

# FLORIDA KEYS COMMUNITY COLLEGE

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## Operational Audit



## BOARD OF TRUSTEES AND PRESIDENT

Members of the Board of Trustees and President who served during the 2012-13 fiscal year are listed below:

Dr. Antoinette E. Martin, Chair from 9-24-12  
Ed Scales, Chair to 9-23-12, Vice Chair  
from 9-24-12  
Brian C. Schmitt, Vice Chair to 9-23-12  
Anne M. O'Bannon (1)  
Robert C. Stoky

Dr. Jonathan Gueverra, President

Notes: (1) Board member served beyond the end of term,  
May 31, 2013.

The audit team leader was James A. Bell, CPA, and the audit was supervised by Ramon A. Gonzalez, CPA. Please address inquiries regarding this report to James R. Stultz, CPA, Audit Manager, by e-mail at [jimstultz@aud.state.fl.us](mailto:jimstultz@aud.state.fl.us) or by telephone at (850) 412-2869.

This report and other reports prepared by the Auditor General can be obtained on our Web site at [www.myflorida.com/audgen](http://www.myflorida.com/audgen); by telephone at (850) 412-2722; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

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**FLORIDA KEYS COMMUNITY COLLEGE**

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**EXECUTIVE SUMMARY**

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Our operational audit disclosed the following:

**CASH MANAGEMENT**

**Finding No. 1:** The College's controls relating to bank account reconciliations needed improvement.

**BOARD POLICIES**

**Finding No. 2:** The Board needed to enhance its written policies and procedures relating to electronic funds transfers.

**STUDENT FEES AND RECEIVABLES**

**Finding No. 3:** The College needed to enhance its procedures for assessing and reporting distance learning course and other user fees.

**Finding No. 4:** The College's controls over student accounts receivable needed improvement.

**USE OF COLLEGE EQUIPMENT AND FACILITIES**

**Finding No. 5:** The College needed to improve procedures to ensure that rental charges are collected prior to the use of equipment or facilities.

**Finding No. 6:** The College needed to improve procedures regarding the use of marine watercraft.

**INFORMATION TECHNOLOGY**

**Finding No. 7:** Some inappropriate or unnecessary information technology (IT) access privileges existed, indicating a need for an improved review of access privileges. In addition, the College had not developed written policies and procedures for the annual review of user access privileges.

**Finding No. 8:** The College's IT risk assessment practices needed improvement.

**Finding No. 9:** The College had not developed a written IT security incident response plan.

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**BACKGROUND**

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Florida Keys 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 five 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 a main campus in Key West, Florida. Additionally, credit and noncredit classes are offered in public schools and through virtual campuses in Monroe County. The College reported enrollment of 837 full-time equivalent students for the 2012-13 fiscal year.

The results of our financial audit of the College for the fiscal year ended June 30, 2013, 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, 2013, will be presented in a separate report.

**FINDINGS AND RECOMMENDATIONS**

**Cash Management**

**Finding No. 1: Bank Account Reconciliations**

Effective internal controls require that reconciliations of bank account balances to general ledger control accounts be performed on a timely, routine basis. Such reconciliations are necessary to provide reasonable assurance that cash assets agree with recorded amounts, permit prompt detection and correction of unrecorded and improperly recorded cash transactions or bank errors, and provide for the efficient and economic management of cash resources.

The College utilized one depository account for banking transactions and an investment account, whereby balances of the depository account above \$250,000 were deposited and invested pursuant to a master repurchase agreement. At June 30, 2013, the general ledger cash balance for these two accounts totaled \$5,205,803.

Bank account reconciliations for the period July 2012 through May 2013 were not completed until August 12, 2013. Our review of completed bank account reconciliations for the period July 2012 through June 2013 disclosed unexplained differences totaling \$12,647 between the cash balances on the bank statement and the cash balances recorded in the general ledger ranging from \$39 to \$8,422 that were not timely identified and corrected. Adjusting entries were made on August 12, 2013, to correct the general ledger cash balance for these unexplained differences. In response to our inquiries, College personnel indicated that the bank account reconciliations were started each month upon receipt of the monthly bank statement; however, because unexplained differences between the cash balances on the bank statements and the cash balances recorded in the general ledger had not been timely resolved, the reconciliations were not completed until August 12, 2013. College personnel indicated that the untimely completion of the bank account reconciliations was a result of employee turnover and new employees that did not have a sufficient understanding of the financial accounting system.

Using employees who are lacking adequate technical skills to prepare bank account reconciliations increases the risk that the reconciliations may not be performed accurately and timely. Further, when bank accounts are not promptly and properly reconciled, and necessary adjustments to the general ledger cash balances are not made timely, College management have limited assurance as to the accuracy of financial information obtained from the general ledger to effectively monitor the College’s financial position, and there is increased risk that errors or fraud, should they occur, may not be timely detected. A similar finding was noted in our report No. 2012-076.

**Recommendation: The College should strengthen procedures to ensure that complete and accurate monthly bank account reconciliations are timely prepared; employees preparing bank account reconciliations have the necessary technical accounting skills and training; and differences in cash balances between the general ledger and the bank account are investigated and resolved.**

**Board Policies**

**Finding No. 2: 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, \$5 million of electronic funds transfers (EFTs) were made during the 2012-13 fiscal year for transactions such as transfers and payments to employees and vendors. Board Rule No. 2.710 (Rule), *Depository Withdrawals*, provides that those authorized to make withdrawals by electronic medium must not include the President or the Vice President of Financial and Administrative Services, and that withdrawals may be initiated by a single individual since such withdrawals will be accomplished electronically and will be protected by a system of depository generated passwords and constraints. Additionally, the Rule states that other controls will be established within the Business Office Procedures Manual. However, neither the Rule nor the College's Business Office Procedures Manual prescribe accounting and control procedures for EFTs, such as identifying locations where funds are allowed to be transferred, limits on amounts that can be transferred, and purposes for which transfers may be used. Also, neither the Rule nor the Business Office Procedures Manual address the use of electronic signatures when conducting electronic transactions with other entities.

While the College had informal controls over EFTs, the lack of specific guidance in the form of Board-approved written policies prescribing accounting and control procedures for EFTs increases the risk that electronic transactions will not be executed in accordance with Board directives and provisions of Chapter 668, Florida Statutes.

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**Recommendation:** The Board should enhance its written policies and procedures to prescribe accounting and control procedures for EFTs, including the use of electronic signatures.

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<b>Student Fees and Receivables</b>
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**Finding No. 3: Distance Learning Course and Other User Fees**

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Section 1009.23(16)(a), Florida Statutes, provides, in part, that each college may assess a per-credit-hour distance learning course user fee. For purposes of assessing this fee, a distance learning course is a course in which at least 80 percent of the direct instruction of the course is delivered using some form of technology when the student and instructor are separated by time or space, or both. Section 1009.23(16)(b), Florida Statutes, provides that the amount of the distance learning course user fee may not exceed the additional costs of the services provided that are attributable to the development and delivery of the distance learning course, and the college may not assess duplicate fees to cover the additional costs. Also, by September 1 of each year, each board of trustees must report to the Florida Department of Education, Division of Florida Colleges (DFC) the total amount of revenue generated by the distance learning course user fee for the prior fiscal year and how the revenue was expended.

Section 1009.23(12)(a), Florida Statutes, and State Board of Education Rule 6A-14.054(6), Florida Administration Code, provide that each board of trustees may establish user fees in addition to tuition fees for services that incur unusual costs. Such user fees may not exceed the cost of the services provided and may only be charged to the person receiving the service.

**Calculation of Distance Learning and Other User Fees**

During the 2012-13 fiscal year, the College assessed a \$25 per-credit-hour distance learning course user fee and collected fees totaling \$104,935. The College also assessed a \$15 and \$10.82 per-credit-hour user fee for two courses (D2L hybrid and technology enhanced courses), as those courses used an online learning management system, and user fees collected for 2012-13 fiscal year for these courses totaled \$114,582. Distance learning course and other user

fees assessed for the D2L hybrid and technology enhanced courses were based on estimated student enrollments and prior year costs of the College’s Instructional Technology and Distance Learning Department (Department). College personnel used a worksheet to allocate Department costs in calculating the distance learning course and other user fees assessed for the D2L hybrid and technology enhanced courses, as follows:

Type of Fee	Department Costs Allocated	Estimated Credit Hour Enrollment	Estimated Cost Per Credit Hour	Adjustments to Increase Fees	Per Credit Hour Fee Assessed
Distance Learning Course	\$ 43,991	2,500	\$ 17.60	\$ 7.40	\$ 25.00
User Fee - D2L Hybrid Course (1)	8,374	1,000	8.37	6.63	15.00
User Fee - Technology Enhanced Course (2)	27,698	3,000	9.23	1.59	10.82
	<u>\$ 80,063</u>				

Notes: (1) Courses where 50 to 79 percent or more of instruction takes place over the internet using the College's adopted online learning management system (LMS) where the student and faculty member are separated by time and space.  
 (2) Courses that use the College LMS but continue to meet in the traditional face-to-face format. The class uses online resources to add to student engagement in the course.

College records did not include a written analysis or other documentation evidencing the basis for the above adjustments to increase the costs per-credit-hour to the per-credit-hour user fees assessed. As such, College records did not evidence that the distance learning course user fee and other user course fees assessed for the D2L hybrid and technology enhanced courses were properly calculated and did not exceed the cost of services provided.

**Distance Learning Course Fees**

As required by Section 1009.23(16)(b), Florida Statutes, the College prepared a Distance Learning Course Fee Report (Report) and submitted the report to the DFC. According to the Report, distance learning course user fee revenues exceeded related expenditures for the 2012-13 fiscal year by \$52,628, as follows:

Distance Learning Course User Fees	
Revenues	\$ 104,935
Less Expenditures:	
Personnel Costs	19,683
Materials and Supplies	2,487
Software	30,137
Total Expenditures	<u>52,307</u>
Excess revenues of over expenditures	<u>\$ 52,628</u>

Our review of College records disclosed that distance learning course fee revenues and personnel expenditures were properly reported. The expenditures reported for software, and materials and supplies, were 100 percent of the materials and supplies and minor equipment expenditures of the College’s Instructional Technology & Distance Learning Department; however, only a portion of those expenditures were attributable to distance learning courses.

As discussed above, College personnel allocated Department costs between distance learning courses, D2L hybrid courses, and technology enhanced courses when calculating the user fees. Since only a portion of the Department’s costs were attributable to the distance learning courses, College records did not evidence that expenditures reported for software, and materials and supplies, for distance learning courses were reasonable and consistent with the additional costs of the services provided in the development and delivery of distance learning courses. Additionally, since the reported distance learning course fee revenue was significantly more than the distance learning course expenditures, the per-credit-hour distance learning course user fee assessed students during the 2012-13 fiscal year appears to exceed the additional costs of the services provided that are attributable to the development and delivery of distance learning courses, contrary to Section 1009.23(16)(b), Florida Statutes.

**User Fees**

College records indicated that reported user fee revenue for the D2L hybrid and technology enhanced courses exceeded the costs of services provided, as follows:

Other User Fees		
	Course	
	D2L Hybrid	Technology Enhanced
Revenues	\$ 30,840	\$ 83,742
Less: Expenditures	10,057	33,264
Excess revenues of over expenditures	\$ 20,783	\$ 50,478

Since the reported user fee revenue for the D2L hybrid and technology enhanced courses was significantly more than the course expenditures, the per-credit-hour course user fee assessed students during the 2012-13 fiscal year appears to exceed the additional costs of the services provided, contrary to Section 1009.23(12)(a), Florida Statutes, and State Board of Education Rule 6A-14.054(6), Florida Administration Code.

**Recommendation:** The College should enhance its procedures to ensure that distance learning course and other user fees do not exceed the costs of the services provided. Additionally, the College should improve its procedures for preparing the annual Distance Learning Course User Fee Report to ensure that only expenditures attributable to the development and delivery of distance learning courses are reported.

**Finding No. 4: Student Receivables**

Effective internal controls over accounts receivable require that the functions of accounts receivable record keeping and cash collections be separated, unless adequate compensating controls have been established. Such compensating controls may include, but are not limited to, the timely recording of collections to the accounts receivable general ledger control accounts and subsidiary ledgers (detailed listing), reconciliation of the subsidiary ledgers to the control accounts, and the preparation of bank reconciliations by persons independent of the accounts receivable and collection functions. The accuracy of these reconciliations should be reviewed and approved by supervisory personnel.

According to College records, accounts receivable totaled \$245,285 at June 30, 2013, which included student receivables totaling \$232,596. The same employee who maintained student receivable records also performed the incompatible duty of cash collections for student receivables. Our review of the College’s controls over accounts

receivable, and our test of 30 student receivables totaling \$51,612, disclosed that compensating control procedures were not functioning to mitigate this control weakness, as discussed below:

- College records did not demonstrate that the subsidiary ledger (detailed listing) of student receivables had been reconciled to general ledger control accounts or periodically reviewed during the 2012-13 fiscal year. College procedure Number 21.46, *Monthly Receivable Reconciliations*, provides that accounts receivable accounts must be reconciled monthly for accuracy and that the “Monthly Aging Report” must match the general ledger receivable accounts. The general ledger accounts receivable control accounts as of March 31, 2013, totaled \$3,055,347, which was \$2,342,827 more than the subsidiary ledger balances. College personnel indicated that the difference was the result of cash collections that were not posted to the control accounts in the accounting system due to coding errors and the combining of the subsidiary records for student receivable transactions of the Florida Keys College Campus Foundation, Inc., for student housing, with the College’s subsidiary records for student receivables. Subsequent to our inquiry on May 2, 2013, the College made adjusting entries, and the June 30, 2013, reconciliation of the general ledger accounts receivable control accounts to the subsidiary ledger indicated that the subsidiary ledger student receivables balance totaled \$229,252, which was \$3,344 less than the corresponding general ledger student receivables control account balance of \$232,596.
- College Procedure No. 25.0, *Indebtedness*, provides that academic holds were to be placed on the records of students with overdue outstanding receivable balances to prevent them from graduating or receiving an official College transcript, or re-enrolling at the College until amounts due are paid. Our test included 25 student receivables, totaling \$50,325, that were 91 days or more past due as of June 30, 2013. For 4 of the 25 student receivables, College records did not demonstrate that academic holds had been placed on the student’s records. Additionally, academic holds were placed on, or removed from, the records of students by employees of the College’s Business Office, Office of Enrollment Services, the Library, and the Financial Aid Office, without documented review or approval by supervisory personnel.
- College Procedures No. 21.42, *Billing Receivables* and No. 21.44, *Collections Placement* establishes accounts receivable collection procedures. Such procedures include the mailing of periodic billing invoices and referral to a collection agency after the third billing invoice for balances over \$10. For 9 of the 25 student receivables tested totaling \$50,325 that were past due 91 days or more as of June 30, 2013, College records did not demonstrate that collection procedures (such as billing invoices and referral to a collection agency) had been followed to collect the amounts due to the College. The receivable balances at June 30, 2013, for the 9 student receivables ranged from \$1,088 to \$1,669, totaling \$12,675.

Without adequate control procedures over student receivables, there is an increased risk that errors or fraud, should they occur, may not be detected in a timely manner. In addition, when established collection procedures are not followed, there is an increased risk that the College may not be able to collect amounts due from students. A similar finding was noted in our report No. 2012-076.

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**Recommendation:** The College should ensure that adequate separation of duties exists between the functions of maintaining student receivables and cash collections or otherwise provide for compensating controls. Also, the College should ensure that the general ledger and subsidiary accounts receivable records are reconciled and unidentified differences resolved timely, and that established collection procedures are followed for past due accounts. Additionally, the College should ensure that review and approval by supervisory personnel of academic holds placed on, or removed from, student records is documented.

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<b>Use of College Equipment and Facilities</b>
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**Finding No. 5: Rental Agreements**

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Board Rule No. 1.258, *Contractual Agreements Between Board Members*, establishes the Board as the contracting agency for the College, and Board Rule No. 3.320, *Use of College Facilities, Property, and Equipment*, provides that the Vice President

of Financial and Administrative Affairs is authorized to approve contracts related to the use of College facilities, property, and equipment. College Procedure No. 32.2 allows for contracting with noncollege groups that utilize College facilities and requires that noncollege groups have a fully executed *Contract for Use of College Facilities* form and pay rental charges prior to the scheduled use of the facilities.

During the 2012-13 fiscal year, facility rental fee income totaled \$225,593. The College entered into rental contracts with various vendors for the use of College facilities and equipment, including diver training facilities and equipment, food service facilities and equipment, classroom usage, office usage, and parking lot usage. Our review of 12 rental contracts for 6 vendors and the related collection of rental fees, totaling \$167,053, disclosed 3 contracts with payments totaling \$104,909, which did not require the payment of rental charges prior to the scheduled use of the facilities, contrary to College procedures. In these circumstances, when payments are not received prior to use of the facilities, there is an increased risk that the College may not receive all rental revenue to which it is entitled.

Similar findings were noted in our report Nos. 2010-156 and 2012-076.

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**Recommendation:** The College should improve its procedures to ensure that rental fees are collected prior to the use of facilities or equipment.

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**Finding No. 6: Use of Marine Watercraft**

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The College established written procedures for the use of College-owned boats. College Procedure No. 36.1, *Use of College Vessels*, provides that a Request for Use of College Research Vessel form (Request for Use Form) is to be completed by personnel requesting use of College-owned boats for class trips involving diving or marine-related courses to justify the trips' contributions to the College. The form provides information such as, the name of the person requesting the use, dates and times of use, destination, designated captain, purpose of use, crew list (including names of students), and an account number, if a gasoline credit card is requested. The request form must be approved by the appropriate dean for student or instructional purposes and by the dean of marine sciences or director of marine technology for insurance purposes before the boat can be used. Upon completion of the trip, the captain is required to complete the return checklist portion of the form, which includes a notation that the gas tank was filled. College Procedure No. 36.1 also requires the captain to maintain the boat log for each trip and that the log be secured on the boat at all times.

According to College personnel, there were six boats under the care of the Marine Engineering Department (Department) during the 2012-13 fiscal year that were used for water based training. Of the six boats, two were owned by the College, two were loaned to the Department by an employee of the Department, one was loaned by a student club, and one boat was loaned by the Florida Keys Educational Foundation, Inc., a College direct-support organization. Additionally, College personnel indicated that one boat was loaned to the Department from a marine salvage and towing company on two occasions during the 2012-13 fiscal year.

Our review of the College's use of boats and purchases of marine fuel during the 2012-13 fiscal year disclosed that improvements were needed in the controls over the operation and use of boats, as follows:

- Written contracts were not entered into for five boats loaned to the College for use by the Department. College personnel explained that the two boats owned by the Department employee were loaned to the marine program for class usage with the requirement that any fuel used or damage incurred was to be replaced by the College. Additionally, College personnel stated that the boat owned by a marine salvage and towing company was loaned to the College for class usage with the requirement that the College replace any fuel used. Written contracts serve to specify the terms of usage and would also define the important legal

responsibilities and obligations of the College and boat owners in the event of possible loss, damage, or personal injury during use of the boats.

- College records did not evidence that the College’s use of boats and related expenses incurred in the operation of the boats, served an authorized public purpose. College personnel indicated that the Request for Use Form was not used during the 2012-13 fiscal year to document the use of College-owned boats, contrary to College procedures. Instead, individual boat usage logs were maintained to document the usage of College-owned boats. Our review of those usage logs disclosed that the logs did not provide for a request and approval for usage, did not list the crew and passenger names, and usually did not show the purpose of usage. Additionally, for boats loaned to the College, records did not document the request for use, approval, dates, times, destination, designated captain, purpose of use, crew list (including names of students), and fuel expense. Absent this information there is an increased risk that the use of these boats may not serve a valid public purpose, and in the event of a loss, damage, or personal injury, the College may not have relevant information to support a potential insurance claim.
- The Department’s boat fuel expense totaled \$2,560 for the 2012-13 fiscal year. Our review of 13 fuel purchases, totaling \$1,721, disclosed that College records consisted of replacement receipt forms indicating that the original receipts were lost. The replacement receipt forms for 9 of the 12 fuel purchases reviewed, totaling \$1,497, for water based boats did not show which boats the fuel was purchased for or the basis for the amounts of fuel purchased. Absent original purchase receipts and documentation showing which boats the fuel was purchased for, College records did not evidence that the fuel purchases served a valid public purpose and were reasonable.

**Recommendation:** The College should ensure that the terms and conditions for boats loaned to the College for use by the Marine Engineering Department are supported by written contracts. Additionally, the College should enhance controls over the use of boats and related fuel purchases to evidence that such use and purchases serve an authorized College public purpose.

**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 IT resources based on a demonstrated need to view, change, or delete data and restrict employees from performing incompatible functions or functions inconsistent with their assigned job responsibilities. For example, access privileges should typically be configured to enforce a separation of IT and application end-user duties whereby only the responsible end-users can originate or correct transactions and initiate changes to data files and IT employees are restricted from performing end-user functions. Periodic reviews of IT access privileges are necessary to ensure that employees can only access IT resources that are necessary to perform their assigned job responsibilities and that the assigned access privileges enforce an appropriate separation of incompatible responsibilities.

Our audit test of selected access privileges to the finance, human resources, and financial aid applications, and the supporting database, disclosed some access privileges that were unnecessary or that permitted employees to perform incompatible functions. Specifically:

- One Business Office employee and one employee within the Quality Enhancement Program had update access to most transactions within the human resources module through a system-delivered class (grouping of access privileges). These access privileges were unnecessary to their assigned job responsibilities.

- Two Human Resources department employees had update access to most transactions within the human resources module through a system-delivered class. These access privileges were incompatible to their job responsibilities.
- Two IT Department staff had application update access rights within the finance and human resources modules in addition to access assigned for technical support of the application environment including system, database, and network administration. Further, the College did not monitor the system activity of these employees. These access privileges were incompatible to their assigned job responsibilities.

Although College personnel indicated that limited reviews of user access privileges were performed, the College had not developed written policies or procedures to provide for the periodic review of employee access privileges.

While our tests did not disclose any instances of errors or fraud, the existence of inappropriate or unnecessary access privileges noted above indicated a need for improved review of access privileges and increased the risk of unauthorized disclosure, modification, or destruction of College data and IT resources. A similar finding was noted in our report No. 2012-076.

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**Recommendation:** The College should modify access privileges assigned to employees to ensure that the privileges enforce an appropriate separation of IT and application end-user duties. In addition, the College should develop written policies and procedures providing for the periodic review of employee access privileges and timely remove any inappropriate or unnecessary access privileges detected.

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#### **Finding No. 8: Risk Assessment**

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Management of IT-related risks is a key part of enterprise IT governance. Incorporating an enterprise perspective into day-to-day governance actions helps an entity understand its greatest security risk exposures and determine whether planned controls are appropriate and adequate to secure IT resources from unauthorized disclosure, modification, or destruction. IT risk assessment, including the identification of risks and the evaluation of the likelihood of threats and the severity of threat impact, helps support management's decisions in establishing cost-effective measures to mitigate risk and, where appropriate, formally accept residual risk.

Our review of the College's IT risk assessment document and practices disclosed that the risk assessment had not been updated since 2002 and recommendations made in the 2002 risk assessment had not been addressed for likely threats and vulnerabilities to IT resources. For example, the IT risk assessment disclosed that the College did not have a process in place for implementing new security standards and maintaining existing security standards, and security standards had not been established based on the results of the 2002 IT risk assessment activities. The absence of a current IT risk assessment may limit the College's assurance that all likely threats and vulnerabilities have been identified, the most significant risks have been addressed, and appropriate decisions made regarding which risks to accept and which risks to mitigate through security controls. A similar finding was noted in our report No. 2012-076.

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**Recommendation:** The College should update its IT risk assessment and ensure that identified IT risks are promptly addressed to manage identified threats and vulnerabilities to IT resources.

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#### **Finding No. 9: Security Incident Response Plan**

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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 and provisions for

training designated staff in incident response, notification to affected parties, and incident analysis and assessment of additional actions needed.

The College did not have 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 could result in the College’s failure to take appropriate and timely actions to prevent further loss or damage to the College’s data and IT resources. A similar finding was noted in our report No. 2012-076.

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

**PRIOR AUDIT FOLLOW-UP**

The following table provides information on recurring audit findings for the College:

Current Fiscal Year Finding Numbers	Preceding Fiscal Year Audit Report and Finding Numbers	Second Preceding Fiscal Year Audit Report and Finding Numbers
1	2012-076, Finding No. 1	NA
4	2012-076, Finding No. 6	NA
5	2012-076, Finding No. 10	2010-156, Finding No. 8
7	2012-076, Finding No. 11	NA
8	2012-076, Finding No. 13	NA
9	2012-076, Finding No. 15	NA

NA – Not Applicable

**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 2013 to October 2013 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, safeguarding of assets, and identifying weaknesses in those controls.
- Determine whether management had taken corrective actions for findings included in our report No. 2012-076.

- 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 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 records and transactions occurring during the 2012-13 fiscal year. Unless otherwise indicated in this report, these records and transactions were not selected with the intent of 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) access privileges and separation of duties.	Reviewed procedures for maintaining and reviewing access to IT resources. Tested selected access privileges over the finance, human resources, and financial aid modules 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.
Deactivation of employee IT access.	Reviewed procedures to prohibit former employees' access to electronic data files. Tested access privileges for former employees to determine whether their access privileges had been timely deactivated.
IT disaster recovery plan.	Determined whether a comprehensive IT disaster recovery plan was in place and had been recently tested.
IT risk management and assessment.	Determined whether a written, comprehensive IT risk assessment had been developed to document the College's risk management and assessment processes and security controls intended to protect the confidentiality, integrity, and availability of data and IT resources.
IT security incident response.	Reviewed the College's written policies and procedure, plans, and forms related to security incident response and reporting.
IT user authentication and account management.	Reviewed supporting documentation to determine whether authentication controls were configured 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).
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.
Fund equity controls.	Determined whether the unencumbered balance in the unrestricted current fund of the Board of Trustees' approved operating budget was below five percent at June 30, 2013, and if so, whether the College notified the Florida Department of Education, as required by Section 1011.84(3)(e), Florida Statutes.
Cash management.	Reviewed bank account reconciliations from July 2012 through June 2013 to determine whether they were properly and timely prepared. Also determined whether reconciling items were adequately documented and promptly resolved.
Qualified public depositories.	Determined whether deposits of College moneys were secured in a qualified public depository, unless exempted by law, as required by Section 280.03, Florida Statutes.
Investments.	Determined whether the Board established investment policies and procedures as required by Section 218.415, Florida Statutes, and whether investments during the fiscal year were in accordance with those policies and procedures.

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

Scope (Topic)	Methodology
Student receivables.	Determined whether student receivables were properly authorized, adequately documented, and properly recorded. Determined adequacy of collection efforts and whether uncollectible accounts written-off were properly approved. Determined whether restrictions on student records and holds on transcripts and diplomas were adequate and enforced for delinquent accounts.
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.
Assessing, calculating, collecting, cancelling, recording, and supporting student fees.	Tested student fees to verify the authority for student fees assessed; the accuracy of calculations of fees assessed; the proper collection of late fees, if appropriate; the issuance of a receipt; and the deposit of collections to the central cashier's records. Also, tested to verify that registration was cancelled if the fees were not paid when due, that student status and residency was supported, and that deferred fees were recorded as a receivable.
Distance learning fees.	Determined whether distance learning fees were assessed and collected as provided by Section 1009.23(16)(b), Florida Statutes.
Recreational and leisure course fees.	Reviewed the College's procedures regarding the assessment of recreational and leisure course fees. Tested recreational and leisure course fees and examined supporting documentation to determine whether the College properly calculated these fees.
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.
Continuing workforce education course fees.	Reviewed the College's procedures regarding the assessment of continuing workforce education course fees. Tested continuing workforce education course fees to determine whether they were assessed only to students who received the services and examined supporting documentation to determine whether the College properly calculated these fees.
Student fee deferments.	Tested students receiving deferments to determine whether the fees were paid and whether students who failed to pay their fees in an approved manner were not reported for funding purposes.
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.

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

Scope (Topic)	Methodology
Faculty hours.	Tested full-time faculty, to determine whether they maintained office hours available to students in accordance with Board policy and taught the minimum hours required by Section 1012.82, Florida Statutes, or were assigned alternative responsibilities.
Terminal pay.	Reviewed the College’s policies and procedures for terminal pay to ensure consistency with Florida law. Tested former employees to determine appropriateness of terminal pay.
Severance pay.	Reviewed severance pay provisions in selected contracts 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.
Presidents’ compensation.	Determined whether the President’s compensation was in accordance with Florida law, rules, and Board policies.
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 travel expenses to determine whether the travel expenses were reasonable, adequately supported, for valid College purposes, and limited to amounts allowed by Florida law.
Contractual agreements.	Determined whether contractual services were supported by Board-approved contracts. Also, examined and tested the aforementioned contracts to ensure that they were properly awarded and executed, that contract terms were adequately supported, and that vendors carried adequate insurance.
Purchasing agreements/State contracts.	Determined whether the Board adopted policies to ensure compliance with Section 1001.64, Florida Statutes, requiring the use of purchasing agreements and State term contracts pursuant to Section 287.056, Florida Statutes, or entered into consortia and cooperative agreements to maximize purchasing power for goods and services.
Construction administration.	For selected major construction projects, tested payments and supporting documentation to determine compliance with College policies and procedures and provisions of laws and rules. Also, for construction management contracts, determined whether the College monitored the selection process of architects and engineers, construction managers, and subcontractors by the construction manager. For selected construction projects, reviewed supporting documentation evidencing procedures used by the College when considering direct material purchases.

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

Scope (Topic)	Methodology
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.
Insuring architects and engineers.	Determined whether the Board had adopted a policy establishing minimum insurance coverage requirements for design professionals, such as architects and engineers. Examined recent construction projects to determine whether architects and engineers provided evidence of the required insurance.
Electronic funds transfers and payments.	Reviewed College policies and procedures related to electronic funds transfers and payments. Tested supporting documentation to determine whether selected electronic funds transfers and payments were properly authorized and supported.
Direct-support organizations.	Tested payments, transfers, and loans between the College and its campus housing direct-support organization to determine the legal authority of such payments.
Direct-support organizations – conflicts of interest.	Determined whether the College had established policies and procedures to avoid potential conflicts of interest with vendors who were doing business with the College and made donations to the College’s direct-support organizations.
Use of College facilities.	Tested facility rentals on campus and reviewed the supporting documentation to determine compliance with College policies and procedures for facility-use agreements, proof of insurance, and rental payments.
Use of marine watercraft.	Reviewed College records and procedures surrounding the use of marine watercraft.
Use of resources held for others.	Determined whether cash held by the College as custodian or fiscal agent for others was used by the College for other purposes.

EXHIBIT B  
MANAGEMENT'S RESPONSE



December 16, 2013

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

Re: Florida Keys Community College Operational Audit for the Fiscal Year Ended June 30, 2013

Dear Mr. Martin:

Florida Keys Community College has reviewed the preliminary and tentative findings and recommendations in the operational audit for the fiscal year ended June 30, 2013. The following is the College's response:

**CASH MANAGEMENT**

<b>Finding No. 1:</b> The College's controls relating to bank account reconciliations needed improvement.
<b>College's Response No 1:</b> The College has taken steps to resolve the system problems which complicated the timely completion of bank reconciliations last fiscal year. The staff person responsible for the bank reconciliations has received training and assistance to improve the timeliness and accuracy. The bank reconciliations for the current fiscal year are current and reconciliation items have been reduced. In addition, bank activity is being monitored daily to ensure timely processing of receivables, monitoring of accounts activity and timely completion of the bank reconciliations.

**BOARD POLICIES**

<b>Finding No. 2:</b> The Board needed to enhance its written policies and procedures relating to electronic funds transfers.
<b>College's Response No 2:</b> While the College has had no occurrence of fraud or any other type of issue cited in the audit, the College will revise its policy and procedures to address the concerns raised in the audit. A listing of all electronic activity is presented to the Board of Trustees on a monthly basis for their review and approval.

**STUDENT FEES AND RECEIVABLES**

<b>Finding No 3:</b> The College needed to enhance its procedures for assessing and reporting distance learning course and user fees.
<b>College Response No 3:</b> The Assistant Controller has met with the Director of Academic Affairs to review all expenditures associated with the Distance Learning Program. The supporting documentation has been revised to reflect any changes to expenditures resulting in an adjustment to the Distance Learning and Hybrid Fees accordingly. Recommended changes have been presented to the Board of Trustees for approval. These fees will continue to be monitored to ensure any changes are properly reflected and appropriate fees are assessed.

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

<p><b>Finding No. 4:</b> The College’s controls over student accounts receivable needed improvement.</p>
<p><b>College Response No 4:</b> The College has taken steps to resolve the system problems which complicated the reconciliation of student accounts receivable accounts.</p>
<ul style="list-style-type: none"> <li>➤ The College has obtained personnel with experience in reconciling the accounts receivable account in the Banner operating system between the general ledger and accounts receivable modules. These accounts are reviewed on a monthly basis. Some reconciliation issues relate to issues created in prior fiscal years. These are being addressed and the current accounts are reconciled on a term by term basis.</li> </ul>
<ul style="list-style-type: none"> <li>➤ The College has policies regarding the placement of holds on student accounts for various reasons. The system has been changed to only allow Business Office staff to remove any holds initiated by the Business Office. Supervisory approval for the removal of non-Business Office holds is situation dependent. The requirement of a supervisory approval to remove some of these holds is not always feasible due to our staffing structure and the nature of the account hold. The cost of staffing to solve this issue far outweighs the benefits that will be derived. In addition, expiration dates have been added to eligible deferment holds to eliminate manual intervention in their removal.</li> </ul>
<ul style="list-style-type: none"> <li>➤ The College has improved collection processing and has provided training for the personnel responsible for placing accounts into collections.</li> </ul>

**USE OF COLLEGE EQUIPMENT AND FACILITIES**

<p><b>Finding No. 5:</b> The College needed to improve procedures to ensure that rental charges are collected prior to the use of equipment or facilities.</p>
<p><b>College Response to No. 5:</b> The College requires payment in advance for the use of its facilities and equipment for most vendors. Two vendors, NOAA (government agency) and RYCAM (government affiliated contractor) account for the majority of the \$104,909 cited in the audit report. These governmental agencies, similarly to the College, are not allowed to prepay for services. The College has had rental arrangements with these entities in excess of five years. NOAA issues a certificate of award, approves the College’s rental agreement and has always paid their fees in a timely manner once the service period ended. RYCAM completes a letter of intent, memorandum of understanding and signs the facility rental agreement prior to the use of the facilities. They have always paid their rental fees as soon as their funds are disbursed by the Army Corps of Engineers. The College has revised its procedure to allow these types of agencies the ability to pay once services are completed. Due to the nature of these rentals, the college has little exposure for cost reimbursement. This is the same courtesy extended to the College by its vendors. Additionally, the revenue provided by these vendors is significant to the institution.</p>

<p><b>Finding No 6: The College needed to improve procedures regarding the use of marine watercraft.</b></p>
<p><b>College Response No 6:</b> The College concurs with the finding and will ensure that the terms and conditions for boats loaned to the College for use by the Marine Engineering Department are supported by written contracts. Additionally, the College will enhance controls over the use of boats and related fuel purchases to evidence that such use and purchases serve an authorized College public purpose. To accomplish this effort, the College will uphold all policies and procedures; including but not limited to, College Procedure No. 36.1 <i>Use of College Vessels</i> and College Procedure No. 23.5 <i>Purchasing Directives &amp; Procedures</i>. The College has developed Board Rule 1.570 <i>Procurement Policy</i>, which provides guidance regarding contracts related to the acquisition of commodities and services. The Marine Engineering Department is in the process of hiring new full-time faculty, as a result of the separation from the college of two full-time faculty, who failed to follow the aforementioned College procedures. All full-time and part-time Marine Engineering faculty will be required to acknowledge, in writing, that they have read and understand these policies and procedures.</p>

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

**INFORMATION TECHNOLOGY**

**Finding No 7:** Some inappropriate or unnecessary information technology (IT) access privileges existed indicating a need for an improved review of access privileges. In addition the College had not developed written policies and procedures for the annual review of user access privileges.

**Response No 7:** FKCC's Director of Information Technology will conduct a review of all employees' BANNER access privileges. With the assistance of FKCC's BANNER super users group the Director will document which positions have BANNER access and what privileges are needed for each position. The IT Director will create a report/dashboard to monitor each employee's BANNER access privileges.

**Finding No 8:** The College's IT risk assessment practices needed improvement.

**Response No 8:** The College has created a Network Security Administrator position and is in the hiring process. Once hired, facilitating risk assessment and updating documentation will be the main priority of the administrator. FKCC's Director of Information Technology will ensure that identified IT risks are promptly addressed to manage identified threats and vulnerabilities to IT resources.

**Finding No 9:** The College had not developed a written IT security incident response plan.

**Response No 9:** FKCC's Director of Information Technology will create a security incident response plan.

Please advise if you have any questions regarding the response.

Sincerely,



Jonathan Gueverra

President & CEO

Copy: Jean Mauk, Vice President Business and Administrative Service  
Robert Stoky, Chair District Board of Trustees