The College did not provide complete written notification to individuals when their social security numbers were collected, contrary to Section 119.071(5)(a), Florida Statutes.

STUDENT TUITION AND FEES

Finding No. 4: The College needed to enhance its procedures for reclassifying non-Florida resident students as Florida residents for tuition purposes.

PERSONNEL AND PAYROLL

Finding No. 5: The President's employment agreement included a severance pay provision that was contrary to Section 215.425(4)(a), Florida Statutes.

PURCHASING

Finding No. 6: The College's controls over vendor credit card usage needed improvement.

INFORMATION TECHNOLOGY

Finding No. 7: Some inappropriate or unnecessary information technology (IT) access privileges existed within the College, indicating a need for an improved review of access privileges.

Finding No. 8: College IT security controls related to user authentication, logging, and monitoring needed improvement.

BACKGROUND

Lake-Sumter Community 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 Clermont, Leesburg, and Sumterville, Florida. Additionally, credit and noncredit classes are offered in public schools and other locations throughout Lake and Sumter Counties. The College reported enrollment of 3,238 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 College records, \$9.3 million of electronic funds transfers were made during the 2011-12 fiscal year. Board Rule 6.03, *Depository Bank Transactions*, authorizes the transfer of funds by electronic, telephonic, or other medium into and between College accounts at approved depositories. However, the Board Rule did not address the transfer of public funds to other entities, the accounting and control procedures relating to electronic transfers of funds, or the need for and use of electronic signatures when conducting electronic transactions between the College and other entities. While the College had established controls over electronic transactions, the lack of specific guidance in the Board Rule 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 enhance its written policies and procedures to address accounting and control procedures related to electronic funds transfers and the use of electronic funds transfers as a means of payment to external entities, including the use of electronic signatures.

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 collection of student accounts, the College meets the definition of a creditor as defined by the FTC and, as such, must comply with the Rule. The Board approved Board Rule 2.24, "Identity Theft Prevention Program," during its May 19, 2009, meeting. This rule required the development of a written Identity Theft Prevention Program that includes reasonable procedures to detect and mitigate identity theft. Although the College had begun the process of developing these procedures, the procedures had not been finalized as of June 30, 2012. In these circumstances, the College or its students could be at increased risk of identity theft due to the sensitive nature of the information that is obtained, held, and processed through the College's daily operations. In addition, noncompliance with the Rule could result in monetary penalties from the FTC.

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

Finding No. 3: Collection of Social Security Numbers

The Legislature has acknowledged in Section 119.071(5)(a), Florida Statutes, the necessity of collecting social security numbers (SSNs) for certain purposes because of their acceptance over time as a unique numeric identifier for identity verification and other legitimate purposes. The Legislature has also recognized that SSNs can be used to acquire sensitive personal information, the release of which could result in fraud against individuals or cause other financial or personal harm. Therefore, public entities are required to provide extra care in maintaining such information to ensure its confidential status.

Section 119.071(5)(a), Florida Statutes, provides that the College may not collect an individual's SSN unless the College has stated in writing the purpose for its collection and unless it is specifically authorized by law to do so, or is imperative for the performance of the College's duties and responsibilities as prescribed by law. Additionally, this Section requires that if the College collects an individual's SSN, it must provide that individual with a written statement indicating whether the collection of the SSN is authorized or mandatory under Federal or State law, and identifying the specific Federal or State law governing the collection, use, or release of SSNs for each purpose for which the SSN is collected. This Section also provides that SSNs collected by the College may not be used for any purpose other than the purpose provided in the written statement. This Section further requires that the College review whether its collection of SSNs is in compliance with the above requirements and immediately discontinue the collection of SSNs for purposes that are not in compliance.

As similarly noted in our report No. 2011-024, College procedures over the collection and use of SSNs needed improvement, in that the printed *Application for Admissions* contained a notice regarding the collection of SSNs; however, this form did not identify the specific Federal or State law(s) governing the collection, use, or release of SSNs.

Effective controls to properly monitor the need for and use of SSNs and to ensure compliance with statutory requirements reduce the risk that SSNs may be used for unauthorized purposes.

Recommendation: The College should continue its efforts to comply with Section 119.071(5)(a), Florida Statutes.

Student Tuition and Fees

Finding No. 4: 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 the student’s initial enrollment in an institution of higher learning. Section 1009.21(6)(a), Florida Statutes, states, in part, that for tuition purposes, a person who is classified as a nonresident may become eligible for reclassification as a resident if that person or his or her parent (if that person is a dependent child) presents clear and convincing documentation that supports permanent legal residency in this State for at least 12 consecutive months rather than temporary residency for the purpose of pursuing an education. Such documentation may include evidence of full-time permanent employment for the prior 12 months or the purchase of a home in Florida, and residence therein, for the prior 12 months while not enrolled in an institution of higher education. State Board of Education (SBE) Rule 6A-10.044, Florida Administrative Code, establishes the documentation requirements for determining the reclassification of students as Florida residents for tuition purposes and requires that a minimum of three documents, as prescribed in the Rule, be presented to the institution as evidence for a change in residency for tuition purposes.

The College collected \$6.7 million in tuition during the 2011-12 fiscal year. The College undergraduate rate for each semester hour for nonresidents was \$391.32, and for Florida residents was \$99.91, during the 2011-12 fiscal year. Our test of 13 students’ records included 3 students that were reclassified from out-of-state students to Florida residents for tuition purposes during the 2011-12 academic year. The 3 students attended the College as out-of-state students for multiple terms prior to being reclassified as Florida residents for tuition purposes. In response to our request for documentation obtained by the College to support the reasons for the change in residency status, we were provided with documents evidencing that the students resided in Florida during the prior year. However, residing in Florida for the prior 12 months while enrolled in an institution of higher education would not qualify these students for reclassification as a Florida resident for tuition purposes. Additionally, documentation, such as full-time permanent employment for the prior 12 months while not enrolled in an institution of higher education, or the purchase of a home in Florida, and residence therein, for the prior 12 months while not enrolled in an institution of higher education, had not been obtained by the College to evidence that these students were residing in Florida for purposes other than pursuing an education. Had these 3 students remained classified as out-of-state students, the College would have collected an additional \$12,531 in tuition fees.

Absent documentation evidencing that students are qualified to be reclassified to Florida resident status, there is an increased risk that the College may not properly assess the appropriate tuition rate.

Recommendation: The College should enhance its procedures to ensure that documentation is obtained to support the reclassification of students from non-Florida residents to Florida residents for tuition purposes, including the three students noted above.

Personnel and Payroll

Finding No. 5: President’s Employment Agreement

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 certain provisions, including a provision that severance pay may not exceed an amount greater than 20 weeks of compensation.

On July 19, 2011, the Board approved an employment agreement with the College President. The terms of the employment agreement provided for a four-year period commencing on July 1, 2011, through June 30, 2015. Paragraph IV.1 of the employment agreement provided that in the event the President is discharged without cause, the President shall continue to be paid his total compensation, and all benefits described in Section II of the agreement, from the date of Board action through the end of the contract period. This provision was contrary to Section 215.425(4)(a), Florida Statutes, in that it allowed for the possibility of the President receiving severance pay that exceeds 20 weeks of salary.

Subsequent to our inquiry, the Board renegotiated the President’s employment agreement and revised the severance pay provision to comply with 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.

Purchasing

Finding No. 6: Credit Cards

The College uses credit cards issued by various vendors to provide employees the convenience of purchasing goods and services from local vendors without using the standard purchase order process. The Purchasing Manager is responsible for monitoring all vendor credit cards. The cards can be signed out indefinitely or for temporary usage to a specific employee. To maintain accountability over the credit cards, the Purchasing Manager maintains a master listing of credit cards, a sign-out sheet for credit cards issued to an employee on a temporary basis, and a *Vendor Credit Card Request Form* for each credit card issued to an employee indefinitely. The Accounts Payable Department is responsible for reviewing the monthly credit card statements. The College has established written policies and procedures regarding the use of vendor credit cards and documented monthly and single transaction credit limits for each cardholder through the use of the *Vendor Credit Card Request Form*.

College records indicated that 47 vendor credit cards, issued by 9 different vendors, were used by the College as of June 30, 2012. The College made purchases totaling approximately \$108,000 with these vendor credit cards during the 2011-12 fiscal year. As similarly noted in our report No. 2011-024, our review of the *Vendor Credit Card Requests Form* for all 47 vendor credit cards, and other College records, disclosed that the College’s controls over vendor credit cards needed improvement, as follows:

- The master listing is to be updated to reflect those employees that have been issued a credit card indefinitely. However, for three such cardholders, the cardholder name shown on the College’s master listing differed from that shown on the *Vendor Credit Card Request Form*. According to College personnel, these differences were caused by errors in updating the master listing for credit cards issued to employees. The lack of accurate records for credit cards assigned to College personnel results in a lack of accountability and increases the risk of potential misuse of the cards.
- *Vendor Credit Card Request Forms* were not executed for the issuance of nine gasoline credit cards. Under these circumstances, there is an increased risk that a credit card may be issued to an employee not authorized to make College purchases.

- Six credit cards on hand to be issued as needed to employees were not shown on the College's master listing. Incomplete records of credit cards held by the College could result in a lack of accountability and potential misuse of cards.

Recommendation: The College should improve its controls over vendor credit cards to ensure proper accountability for all vendor credit cards, including completion of a *Vendor Credit Card Request Form* for each cardholder.

Information Technology

Finding No. 7: Access Privileges

Access controls are intended to protect data and information technology (IT) resources from unauthorized disclosure, modification, or destruction. Effective access controls provide employees access to data and IT resources based on a demonstrated need to view, change, or delete data and restrict employees from performing incompatible functions, thereby precluding the possibility of one individual controlling all critical stages of a transaction process. For example, a single individual should not perform a combination of functions such as data entry and verification of data, reconciliation to output, or supervisory authorization functions. Where an appropriate separation of duties does not exist, manual controls performed prior to or during processing or monitoring controls applied after processing may be used to mitigate the control deficiency. Such controls include approvals, exception reporting, reconciliations, and budget comparisons.

Our tests of selected access privileges to the College's Enterprise Resource Planning (ERP) finance and human resources modules disclosed nine employees with update privileges to all critical functions within the finance module and four employees with update privileges to all critical functions within the human resources module. Among other things, the nine employees had the ability to input, update, and approve a requisition, purchase order, and an invoice; add or modify a vendor; process a warrant for payment; and input and update journal entries within the finance module. The four employees had the ability to add a new employee, adjust salaries, and process payroll warrants within the human resources module. Two of the employees had update privileges to all critical functions within both modules.

Various College controls related to approvals, reviews of supporting documentation, and securing check stock may compensate, in part, for the deficiencies described above. However, the effectiveness of these controls may be lessened when the controls are performed by some of the above-described employees with update privileges to all critical functions. Although our tests did not disclose any instances of fraud or abuse, the absence of effective access controls that enforce an appropriate separation of incompatible duties may diminish the reliability of data and increase the risk that erroneous or fraudulent transactions could be processed.

Periodically reviewing assigned IT access privileges promotes good internal control and is necessary to ensure that appropriate access privileges are defined and assigned for sensitive accounts and for users to prevent the initiation of transactions for incompatible processing functions within the application. Our tests of selected access privileges to the College's ERP finance and human resources modules and the network disclosed a system-delivered account used for data conversion and a network service account having access privileges that were not being used and were no longer necessary. Although the College performed a periodic review of employee access privileges, the existence of the inappropriate or unnecessary access privileges described above indicated a need for an improved College review of access privileges. In response to audit inquiry, College management locked the system-delivered account and disabled the network service account. Without improved review procedures, inappropriate or unnecessary access privileges

may not be timely detected and addressed by the College, increasing the risk that unauthorized disclosure, modification, or destruction of College data and IT resources may occur.

Recommendation: The College should modify access privileges assigned within the ERP finance and human resources modules to ensure that privileges enforce an appropriate separation of incompatible duties and do not exceed the access necessary for assigned job duties. In addition, the College should enhance its monitoring of access privileges and timely remove any inappropriate or unnecessary access detected.

Finding No. 8: Security Controls – User Authentication, Logging, and Monitoring

Security controls are intended to protect the confidentiality, integrity, and availability of data and IT resources. Our audit disclosed that certain College security controls related to user authentication for system administrators, logging, and monitoring 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, logging, and monitoring, the confidentiality, integrity, and availability of data and IT resources may be compromised.

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

PRIOR AUDIT FOLLOW-UP

The College had not taken full corrective actions for findings included in our report No. 2011-024 as finding Nos. 1 and 2, which are included in our current report as finding Nos. 6 and 3, respectively.

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 August 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. 2011-024.
- 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
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 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. Reviewed 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 policies and procedures governing the classification, management, and protection of sensitive and confidential information.
IT security incident response.	Determined whether the College had developed an adequate written security incident response plan.
IT user authentication, logging, and monitoring.	Reviewed selected operating system, database, network, and application security settings to determine whether authentication controls were configured and enforced, and whether logging and monitoring controls were in place in accordance with IT best practices.
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, and maintenance of minutes).
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 as to the purpose of collecting 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.
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. Reviewed and tested the controls surrounding delinquent receivables.

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

Scope (Topic)	Methodology
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 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.
Laboratory and other user fees.	Reviewed the College's procedures and determined whether user fees 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. Determined whether user fees exceeded amounts allowed by Florida Statutes.
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.
Personnel and payroll.	Tested payroll transactions to determine the accuracy of rate of pay, validity of employment contracts, accuracy of leave records, and certifications by supervisory personnel of employee time reports.
Overtime payments.	Reviewed College policies, procedures, and supporting documentation evidencing the approval of, and necessity for, overtime payments. Performed testing and analytical procedures to determine the reasonableness of overtime payments.
Terminal pay.	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.
Personnel and payroll.	Tested payroll transactions to determine the accuracy of rate of pay, validity of employment contracts, accuracy of leave records, and certifications by supervisory personnel of employee time reports.
Overtime payments.	Reviewed College policies, procedures, and supporting documentation evidencing the approval of, and necessity for, overtime payments. Performed testing and analytical procedures to determine the reasonableness of overtime payments.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Administrative employees' compensation.	Reviewed administrative employees' compensation to determine whether compensation did not exceed limits provided in Florida law.
Credit card transactions.	Tested transactions to determine whether credit card programs were administered in accordance with College policies and procedures. Analyzed credit limits and the related control procedures.
Travel expenses.	Tested selected travel expenses, including executive 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 contracts to ensure that they were properly awarded and executed.
Florida College System Program Fund.	Tested expenditures from the Florida College System Program Fund to ensure that such funds were not expended on the education of State or Federal inmates.
Construction management entity.	Reviewed the College's policies, procedures, and supporting documentation regarding the selection of a construction manager for its most recent major construction project.
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
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



WHERE FUTURES SOAR

Office of the Vice President for Business Affairs ~ Richard M. Scott

November 19, 2012

Mr. David Martin, CPA
Auditor General
State of Florida
G 74 Claude Pepper Building
111 West Madison Street
Tallahassee, FL 32399-1450

Dear Mr. Martin,

The attached is Lake-Sumter State College's response to the preliminary and tentative findings and recommendations pertaining to the Operational Audit for the fiscal year ended June 30, 2012.

Should you have any questions on any of our responses please don't hesitate to contact me at 352-365-3525.

Sincerely,

Richard M. Scott
Vice President for Business Affairs
Lake-Sumter State College

RMS/Imp

Cc: Charles R. Mojock, Ed.D.
Brenda Racis
John Froman

Attachment

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

2011-2012 Operational Audit
Recommendations and Responses

Finding No. 1: Electronic Funds Transfers

Recommendation: The Board should enhance its written policies and procedures to address accounting and control procedures related to electronic funds transfers and the use of electronic funds transfers as a means of payment to external entities, including the use of electronic signatures.

Response: The College agrees with the recommendation and has already enhanced its written Board Rule for electronic funds transfers to include all electronic transfers to external entities. The College is working on relevant policies and procedures now and will complete an update no later than March 1, 2013. The College has already adjusted its policies and procedures regarding the use of electronic signatures.

Finding No. 2: Identity Theft Prevention Program

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

Response: Although the College has very limited activity where it holds consumer accounts designed to permit multiple payments or transactions, the College does fully recognize its duty to protect all sensitive information that could lead to identity theft. For that reason, new written policies and procedures will be completed by April 1, 2013.

Finding No. 3: Collection of Social Security Numbers

Recommendation: The College should continue its efforts to ensure compliance with Section 119.071(5)(a), Florida Statutes.

Response: The College agrees with the recommendation. Although the College did comply fully with informing various entities about the necessity to collect SSN's and the purpose for collecting them, in a few instances, the College did not cite specific federal or state law by number. The College has already corrected this situation with specific references, especially in the application for Admissions.

Finding No. 4: Student Residency Status

Recommendation: The College should enhance its procedures to ensure that documentation is obtained to support the reclassification of students from non-Florida residents to Florida residents for tuition purposes, including the three students noted above.

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

Response: The College agrees to review its procedures regarding reclassification of students and provide proper documentation for its actions.

Finding No.5: 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.

Response: The College is now in full compliance with the recommendation and therefore finds the matter to be fully resolved.

Finding No.6: Credit Cards

Recommendation: The College should improve its controls over vendor credit cards to ensure proper accountability for all vendor credit cards, including completion of a *Vendor Credit Card Request Form* for each cardholder.

Response: The College agrees with the recommendation and has reviewed in detail its procedures for the issuing and accounting for all vendor credit cards to ensure full compliance. In many cases noted in the Audit, the records were accurate but they were not up to the standard set in our procedures. We have retrained our staff and all records have been rectified to meet our procedures.

Finding No.7: Access Privileges

Recommendation: The College should modify access privileges assigned within the ERP finance and human resources modules to ensure that privileges enforce an appropriate separation of incompatible duties and do not exceed the access necessary for assigned job duties. In addition, the College should enhance its monitoring of access privileges and timely remove any inappropriate or unnecessary access detected.

Response: The College agrees in principle with the recommendation. As a smaller college, it is not always possible to provide the complete separation of duties called for in this audit. Nonetheless, the college has compensating controls which go a long way in not allowing unauthorized transactions to take place. The College has already taken steps to provide appropriate access privileges and a further separation of duties as recommended here and is developing "exceptions reports" to enhance the detection of any unauthorized transactions.

Finding No.8: Security Controls- User Authentication, Logging, and Monitoring

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

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

Response: The College took steps prior to the issuance of the October 23, 2012 preliminary and tentative findings to provide appropriate user authentication for system administrators as recommended here. This was shared with the Auditor General's staff.