

NORTH FLORIDA 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>
Michael R. Williams, Chair	Madison
Ricky N. Lyons, Vice Chair from 8-16-11	Lafayette
Dr. William L. Brothers, Vice Chair to 8-15-11 (1)	Suwannee
Richard B. Davis, Jr.	Hamilton
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Lester D. Padgett (2)	Taylor
Albert Thomas, Jr. (2)	Jefferson
Vacant (3)	Madison

Mr. John Grosskopf, President

- Notes: (1) Board member served beyond the end of term, May 31, 2010.
(2) Board member served beyond the end of term, May 31, 2011.
(3) Position remained vacant from July 1, 2011, through June 30, 2012.

The audit team leader was Tiffany R. Wilson and the audit was supervised by Cathy L. Bandy, CPA. For the information technology portion of this audit, the audit team leader was Stephanie Hogg, CISA, CGFM, 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.

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NORTH FLORIDA COMMUNITY 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: An agreement with a third-party payment service provider was not submitted to the Board for approval, and the Board needed to adopt written policies and procedures related to the use of a third-party payment service provider account.

CONSTRUCTION ADMINISTRATION

Finding No. 3: The College needed to enhance its procedures for negotiating construction manager contracts and monitoring payments under such contracts.

STUDENT FEES

Finding No. 4: The College's policies and procedures for budgeting and expending student activity and service fees needed improvement.

Finding No. 5: The Board had not adopted policies and procedures regarding the assessment and use of technology fees, nor a technology improvement plan detailing the Board's intended use of these fees, and the College needed to improve its controls over the use of these fees.

INFORMATION TECHNOLOGY

Finding No. 6: Some unnecessary information technology (IT) access privileges existed, indicating a need for an improved review of access privileges.

Finding No. 7: College IT security controls related to user authentication and protection of workstations needed improvement.

Finding No. 8: The College did not have a written IT security incident response plan.

Finding No. 9: The College's IT disaster recovery plan lacked certain key provisions and had not been tested.

BACKGROUND

North Florida 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 its main campus in Madison, Florida and a special purpose center in Monticello, Florida, designated as the Green Industries Institute. Additionally, credit and noncredit classes are offered in public schools and other locations throughout Hamilton, Jefferson, Lafayette, Madison, Suwannee, and Taylor Counties. The College reported enrollment of 963 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, \$6 million of electronic funds transfers (EFTs) were made during the 2011-12 fiscal year for transactions such as employee payments, retirement payments, property and casualty insurance payments, medical and supplemental insurance payments, sales tax payments, investment transactions, and vendor payments. In response to our inquiry, College personnel stated that they did not have a Board approved policy for EFTs; however, they had informal processes to monitor and control EFTs transactions, such as dual electronic authorizations and verbal instructions to monitor and control electronic transmission of funds. While the College had established informal controls over EFTs, the lack of specific guidance, in the form of Board-approved 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 controls over electronic funds transfers.

Finding No. 2: Payment Service Provider

Section 1010.02, Florida Statutes, provides that all funds accruing to a college must be received, accounted for, and expended in accordance with law and rules of the State Board of Education. State Board of Education Rule 6A-14.075, Florida Administrative Code, requires that each college board of trustees provide for the receipt, deposit, and withdrawal of all funds received by the college. This Rule also provides that all funds received by a college from all sources be deposited intact in a designated depository as soon as practical. Board Policy No. 3.01, *Receipt, Deposit, and Withdrawal of Funds*, provides that the President, or his designee, is responsible for establishing a secure fiscal system, consistent with good accounting practices, for the purpose of collection, deposit, and withdrawal of College funds.

The College established an account with a third-party payment service provider that is linked to the College's bank account and is used by the College for processing online payments received from students and to make electronic payments to vendors for College purchases. The College collected \$97,571 in online payments from students, and processed \$9,727 in electronic payments to vendors during the 2011-12 fiscal year. The College paid a set fee for each transaction and for the 2011-12 fiscal year paid the payment service provider \$2,256 for processing these transactions.

College personnel indicated that the Dean of Administrative Services periodically transferred the net balance (online collections from students less electronic payments to vendors for goods and services) from the payment service provider account into the College’s bank account at which time a transaction report was generated from the payment service provider. The transaction report was used by the Controller to verify that the sum of all transactions were approved, properly recorded, and deposited into the College’s bank account. Our review disclosed that controls over transactions processed through the third-party payment service provider account could be improved, as follows:

- Contrary to Board Policy No. 3.01, the agreement between the College and the payment service provider was not submitted to the Board for approval to establish this account, and the Board had not adopted written policies related to accounting and control procedures to be used in connection with the account. Absent Board approval of the agreement to authorize College personnel to establish this account and related Board policies, there is an increased risk that transactions in the account may not be executed in accordance with the Board’s directives.
- Transfers of funds from the payment service provider to the College’s bank account were generally made two to three times per semester. As a result, the payment service provider was allowed to hold College funds ranging from \$144 to \$35,145 for periods of time ranging from 1 to 4 months after the date of the transactions and related transactions were not timely recorded in the College’s accounting records. In the absence of procedures to maintain timely accountability over transactions processed by the payment service provider and timely transfer of the funds into the College’s bank account, there is an increased risk that errors or fraud could occur and not be timely identified and corrected.
- Two employees made 21 personal purchases totaling \$635 from the College’s payment service provider account. These employees had access codes to the payment service provider account and could authorize their own personal purchases. One employee made 20 such personal purchases totaling \$572 and the other made 1 personal purchase totaling \$63 using the payment service provider account. Although the employees subsequently reimbursed the College for their personal purchases up to 10 days after the purchase, we are unaware of any valid public purpose served by employees using College resources for personal purchases.
- College personnel indicated that the transaction report provided by the payment service provider was not reconciled to the supporting documentation for purchases made and, as a result, purchase transactions were not being timely recorded in the College’s accounting records. Also, without a reconciliation of the supporting documentation to the payment service provider’s transaction report, there is an increased risk that transactions processed by the payment service provider may not be correctly and accurately recorded in the College’s accounting records, if at all.

Recommendation: The Board should authorize the use of the payment service provider account or instruct College personnel to discontinue use of the account. If the Board authorizes the use of the account, the Board should adopt and College management should implement formal written policies and procedures to enhance controls over the use of the account. Such policies and procedures should prohibit employees from making personal purchases from the account, require more frequent transfers of funds and preparation of transaction reports, and provide for a reconciliation of transaction reports to the College’s accounting records.

Construction Administration

Finding No. 3: Construction Contract Management

Section 1013.45(1)(c), Florida Statutes, authorizes the College to contract for the construction or renovation of facilities with a construction management entity (CME). Under the CME process, contractor profit and overhead are contractually agreed upon, and the contracted firm is responsible for all scheduling and coordination in both the design and construction phases and is generally responsible for the successful, timely, and economical completion of

the construction project. A CME may also be required to offer a guaranteed maximum price (GMP). A GMP contract allows for the difference between the actual cost of the project and the GMP amount, or the net cost savings, to be returned to the College. As such, a GMP contract requires close monitoring by College personnel to ensure that the cost of construction is adequately documented.

On November 18, 2011, the College entered into a GMP agreement with a CME under a continuing contract dated July 1, 2002, for the Boiler and Chiller Replacement Project (project) with a total GMP of \$526,579. The continuing contract stated that all fees and the GMP would be set by the owner prior to initiating each project. Our review disclosed that the College needed to enhance its procedures for negotiating and monitoring GMP contracts, as follows:

- Our review of Board-approved GMP documents disclosed that the schedule of itemized costs totaled \$509,569, \$17,010 less than the approved GMP. Subsequent to our audit inquiry, College personnel indicated that the labor burden component and sales tax had been left off the GMP documents in error and subsequently the CME provided a revised GMP detailing these two cost components. Without a complete GMP proposal with all costs accurately detailed in the schedule of itemized costs, it is not apparent, of record, how College personnel had sufficient information to effectively negotiate a GMP or monitor construction costs for this project.
- The GMP contract schedule of itemized costs included \$55,027 for direct and indirect labor costs for CME staff, such as project managers and superintendents, and other costs, such as travel for CME staff. We requested documentation evidencing that College personnel had verified that the \$55,027 billed by the CME was supported by documentation such as payroll warrant registers for labor costs, travel reimbursement requests, or vendor invoices for lodging. College personnel indicated that they had not obtained documentation to support these costs nor had they reconciled the estimated \$55,027 construction phase fee to actual costs incurred. Absent documentation to support actual expenditures and a final reconciliation of actual costs to estimated costs, the College cannot be assured that any potential cost savings realized by the CME would be returned to the College.
- The GMP contract provided for the CME to be paid for certain administrative personnel costs, which included indirect salary costs commonly referred to as labor burden. Components of labor burden typically include social security and Medicare taxes; unemployment taxes; medical insurance; workers compensation; and may additionally include various company paid benefits, such as vacation and sick leave pay. The College paid a labor burden rate of 52 percent of direct personnel costs for this project; however, the College records did not evidence that College personnel had evaluated the labor burden rate for reasonableness. In response to our request for support of the calculation of the labor burden rate, College personnel stated they had none but that the rate was in line with rates applied on past projects. We reviewed statistical data from the United States Department of Labor, Bureau of Labor Statistics (BLS) which showed comparable labor burden rates were approximately 30 percent for employee compensation in the construction industry for the timeframe of this project. When comparing this rate to the 52 percent labor burden rate actually utilized by the CME, the labor burden rate amount recovered exceeded the amount derived using the BLS rate by \$6,900. Absent a review of support for the rate proposed by the CME, the College cannot be assured that it is paying a fair amount for the CME's indirect salary costs.
- The CME contract allows for a CME fee (overhead and profit) to be determined by the College prior to the activation of each project. The actual CME fee charged to this project totaled \$52,658. In response to our inquiry requesting evidence of negotiations of this fee, how the fee was determined, and the College's determination that the fee was competitive, College personnel stated that they allowed a fee of 10 percent on projects of this size, which they felt was fair based on the marketplace. However, College records did not evidence the negotiation of this fee or that it was in line with the current market CME fees. Additionally, the actual CME fee rate paid by the College was 11.1 percent, rather than the 10 percent provided in the contract. As a result, the College paid the CME \$5,266 more fees than was authorized in the contract. In response to our audit inquiry, College personnel stated that they agreed that the CME had been overpaid \$5,266, but that they would not attempt to recover the overpayment.

Recommendation: The College should enhance its monitoring procedures to ensure that GMP contracts are properly negotiated using reasonable costs methods or industry standards, and are supported by sufficiently detailed cost schedules to allow College personnel to effectively monitor CME payments. Additionally, the College should seek to recover the \$5,266 overpayment of CME fees.

Student Fees

Finding No. 4: Student Activity and Service Fees

Section 1009.23(7), Florida Statutes, authorizes each college board of trustees (Board) to establish a separate activity and service fee, not to exceed ten percent of the tuition fee, to be expended for lawful purposes to benefit the student body in general. These purposes include, but are not limited to, student publications and grants to duly recognized student organizations, the membership of which is open to all students at the Florida College System institution without regard to race, sex, or religion.

State Board of Education (SBE) Rule 6A-14.057, Florida Administrative Code (FAC), provides that expenditures funded from student activity and service fees must be pursuant to a budget prepared jointly by students and college staff and approved by the president. Each board of trustees must adopt procedures for student participation in the development of the student activity and service fees budget. Such procedures must require the budget to be based upon an estimate of total funds generated from these fees as well as an estimate of funds carried forward from the prior year. The Florida College System Council of Business Affairs and the Florida Department of Education, Division of Florida Colleges, have issued guidelines for student activity and service fees budget development. These guidelines provide that if college-wide carry-over dollars from the previous year are available, a committee will meet during the academic year to recommend how those funds are to be reallocated.

The College collected \$137,380 of, and expended \$168,485 from, student activity and service fees for the 2011-12 fiscal year. Our review of the budget process for student activity and service fees disclosed the following:

- Contrary to SBE Rule 6A-14.057, FAC, the Board had not adopted procedures related to student participation in the development of the student activity and service fees budget.
- Documentation provided by the College disclosed that students were allowed to participate in the development of \$26,829 (21 percent) of the \$128,400 of budgeted expenditures from student activity and service fees expected to be collected during the 2011-12 fiscal year. The remaining budgeted expenditures of \$101,571, or 79 percent of the total student activities fees budgeted expenditures, was set aside by College management to fund personnel costs for the Director of Campus Life, and partially fund the personnel costs of the Coordinator of Campus Life, Coordinator of Fitness and Wellness, and student workers. College records did not evidence student participation in the development of the budget for personnel costs related to these positions, and a carry-over balance of \$108,000 from prior years was not included in the 2011-12 fiscal year budget nor was the budget committee made aware of the existence of the \$108,000 carry-over balance during the development and approval of the budget.
- Our review of the 2011-12 fiscal year student activity and service fees expenditures disclosed the purchase of \$51,000 of furniture; however, the student activity and service fees budget approved by the students did not provide for the purchase of furniture. In response to our inquiry, we were provided documentation evidencing the President approved purchasing the furniture from student activity and service fees carry-over from the previous fiscal year and that students were involved in the selection of the furniture purchased; however, the use of student activity and service fees for the unbudgeted purchase of furniture was contrary to SBE Rule 6A-14.057, FAC.

The College had unexpended balances totaling \$78,608 from student activity and service fees at June 30, 2012, which represented 57 percent of the \$137,380 of these fees collected during the 2011-12 fiscal

year. Although there is no statutory limitation placed on the amount of fees collected in a fiscal year that may be carried forward to the subsequent year, if student activity and service fee resources are not spent in the year collected, those students who paid such fees may not benefit from activities financed with the fees. When a college has accumulated a large unexpended balance of student activity and service fees, amounts assessed the following year should be adjusted to be consistent with anticipated needs and to ensure that the students who paid the fees benefit from the use of such fees.

Recommendation: The Board should establish policies and procedures to ensure that students participate in the development of the student activity and service fees budget, carry-over of unspent fees are subsequently allocated and budgeted during the next academic year, fees are expended in accordance with the adopted budget, and fees are adjusted, as appropriate, to prevent the accumulation of excess unexpended balances.

Finding No. 5: Technology Fees

Section 1009.23(10), Florida Statutes, authorizes each college board of trustees to establish a separate fee for technology, which may not exceed 5 percent of tuition for each credit-hour or credit-hour equivalent for resident students and may not exceed 5 percent of tuition and the out-of-state fee for each credit-hour or credit-hour equivalent for nonresident students. Revenues generated from the technology fee may only be used to enhance instructional technology resources for students and faculty.

The College collected \$81,000 in technology fees during the 2011-12 fiscal year. Our review disclosed the following:

- Although the technology fee was Board approved as a part of the annual operating budget package, the Board had not adopted policies or procedures regarding the assessment and use of technology fees, nor did the Board adopt a technology improvement plan addressing the use of technology fees. Absent such Board-adopted policies and procedures, and a technology improvement plan, there is an increased risk that technology fees may not be set at an appropriate level or not expended in accordance with the Board's intent.
- The College did not maintain separate accountability for technology fees collected and expended to demonstrate that the fees were used for enhancement of instructional technology resources for students and faculty. College personnel provided an analysis to show that approximately 50 percent of the salaries of the College's information technology (IT) department were equivalent to the technology fees collected during the 2011-12 fiscal year. Additionally, College personnel stated that this was a legitimate use of the technology fees. However, since these positions are established IT positions and include IT resources for administrative purposes, it is not clear that using these fees to fund established IT positions would result in enhancements to instructional technology resources for students and faculty in accordance with statutory requirements. Absence separate accountability of these fees, there is an increased risk that technology fees may be used to fund regular College IT operations, rather than provide for enhancements to the instructional technology resources for students and faculty, as required by law.

Recommendation: The Board should adopt policies and procedures regarding the assessment and use of technology fees and a technology improvement plan detailing the Board's intended use of the fees. Additionally, the College should maintain separate accountability for technology fees collected and expended, and ensure that technology fees are used only to enhance instructional technology resources for students and faculty.

Information Technology

Finding No. 6: 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 IT resources based on a demonstrated need to view, change, or delete data and restrict employees from performing incompatible functions or functions outside of their areas of responsibility. Periodically reviewing assigned IT access privileges promotes good internal control and is necessary to ensure that employees cannot access or modify IT resources inconsistent with their assigned job responsibilities.

Although the College performed a review of access privileges, our tests of selected access privileges to the College's Enterprise Resource Planning (ERP) finance and human resources modules and the network disclosed the existence of unnecessary access privileges that indicated a need for an improved College review of access privileges. Specifically, three system-delivered accounts used for upgrading the ERP application had update privileges to critical data within the finance and human resources modules that were unnecessary for these accounts. In addition, an IT employee had privileges associated with the domain administrator group that were used to administer the College's network and were unnecessary for her assigned IT support and help desk responsibilities. Domain administrator access privileges are typically limited to employees who are responsible for performing network administration duties or services that require complete access to network resources. Because of the College's ERP configuration, the domain administrator privileges also allowed update access to the ERP applications. When complete network access privileges are unnecessarily granted, the risk is increased that unauthorized or unintentional hardware, software, or configuration changes may occur and not be timely detected.

In response to our inquiry, College management locked the three system-delivered accounts and removed the IT employee's domain administrator privileges.

Recommendation: The College should improve its review of access privileges and timely remove any unnecessary access detected.

Finding No. 7: Security Controls – User Authentication and Protection of Workstations

Security controls are intended to protect the confidentiality, integrity, and availability of data and IT resources. Our audit disclosed certain College security controls related to user authentication and protection of workstations that needed improvement. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising College data and IT resources. However, we have notified appropriate College management of the specific issues. Without adequate security controls related to user authentication and protection of workstations, the risk is increased that the confidentiality, integrity, and availability of data and IT resources may be compromised.

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

Finding No. 8: Security Incident Response Plan

Computer security incident response plans are established by management to ensure an appropriate, effective, and timely response to security incidents. These written plans typically detail responsibilities and procedures for identifying, logging, and analyzing security violations and include a centralized reporting structure, provisions for designated staff to be trained in incident response, and notification to affected parties.

Although the College had procedures in place to address computer incidents, the College had not developed a written security incident response plan. Should an event occur that involves the potential or actual compromise, loss, or destruction of College data or IT resources, the lack of a written security incident response plan may result in the College's failure to take appropriate actions in a timely manner to prevent further loss or damage to College data and IT resources.

In response to our inquiry, College management indicated that written procedures were in development based on an IT industry model.

Recommendation: The College should develop a written security incident response plan to provide reasonable assurance that the College will respond in a timely and appropriate manner to events that may jeopardize the confidentiality, integrity, or availability of data and IT resources.

Finding No. 9: Disaster Recovery Plan

Disaster recovery planning is an element of IT controls established to manage the availability of valuable data and IT resources in the event of a processing disruption. The primary objective of disaster recovery planning is to provide the entity a plan for continuing critical operations in the event of a major hardware or software failure. The success and effectiveness of a disaster recovery plan requires elements such as alternate site processing arrangements and testing.

Although the College had a written disaster recovery plan, the plan did not detail procedures to be followed to affect the recovery and restoration of financial, payroll, student records, and other critical applications or identify and document disaster recovery team members and their respective roles and responsibilities. In addition, the plan had not been tested. The lack of key provisions in the disaster recovery plan and periodic testing thereof increases the risk that the College may not promptly and effectively resume IT operations, or maintain availability of IT data and resources, in the event of a disaster or other service interruption. A similar finding was noted in our report No. 2011-026.

In response to our inquiry, College management indicated that the plan will be further developed and tested after the installation of software upgrades and additional equipment has been completed at the College's data center and alternate processing site.

Recommendation: Following completion of the installation of software upgrades and equipment, the College should revise its disaster recovery plan to include detailed procedures and identification of the disaster recovery team, along with their roles and responsibilities. Additionally, the College should periodically test the plan to provide reasonable assurance of the successful recovery of critical applications and continuity of critical operations in the event of a disaster.

PRIOR AUDIT FOLLOW-UP

The College had taken corrective actions for findings included in our report No. 2011-026, except that finding No. 9 was also noted in prior audit report No. 2011-026, as finding No. 3.

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 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. 2011-026.
- 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 logical access controls and user authentication.	Reviewed network, database, and operating systems settings to determine whether authentication controls were configured and enforced in accordance with IT best practices.
IT access privileges and separation of duties.	Reviewed procedures for maintaining and reviewing access to IT resources. Tested access privileges to determine the appropriateness based on the employees' job functions and responsibilities and adequacy with regard to preventing the performance of incompatible duties.
Deactivation of employee IT access.	Reviewed procedures to prohibit former employees' access to electronic data files.
IT data loss prevention.	Reviewed written policies, procedures, and programs in effect 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 disaster recovery plan.	Determined the status of the College's disaster recovery plan regarding detailed procedures, identified team members and roles and responsibilities, and testing.
IT logging and monitoring controls.	Reviewed supporting documentation to determine whether logging and monitoring controls were in place in accordance with IT best practices.
Board meetings.	Reviewed Board minutes for evidence of compliance with Sunshine law requirements (i.e., proper notice of meetings, ready access to public, maintain minutes).
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 as required by Section 1009.21, 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.

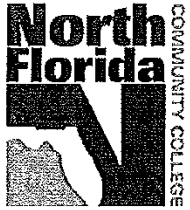
EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
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.
Student activity and service fees.	Reviewed the activity and service fee assessments to determine whether the fees did not exceed 10 percent of the total tuition fee rates and were budgeted and expended in accordance with Section 1009.23(7), Florida Statutes.
Technology fees.	Determined whether technology fees were used to enhance instructional technology resources.
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 full-time employees who also perform duties related to instructional overload contracts to ensure that they are not being compensated twice for the same hours.
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 employee's 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 credit cards were administered in accordance with College policies and procedures.
Travel expenses.	Tested executive foreign and out-of-state travel expenses to determine whether the travel was reasonable, adequately supported, and for College purposes.

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

Scope (Topic)	Methodology
Contractual agreements.	Determined whether contractual services were supported by Board-approved contracts. Also, tested contractual agreements to determine whether they were properly awarded and executed, and that contract terms were adequately supported.
Financial aid fee expenditures.	Determined the amount of financial aid fees assessed by the College and obtained a copy of the Financial Aid Fee Report filed with the Division of Florida Colleges. Tested awards made with financial aid fees to ensure that the fees collected were awarded in accordance with Section 1009.23(8)(c), Florida Statutes.
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 a selected construction project, 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 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**



Office of the
President

November 20, 2012

Mr. David M Martin
Auditor General, State of Florida
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450

Dear Mr. Martin:

This letter is in response to our receipt of the list of preliminary and tentative findings and recommendations made to North Florida Community College as a result of the operational audit for the fiscal year ended June 30, 2012. There were nine findings in this report.

Finding No. 1 – Electronic Funds Transfers

Finding No. 2 – Third Party Payment Service Provider

The Board had not adopted written policies and procedures relating to electronic funds transfers.

The Board needed to adopt written policies and procedures related to use of a third-party payment service provider account.

Although the District Board of Trustees of North Florida Community College had approved a policy related to Receipt, Deposit and Withdrawal of Funds, it was not specific as to Electronic Funds Transfers and payment service providers. An updated and more specific policy was approved at the regularly scheduled meeting of November 13, 2012. Also, procedures have been approved and implemented which will ensure adequate documentation and control over these transactions.

Finding No. 3 – Construction Administration

The College needed to enhance its procedures for negotiating construction manager contracts and monitoring payments under such contracts.

Working together with the Architectural firm retained for this purpose, procedures and documentation will be enhanced.

Finding No. 4 – Student Activity and Service Fees

The College's policies and procedures for budgeting and expending student activity and service fees needed improvement.

NFCC District Board of Trustees Policy 3.11 states that "Student Fees shall be set and collected in accordance with Chapter 1009.23, FAC and 6A-054 and guidelines published annually by the State Board of Education". An updated and more specific policy was approved at the regularly scheduled meeting of November 13, 2012.

Of particular concern was student participation in the complete budget process, including staff salaries. Although students do not set professional staff salaries, they do approve funds used for staff and student salaries and have input and final approval of the budget in its entirety. The 2011-12 Student Activities Budget committee consisted one faculty member, two staff and four students, or a 57% student representation. College staff will ensure that complete documentation of the student participation process is available in the future.

Finding No. 5 – Technology Fees

The Board had not adopted policies and procedures regarding the assessment and use of technology fees, nor a technology improvement plan detailing the Board's intended use of these fees, and the College needed to improve its control over the use of these fees.

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EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

David Martin
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An updated and more specific policy was approved at the regularly scheduled meeting of November 13, 2012.

Finding No. 6 – Access Privileges

Some unnecessary information technology (IT) access privileges existed within the College, indicating a need for an improved review to access privileges.

As noted in the review, College management locked three system-delivered accounts in question, and removed the IT employee's domain administrator privileges. Further, the College's "Acceptable Technology Use" document has been updated to include audit reports to more closely monitor access privileges.

Finding No.7 – Security Controls

College IT security controls related to user authentication and protection of workstations needed improvement.

Policies and procedures have been implemented that ensure regular checks for unauthorized network devices, unauthorized personal web servers, unsecured sharing of devices and operating systems and software. Further, automated processes have been implemented that lock each workstation when idle.

Finding No 8 – Security Incident Response Plan

The College did not have a written IT security incident response plan.

The Computer Services Staff at North Florida Community College are currently in the process of finalizing a Security Incident Response Plan, which should be completed by January, 2013.

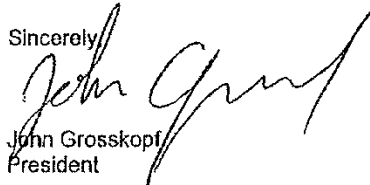
Finding No.9 – Disaster Recovery Plan

The College's IT disaster recovery plan lacked certain key provisions and had not been tested.

In addition to the cooperative agreement which exists between North Florida Community College and St. Johns River State College, the College operates a 'mirror image' system, which includes all administrative data processes. This system is located off-site and has now been tested. We will continue to study possibilities for expanded disaster recovery methods to ensure the integrity and continuity of all IT processes.

As always, we appreciate the professional manner in which the audit was conducted. We look forward to continued growth in accountability based on the recommendation, and will continue to work to ensure compliance with all generally accepted accounting principles as well as state statutes and rules.

Sincerely,


John Grosskopf
President

Cc: Cathy L. Bandy, Audit Supervisor