

FLORIDA STATE COLLEGE AT JACKSONVILLE

Operational Audit



BOARD OF TRUSTEES AND PRESIDENTS

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

	<u>County</u>
Gwendolyn Yates, Vice Chair to 9-30-12, Chair from 10-1-12 (1)	Duval
Candace T. Holloway, Vice Chair from 10-1-12	Nassau
James E. McCollum to 12-31-12, Chair to 9-30-12 (2)	Nassau
Bruce E. Barcelo to 5-31-13, Vice Chair from 12-4-12 to 5-31-13 (3) (4)	Duval
Major General Douglas Burnett, (Ret.) to 11-21-12, Vice Chair from 10-1-12 to 11-21-12 (4) (5)	Duval
Suanne Z. Thamm to 5-31-13, Vice Chair to 9-30-12	Nassau
Karen E. Bowling	Duval
Thomas A. Bryan from 12-3-12 (5)	Duval
Rear Admiral Kevin F. Delaney, USN (Ret.) to 11-1-12 (6)	Duval
Thomas J. Majdanics from 6-1-13	Duval
Jim L. Mayo from 5-31-13 (2)	Nassau
Thomas R. McGehee, Jr.	Duval
Randle P. Shoemaker-Crump from 12-3-12 (6)	Duval
Dr. Patricia F. White from 6-1-13	Nassau

Dr. Steven R. Wallace, President to 12-31-12
Dr. Judith H. Bilsky, Acting President from 1-1-13 to 1-21-13
Dr. Willis N. Holcombe, Interim President from 1-22-13

- Notes: (1) Board member served beyond the end of term,
May 31, 2013.
- (2) Board member resigned on December 31, 2012,
and position remained vacant until replaced
on May 31, 2013.
- (3) Vice Chair position remained vacant from
June 1, 2013, through June 30, 2013.
- (4) Vice Chair position remained vacant from
November 22, 2012, through December 3, 2012.
- (5) Board member resigned on November 21, 2012,
and position remained vacant until replaced
on December 3, 2012.
- (6) Board member resigned on November 1, 2012,
and position remained vacant until replaced
on December 3, 2012.

The Vice Chairs serve with equal rank and status on the Board. The purpose of the dual office is to assure leadership representation from each of the two counties served by the College.

The audit team leader was Lenia Blades, and the audit was supervised by Randy R. Arend, CPA. Please address inquiries regarding this report to James R. Stultz, CPA, Audit Manager, by e-mail at jimstultz@aud.state.fl.us or by telephone at (850) 412-2869.

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

FLORIDA STATE COLLEGE AT JACKSONVILLE

EXECUTIVE SUMMARY

Our operational audit disclosed the following:

BOARD POLICIES

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

PERSONNEL AND PAYROLL

Finding No. 2: The College provided enhanced separation benefits totaling \$100,826 to 18 former College employees that were contrary to Section 215.425, Florida Statutes.

Finding No. 3: The College paid \$215,236 in excess of the amount allowed by Florida law to settle an employment dispute with a former administrative employee.

Finding No. 4: The College did not properly calculate terminal payments and related benefits for certain College personnel.

Finding No. 5: The College, for certain employees, incorrectly calculated the taxable value for personal use of employer-provided vehicles required to be reported as part of gross income pursuant to Internal Revenue Service guidelines. In addition, a former administrative employee was provided a leased vehicle on a full-time basis without authority.

CONTRACT ADMINISTRATION

Finding No. 6: The College needed to enhance controls over payments for contractual services.

STUDENT ENROLLMENT

Finding No. 7: The College needed to strengthen its controls to ensure the accurate reporting of instructional contact hours for adult general education classes to the Florida Department of Education.

CONFIDENTIAL INFORMATION

Finding No. 8: The College did not always provide written notification to individuals when their social security numbers were collected, contrary to Section 119.071(5)(a), Florida Statutes.

BACKGROUND

Florida State College at Jacksonville (College) is under the general direction and control of the Florida Department of Education, Division of Florida Colleges, and is governed by State law and State Board of Education rules. A board of trustees (Board) governs and operates the College. The Board constitutes a corporation and is composed of nine members appointed by the Governor and confirmed by the Senate. The College President serves as the executive officer and the corporate secretary of the Board, and is responsible for the operation and administration of the College.

The College has campuses in Jacksonville, Florida, and centers located in Jacksonville and Yulee, Florida. Additionally, credit and noncredit classes are offered in public schools and other locations throughout Duval and Nassau Counties. The College reported enrollment of 22,695 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

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, \$47 million of electronic funds transfers (EFTs) were made during the 2012-13 fiscal year for transactions such as employee payments, retirement payments, investment transactions, and interbank transfers. Board Rule 6Hx7-4.10, *Electronic Transfer of Funds*, authorizes the President to develop or cause to be developed, procedures for EFTs. However, the Rule does not prescribe accounting and control procedures for payments by EFTs or address the use of electronic signatures when conducting electronic transactions with other entities. While the College had established 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 enhance its written policies to prescribe accounting and control procedures for electronic funds transfers, including the use of electronic signatures.

Personnel and Payroll

Finding No. 2: Severance Pay – Enhanced Separation Benefits

Section 215.425(4)(a), Florida Statutes, provides that on or after July 1, 2011, a unit of government that enters into an employment agreement that contains a provision for severance pay must include a provision in the employment agreement that precludes severance pay from exceeding 20 weeks of compensation. Section 215.425(4)(b), Florida Statutes, provides that an employee or contractor may receive severance pay that is not provided for in an employment agreement if the pay represents the settlement of an employment dispute and the amount does not exceed six weeks of compensation.

The Board established Rule 6Hx7-4.24, *Pay Plan*, that provides if a College-wide reorganization eliminates positions, enhanced separation benefits may be approved by the Board in exchange for a voluntary resignation and execution of a comprehensive waiver and settlement of potential claims. Such enhanced separation benefits may include, among other things, up to four months of extended health insurance coverage and a maximum of two months base salary.

On April 9, 2013, the Board approved an administrative reorganization of the College, including approval to offer enhanced separation benefits to assist and encourage employees whose positions were being eliminated to voluntarily resign or retire. The College paid \$100,826 to 18 employees that accepted the enhanced separation benefits offered by the College. Our review of the College's administration of enhanced separation benefits disclosed the following:

- College personnel recommended that the Board approve enhanced separation benefits based on the College's prior experience with offering such benefits and to avoid expending resources on potential litigation.

However, College records did not evidence whether the estimated costs of the potential litigation exceeded the estimated costs of the enhanced separation benefits being offered. In these circumstances, College records did not evidence the enhanced separation benefits were economically advantageous to the College.

- For the 18 employees that accepted the enhanced separation benefits, the College paid a total of \$41,040 in health care coverage and \$59,786 in salary for the enhanced separation benefits. In response to our inquiries, College personnel advised us that enhanced separation benefits were available only after an eligible employee executed a full waiver and settlement agreement to resolve all potential legal claims, thereby complying with Section 215.425, Florida Statutes. However, absent an enforceable employment agreement vesting employees with the right to receive severance pay or the existence of a bona fide employment dispute settlement, such payments are contrary to Section 215.425(4), Florida Statutes. Additionally, the Board's action under its *Pay Plan* of providing for enhanced separation benefits is contrary to law in that it allows for severance payments that exceed the limitations prescribed by Section 215.415(4), Florida Statutes.

Recommendation: The College should ensure that future severance payments comply with the requirements of Section 215.425, Florida Statutes. Additionally, the Board should revise its policy to be consistent with the provisions of Section 215.425(4), Florida Statutes.

Finding No. 3: Severance Pay – Settlement of Employment Dispute

Section 215.425(4)(b), Florida Statutes, provides that an employee or contractor may receive severance pay that is not provided for in a contract or employment agreement if the pay represents the settlement of an employment dispute and the amount does not exceed six weeks of compensation.

On June 5, 2012, the Board approved two-year appointments for senior management personnel based on recommendations by the former President. On October 2, 2012, pursuant to recommendations derived from a study commissioned by the Board, the Executive Vice President position was eliminated. The Executive Vice President filed suit against the College on October 24, 2012, for breach of contract and breach of duty of good faith and fair dealing based on the elimination of his position while under contract. The Executive Vice President was terminated without cause on November 7, 2012.

Following lengthy negotiation, the Board approved entering into a settlement and general release agreement on November 12, 2013, with the former Executive Vice President to pay \$238,031 to the former Executive Vice President and \$207,224 to his legal counsel for fees. Documentation presented to the Board for approval of the settlement indicated the settlement was in the College's best interest considering the Board's approval of a two-year appointment on June 5, 2012. In the settlement of this employment dispute, the Board noted that this settlement was consistent with the practices and procedures utilized by the College and other educational institutions in Florida and the events surrounding the College and its administration during this period. Because the former Executive Vice President's employment contract did not include a provision for severance pay and the \$238,031 payment was for the settlement of an employment dispute, the amount paid to the former Executive Vice President was subject to the provisions of Section 215.425(4)(b), Florida Statutes. While the settlement may have been deemed by the Board to be in the College's best interest, the former Executive Vice President was paid \$215,236 in excess of six weeks of compensation, contrary to the limitations provided in law.

Recommendation: The College should ensure that future severance payments for employment disputes comply with Section 215.425(4), Florida Statutes.

Finding No. 4: Termination Payments

Section 1012.865(2)(d), Florida Statutes, permits colleges to provide terminal pay for accumulated unused sick leave to full-time instructional staff and educational support employees to be paid out at various percentages (35 to 100 percent) based on years of service. Section 1012.865(2)(e), Florida Statutes, permits colleges to provide terminal pay for accumulated unused sick leave to any employee other than instructional staff or educational support employees, and such terminal pay may not exceed an amount equal to one-fourth of the employee's unused sick leave or 60 days of the employee's pay, whichever amount is less, for unused sick leave accumulated on or after July 1, 2001.

Board Rule 6Hx7-3.63, *Benefit Day*, provides for senior management class employees to earn benefit days based on the number of months of employment in senior management class. Benefit days represent a type of deferred compensation that are paid only when an employee terminates employment with the College, although eligible employees may elect to withdraw an amount up to 28 percent of a tax year's increase in accrued benefit value to meet individual tax obligations. However, termination payouts are reduced by the amount of any such withdrawals.

Board Rule 6Hx7-3.51, *Retirement*, provides, in part, that as permitted by Section 121.055, Florida Statutes, members of the senior management service class may elect to withdraw from the Florida Retirement System and participate in an Optional Retirement Program and, for those employees participating in the Optional Retirement Program, the College will contribute an amount equal to 10.6 percent of the employee's base salary.

The College reported disbursements for terminal pay, including annual leave, sick leave, and benefit days, totaling approximately \$1.5 million for the 2012-13 fiscal year. Our test of terminal pay disbursements for ten former employees totaling \$767,653 disclosed the following:

- The former President's contract provided, in part, for the accrual of vacation leave without limitation and, at his discretion, the option to convert any accrued vacation leave to compensation at the President's then current per diem rate at the time of conversion. In September and October 2012, the former President requested and received payments totaling \$336,777 for 2,052 hours of vacation leave; however, subsequent to the payments, College personnel determined that not all leave forms had been submitted and noted errors in the leave system in recording of accrued vacation leave that resulted in an overstatement of 198 hours of unused vacation leave, that resulted in an overpayment of \$32,496. In response to our inquiries, College personnel indicated the 198 hours of vacation leave was recovered by applying future vacation leave accruals against the overpayment until the debt was satisfied.
- College procedures provide for overtime pay and compensatory time at one and one-half times the rate of pay or hours worked for employee positions classified as non-exempt under the Fair Labor Standards Act (FLSA) guidelines. In addition, professional employees and administrators that are exempt from FLSA guidelines, other than those designated as senior management, are eligible for stipends for additional assigned duties and responsibilities. College personnel determined that the former President, who is considered a senior management service class employee, had accrued and taken 172.5 days of compensatory time over his 15 years as President; however, compensatory time for senior management personnel is not provided for in College procedures and was not provided for in the former President's contract. According to College records, the former President's use of compensatory time resulted in overpayments totaling approximately \$160,000 to the former President. As of December 6, 2013, the matter involving the unauthorized compensatory time was being investigated by the Florida Department of Law Enforcement and the State Attorney's Office.
- Pursuant to Section 121.021(22)(c), Florida Statutes, any public funds paid by an employer into an employee's deferred compensation or tax-sheltered annuity program on or after July 1, 1990, shall be considered a fringe benefit and shall not be treated as compensation for retirement purposes. Contrary to this provision, the College overpaid three senior management service class employees' Optional Retirement Program annuity accounts by \$7,060 because contribution calculations incorrectly included benefit day (deferred)

compensation in addition to the employee's base salary. College personnel subsequently requested refunds of the overpayments and received \$6,123 from two of the former employees. In response to our inquiries, College personnel indicated that a refund of the remaining \$937 overpayment would be requested.

- A senior management service class employee was overpaid \$5,069 for unused sick leave because College personnel calculated the payment as if the employee was an educational support employee rather than limiting the payment to one-fourth of the unused sick leave earned after July 1, 2001, that is applicable to senior management service class employees. In response to our inquiries, College personnel indicated that they requested a refund of the overpayment on November 6, 2013.
- The College underfunded a senior management service class employee's Optional Retirement Program annuity account by \$2,416 because the calculation of the employer contribution did not take into account payment to the employee for unused vacation leave. In response to our inquiries, College personnel indicated that the \$2,416 would be paid to the annuity account.
- A senior management service class employee was overpaid by \$1,848 because the benefit day payment was not reduced by previous withdrawals made to meet the employee's tax obligations contrary to Board Rule 6Hx7-3.63. In response to our inquiries, College personnel indicated that a refund of the overpayment had been requested, but had not been received.
- A full-time instructional staff employee was overpaid \$1,723 for unused sick leave because College personnel calculated the terminal payment using 92.5 percent rather than the maximum 90 percent authorized by Section 1012.865(2)(d), Florida Statutes, based on the employee's 26 years of service. In response to our inquiries, College personnel indicated that they requested a refund of the overpayment on November 6, 2013.
- The College did not always calculate benefit day payments consistently for the benefit day earned in the final month of employment. College personnel indicated that the benefit day for the final month of employment should only be earned after employment for more than one-half the working days in the month. However, we noted that one employee was overpaid \$760 for the benefit day in the final month of employment because he was employed for less than half the month. In addition, we noted another employee that was underpaid \$118 because the benefit day earned in the final month of employment was calculated on a prorated basis based on the number of days employed in the month although the individual was employed for more than one-half the month and should have been compensated for the entire benefit day.

In response to our inquiries, College personnel indicated that the leave record and termination payment errors resulted from employee oversights. An independent verification of terminal leave calculations prior to making payments would reduce the risk of errors or fraud in subsequent payments for accrued leave.

Recommendation: The College should enhance procedures to ensure that payments for accrued leave are calculated in accordance with Board policies and State law. These procedures should include proper training for employees responsible for calculating leave payments and an independent verification of the calculation for accrued leave prior to making such payments. Additionally, the College should continue its efforts to recover the overpayments from former employees as allowed by law.

Finding No. 5: Personal Use of College Vehicles

United States Treasury Regulation 1.61-21(a) provides that an employee's gross income includes the fair market value of any fringe benefits not specifically excluded from gross income by another provision of the Internal Revenue Code. The personal use of an employer-provided vehicle (i.e., driving the vehicle to and from the employee's residence) is a fringe benefit that must be included in the employee's gross income as compensation for services, unless otherwise excluded.

The College calculated the fair market value (FMV) of the personal use of employer provided automobiles using the annual lease value (ALV) calculation provided in the automobile lease valuation rule set forth in United States

Treasury Regulation 1.61-21(d). This Regulation provides, in part, that once an ALV is determined it shall remain in effect for a four-year period and, if the vehicle is available to an employee for at least 30 continuous days but less than an annual reporting period, the ALV should be prorated based on the number of days available during the annual period divided by 365. However, business use may be excluded from gross income if substantiated by an account book, diary, log, statement of expense, trip sheet, or similar record maintained by the employee that documents the date, mileage, and purpose of each business use of the vehicle.

The College provided leased vehicles on a full-time (24-hour) basis to two employees, the former President and the former Executive Vice President, both of whom drove the vehicles home overnight. At the end of each calendar year, the employees each provided a memorandum to the College that included a description of the vehicle used, beginning and ending odometer readings, and personal miles driven. Business use miles were considered to be the difference between total miles and personal miles.

Our review of the memorandums, the College's calculations of the related taxable benefits for the 2012 calendar year, and the College's administration of employer-provided vehicles, disclosed the following:

- The College did not require that the former President and former Executive Vice President substantiate business use of the leased vehicles. Rather, any use that the employee did not self-report as personal use was assumed to be business use for reducing the reportable taxable benefit. However, United States Treasury Regulation Section 1.132-5(c)(2) requires that the substantiation requirements of Internal Revenue Code Section 274(d), as implemented by United States Treasury Regulation Section 1.274-5T(e)(2), be satisfied by adequate records or sufficient evidence corroborating the employee's own statement to exclude business use from gross income. Thus, claimed business use totaling \$9,674¹ (\$7,760 for the former President and \$1,914 for the former Executive Vice President) was not substantiated for the two employees, contrary to the Internal Revenue Code.

Our review disclosed several other College actions that potentially resulted in under or over statements of taxable value of the former President's and former Executive Vice President's gross incomes. These included not using the applicable ALVs for 4-year periods for the former President's and former Executive Vice President's leased vehicles, contrary to the Internal Revenue Code; incorrectly using the full-year ALV for the former Executive Vice President's leased vehicle, rather than using a prorated ALV based on the number of days he worked during the 2012 calendar year as provided in United States Treasury Regulation 1.61-21(d); incorrectly reducing the FMV of the former President's and former Executive Vice President's leased vehicles contrary to United States Treasury Regulation 1.61-21(d); and incorrectly calculating taxable benefits for personal use of fuel for the former Executive Vice President's leased vehicle. As a result of the above calculation errors², the gross income for the 2012 calendar year was potentially over reported by \$1,467 and under reported \$2,075 for the former President and former Executive Vice President, respectively.

- Board Rule 6Hx7-2.3, *General Powers, Duties and Responsibilities of the President*, provided that any non-college use over 15 percent of annual miles driven would be reimbursed to the College. In June 2013, subsequent to audit inquiries, the College determined the amount due for excess non-college miles driven in 2012 totaled \$552; however, instead of withholding this amount from the former President's pay, the amount was added to his pay, resulting in an overpayment to the former President. Subsequent to our inquiries, College personnel recovered the amount overpaid to the former President.
- The former President approved providing a leased vehicle for the former Executive Vice President. In response to our inquiries regarding the authority relied upon in providing a leased vehicle to the former Executive Vice President, College personnel cited Section 1001.65, Florida Statutes; State Board of Education Rule 6A-14.261, Florida Administrative Code; Board Rule 6Hx7-2.2, *Internal Organization*; and Administrative

¹ This amount does not consider the effects, if any, of revaluing vehicles annually at the end of each calendar year instead of using the applicable ALVs for 4-year periods, or reducing the used vehicle FMV, as further discussed in this finding.

² The calculations are based upon the reported personal use and do not consider the effects of business use not being substantiated.

Procedure 02-0201, *Internal Organization*. While these provide the President with general authority over College operations they did not provide the former President with the authority to lease a vehicle for other College employees nor was the arrangement to provide a leased vehicle to the former Executive Vice President approved by the Board. Absent specific authority in Board rules or policies, it was not apparent under what authority the former President leased a vehicle for the use of the former Executive Vice President.

In response to our inquiries, College personnel advised us that they relied on Internal Revenue Service guidance in Publication 15-B in determining taxable fringe benefits. However, when employer-provided vehicles are not administered in accordance with Board rules and taxable fringe benefits are not correctly calculated or supported, College records do not evidence that such benefits were properly obtained or correctly reported in employee gross income.

Recommendation: The College should ensure the proper reporting of the taxable value for employee’s personal use of College vehicles in accordance with United States Treasury Regulations and the Internal Revenue Code. Additionally, the College should consult with the Internal Revenue Service to determine what action, if any, should be taken regarding the value of the personal use of vehicles that was misreported. The College should also ensure that employer-provided vehicles are only provided to employees as authorized by the Board.

Contract Administration

Finding No. 6: Contractual Services

As a matter of good business practice, contractual arrangements should be evidenced by written contracts embodying all provisions and conditions of the procurement of such services. The use of a well written, complete, and properly executed written contract protects the interests of both parties, defines the services to be performed, and provides a basis for payment. In addition, the College is responsible for establishing controls to ensure that payments to contractors are for services actually performed and in accordance with agreed-upon terms.

The College paid \$11.1 million for legal, information technology, and other external professional contractual services during the 2012-13 fiscal year. Our review of 16 payments for contractual services, totaling \$629,389, disclosed that College procedures were generally adequate to monitor expenditures. However, our review of supporting documentation for 6 of the 16 payments, related to legal services, disclosed that monitoring of payments for legal services could be improved.

The College contracted with 19 legal firms during the 2012-13 fiscal year and paid \$723,871 for their services. We reviewed one payment made to each of 6 legal firms (the 6 payments for legal services noted above), totaling \$180,724. Our review disclosed deficiencies with all six payments totaling \$32,602, as discussed below:

- Each contract provided that all services were to be performed solely by the contracting legal firm and could not be subcontracted for or assigned without the College’s prior written consent. Contrary to this provision, one firm billed \$15,000 for third-party public relations firm fees and another firm billed \$1,700 for third-party records review fees for which College records did not evidence prior written consent for these charges. Additionally, for the public relations firm fees, the supporting invoices provided for our review contained a lump sum fee of \$7,500 per month for two months and did not include detailed information supporting the invoices, such as the names of individuals performing the work, dates or hours worked, or rates of pay, which was required by the contract for pre-audit and post-audit purposes.
- Each contract provided that non-routine office overhead expenses such as long distance phone calls, long distance facsimile transmissions, long distance courier services, bulk mailings, bulk third-party copying,

blueprints, x-rays, photographs and computer-assisted legal research services, if justified to the College, would be reimbursed based on actual costs from copies of documented third-party vendor charges; however routine expenses such as local phone calls, local facsimile transmissions, routine postage, copy work, local travel expenses, printed library materials, and local courier, word processing, clerical or secretarial services were overhead expenses and would not be separately compensated. Contrary to this provision, four of the six legal firms billed for these routine expenses without supporting documentation to evidence they were appropriate third-party vendor charges:

- One firm billed \$1,704 for processing of e-mail and \$956 for telephone, postage, and copying.
 - Two firms billed a total of \$52 for copies.
 - One firm billed \$152 for conference call charges and \$64 for online research charges.
- One firm billed for 1.1 hours at \$275 per hour, totaling \$303, for a lunch. Although the detailed invoice description stated “DO NOT BILL – Lunch,” it was included in the invoice total and paid by the College.
 - One firm billed for two staff members at hourly pay rates that exceeded the contracted fee schedule rates. For these two staff members, the amounts billed included charges of \$2,676 for 23.4 hours at pay rates that exceeded the contracted pay rates from \$10 to \$45 per hour, resulting in an over payment of \$276.
 - One firm billed for work performed from June 13, 2012, through June 27, 2012, totaling \$12,395, that was 21 to 35 days prior to the effective date of contract on July 18, 2012.

Absent adequate monitoring to ensure invoices are consistent with contract terms, the College has limited assurance that it is receiving services requested at agreed upon prices.

Recommendation: The College should enhance its procedures to ensure payments are in accordance with contract terms. The College should also seek to recover the overpayments noted above. In addition, the College should review all invoices for legal services to determine if other overpayments occurred and seek to recover any such overpayments.

Student Enrollment

Finding No. 7: Adult General Education

Section 1004.02(3), Florida Statutes, defines adult general education, in part, as comprehensive instructional programs designed to improve the employability of the State’s workforce. The College received State funding for adult general education, and proviso language in Chapter 2012-118, Laws of Florida, Specific Appropriations 108, required that each college report enrollment for adult general education programs identified in Section 1004.02, Florida Statutes, in accordance with Florida Department of Education (FDOE) instructional hours reporting procedures.

FDOE procedures stated that fundable instructional contact hours are those scheduled hours that occur between the date of enrollment in a class and the withdrawal date or end of class date, whichever is sooner. FDOE procedures also provided that colleges develop a procedure for withdrawing students for nonattendance and that the standard for setting the withdrawal date be six consecutive absences from a class schedule, with the withdrawal date reported as the day after the last date of attendance.

For the 2012-13 fiscal year, the College reported to the FDOE 497,830 instructional hours for 3,581 students enrolled in adult general education classes during the Fall and Spring terms. Our review of 1,251 hours reported for 10 students enrolled in 26 adult education classes during the Fall 2012 term disclosed errors in reporting instructional contact hours, as follows:

- For 5 students enrolled in 7 classes, the College under reported a total of 62.9 instructional contact hours because of programming errors in the College's computerized attendance system. College personnel indicated that the attendance system calculated instructional contact hours based on various factors, including the student's registration date, the scheduled beginning and ending dates for the class, and the designated grade submission date. However, our review disclosed that grades for the students were submitted prior to the scheduled ending date of the class resulting in 56.9 hours under reported because the system did not include the remaining scheduled class days in the reported hours. In addition, one of the students attended class two days prior to the registration date in the system resulting in 6 hours not being reported.
- A student was reported for 7 hours in a class although College records did not evidence the student attended the class.
- A total of 43.4 hours were over reported for 2 students enrolled in 2 classes although they had six consecutive absences and were not procedurally withdrawn, contrary to the FDOE procedures.
- A student was procedurally withdrawn for having six consecutive absences in a class; however, the College reported the total scheduled hours from the date of enrollment through the end of the class, instead of from the date of enrollment through the withdrawal date, resulting in 33 hours being over reported.
- Two students had hours reported for days they were not scheduled to attend for 2 classes, resulting in 11 hours being over reported.

As a result of these errors the College over reported 31.5 instructional contact hours for these students. A similar finding was noted in our report No. 2012-073. Since future funding may be based, in part, on enrollment data submitted to the FDOE, it is important that the College report accurate data.

Recommendation: The College should strengthen its controls to ensure accurate reporting of instructional contact hours for adult general education classes to the FDOE. In addition, the College should contact the FDOE to determine what corrective actions are necessary regarding the misreported contact hours for the 2012-13 fiscal year.

Confidential Information

Finding No. 8: Collection of Social Security Numbers

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

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

review whether its collection of SSNs is in compliance with the above requirements and immediately discontinue the collection of SSNs for purposes that are not in compliance.

Although the College assigned unique student identification numbers to replace SSNs for record keeping purposes, it continued to collect SSNs from students. Our test of College forms that required students to provide their SSNs disclosed nine forms that requested a SSN, such as the *Application for Admission* form, and provided a general statement regarding the collection and use of SSNs that referenced to a statement in the College’s online catalog. However, the statement in the College’s online catalog did not identify the specific Federal and State laws governing the collection, use, or release of SSNs and whether the collection was authorized or mandatory under Federal or State law. Subsequent to our inquiries, College personnel indicated that staff has been assigned to revise the College catalog’s SSN statement to bring it into compliance with statutory requirements.

Effective controls to properly monitor the need for and use of SSNs and ensure compliance with statutory requirements reduce the risk that SSNs may be used for unauthorized purposes. Similar findings were noted in our report Nos. 2010-168 and 2012-073.

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

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 Number
7	2012-073, Finding No. 2	NA
8	2012-073, Finding No. 10	2010-168, Finding No. 3

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 December 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. 2012-073.
- 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) policies and procedures.	Reviewed the College’s written IT policies and procedures to determine whether they addressed certain important IT control functions.
IT access privileges and separation of duties.	Reviewed procedures for maintaining and reviewing access to IT resources. Tested selected access privileges over the operating system, finance, and human resources application to determine the appropriateness and necessity based on the 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 logical access controls and user authentication.	Reviewed selected operating system, database, network, and application security settings to determine whether authentication controls were configured and enforced in accordance with IT best practices. Also, determined whether access control records were retained in accordance with Florida Department of State record retention requirements.
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 physical access controls.	Reviewed controls over telecommunications equipment storage closets at College campuses to determine whether vulnerabilities existed.
Board meetings.	Reviewed Board minutes to determine whether Board approval was obtained for policies and procedures in effect during the audit period and for evidence of compliance with Sunshine law requirements (i.e., proper notice of meetings, ready access to public, maintain minutes).
Social security number requirements of Section 119.071(5)(a), Florida Statutes.	Examined supporting documentation to determine whether the College had provided individuals with a written statement of the purpose of collecting their social security numbers.
Direct-support organization.	Tested payments, transfers, and loans between the College and its direct-support organization to determine the legal authority of such payments.
Direct-support organization – 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 organization.
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.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
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.
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.
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.
Florida residency determination and tuition.	Tested student registrations to determine whether the College documented Florida residency and correctly assessed tuition in compliance with Sections 1009.21 and 1009.22, Florida Statutes, and State Board of Education Rule 6A-10.044, Florida Administrative Code.
Distance learning fees.	Determined whether distance learning fees were assessed and collected as provided by Section 1009.23(16)(b), Florida Statutes.
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 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.
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.
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.
Leave used reports.	Reviewed leave used reports to determine whether appropriate reviews and approvals of leave taken were performed, documented, and maintained as required by College procedures.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Conflicts of interest.	Determined whether the College had established policies and procedures to prohibit conflicting employment or contractual relationships as specified in Section 112.313, Florida Statutes.
Retirement contributions.	Determined whether retirement contributions were properly calculated based on the definition of compensation as prescribed by Sections 121.021(22) and (47), Florida Statutes.
Payroll reconciliations.	Determined whether reconciliations between the College's payroll application and the general ledger were performed in a timely manner.
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.
Rebate revenues.	Determined whether rebate revenues received from purchasing card and e-Payable programs were allocated to the appropriate College funds.
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.
Promotions and public relations expenditures.	Reviewed the College's policy for auxiliary enterprise funds and undesignated gifts to determine whether the policy was consistent with Florida law. Tested transactions to ensure that items were not of a personal nature. Reviewed total amount spent for promotion and public relations to determine whether the amount did not exceed amount 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 and that contract terms were adequately supported.
Purchasing agreements and 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.
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 a recent construction project to determine whether the architect and engineer provided evidence of the required insurance.

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

Scope (Topic)	Methodology
Motor vehicle utilization.	Determined whether the College identified and reported taxable fringe benefits attributable to the personal use of employer-provided vehicles.
Self-insured employee health benefits program.	Tested selected employees to determine whether the College had procedures to timely notify the third-party administrator of the eligibility of employees and dependents. Tested claims processed by the third-party administrator.
Enrollment reporting.	Determined whether the College consulted with Florida Department of Education on the reporting of full-time equivalent enrollment (FTE) for continuing workforce education programs to determine any corrective action necessary for the FTE reported for the 2006-07 through 2009-10 fiscal years.
Adult general education program enrollment reporting.	Examined supporting documentation on a test basis to determine whether the College reported instructional and contact hours in accordance with Florida Department of Education requirements.
Diplomas and certificates.	Determined whether the College implemented procedures to ensure that bachelor's degree programs were administered and delivered appropriately.

EXHIBIT B
MANAGEMENT'S RESPONSE



Dr. Judith Bilsky
Acting College President

January 10, 2014

David W. Martin
Auditor General
State of Florida
111 West Madison Street
Tallahassee, Florida 32399-1450

Reference: Preliminary and Tentative Findings Operational Audit
Florida State College at Jacksonville
For the Fiscal Year Ended June 30, 2013

Dear Mr. Martin,

The following is a summary of the State of Florida Auditor General findings and recommendations and College responses to the Operational Audit for the fiscal year ended June 30, 2013:

BOARD POLICIES

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

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

College Response: The College agrees with Finding No. 1. Board Rule 6Hx7-4.10 will be recommended to the FSCJ Board of Trustees on January 14, 2014 with modifications to the existing Rule to prescribe specific procedures for payment by EFT or by the use of electronic signature in accordance with Chapter 668, FS.

PERSONNEL AND PAYROLL

Finding No. 2: The College provided enhanced separation benefits totaling \$100,826 to 18 former College employees that were contrary to Section 215.425, Florida Statutes.

Recommendation: The College should ensure that future severance payments comply with the requirements of Section 215.425, Florida Statutes. Additionally, the Board should revise its policy to be consistent with the provisions of Section 215.425(4), Florida Statutes.

College Response: The College agrees with Finding No. 2. Acting on the advice of counsel regarding enhanced separation benefits, the College inadvertently exceeded the limitation of 6 weeks severance in pay and benefits as settlements in lieu of employment claims. Board Rule 6Hx7-4.24 will be recommended to the Board with modifications to be consistent with the provisions of Section 215.425, FS. Enhanced separation benefits paid by the College in the future will therefore comply with Section 215.425, FS.

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

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Finding No. 3: The College paid \$215,236 in excess of the amount allowed by Florida law to settle an employment dispute with a former administrative employee.

Recommendation: The College should ensure that future severance payments for employment disputes comply with Section 215.425(4), Florida Statutes.

College Response: Acting on the advice of counsel regarding applicability of Section 215.425(4), FS, the College believes its actions to settle this legal claim “for breach of contract and breach of duty of good faith and fair dealing” to be in the best interest of the College and the State of Florida. The College will undertake a review of its employment contracts and modify accordingly prior to July 1, 2014 to meet the requirements of FS 215.425(4) FS.

Finding No. 4: The College did not properly calculate terminal payments and related benefits for certain College personnel.

Recommendation: The College should enhance procedures to ensure that payments for accrued leave are calculated in accordance with Board policies and State law. These procedures should include proper training for employees responsible for calculating leave payments and an independent verification of the calculation for accrued leave prior to making such payments. Additionally, the College should continue its efforts to recover the overpayments from former employees as allowed by law.

College Response: The College agrees with Finding No. 4 and has reviewed its procedures and determined the independent verification steps to be implemented to ensure that future accrued leave calculations and terminal pay calculations are completed in accordance with Board policies and State Laws. The College has undertaken all necessary and appropriate actions to recover any overpayments.

Finding No. 5: The College, for certain employees, incorrectly calculated the taxable value for personal use of employer-provided vehicles required to be reported as part of gross income pursuant to Internal Revenue Service guidelines. In addition, a former administrative employee was provided a leased vehicle on a full-time basis without authority.

Recommendation: The College should ensure the proper reporting of the taxable value for employee’s personal use of College vehicles in accordance with United States Treasury Regulations and the Internal Revenue Code. Additionally, the College should consult with the Internal Revenue Service to determine what action, if any, should be taken regarding the value of the personal use of vehicles that was misreported. The College should also ensure that employer-provided vehicles are only provided to employees as authorized by the Board.

College Response: The College agrees with Finding No. 5 and will revise its policies and procedures to ensure the proper reporting of the personal use of College vehicles by all employees in accordance with U. S. Treasury Regulations and the Internal Revenue Code.

CONTRACT ADMINISTRATION

Finding No. 6: The College needed to enhance controls over payments for contractual services.

Recommendation: The College should enhance its procedures to ensure payments are in accordance with contract terms. The College should also seek to recover the overpayments noted above. In addition, the College should review all invoices for legal services to determine if other overpayments occurred and seek to recover any such overpayments.

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

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College Response: The College agrees with Finding No. 6. The College acknowledges that appropriate verification of invoices for services provided in relation to the terms of contracts for legal services is necessary. The College will ensure appropriate review to identify issues with regard to invoices for the services provided, hours of service and fees/costs with regard to legal services. The College will initiate recovery of any amounts paid for the costs assessed by firm that were not included with the contract.

STUDENT ENROLLMENT

Finding No. 7: The College needed to strengthen its controls to ensure the accurate reporting of instructional contact hours for adult general education classes to the Florida Department of Education.

Recommendation: The College should strengthen its controls to ensure accurate reporting of instructional contact hours for adult general education classes to the FDOE. In addition, the College should contact the FDOE to determine what corrective actions are necessary regarding the misreported contact hours for the 2012-13 fiscal year.

College Response: The College agrees with Finding No. 7. The College enhanced its procedures and controls to strengthen the accuracy of reporting of instructional contact hours for adult general education classes subsequent to the findings of report No. 2012-073. The enhancements included online faculty attendance tracking and faculty training on reporting requirements and attendance procedures. The College will continue to monitor the tracking and reporting of instructional contact hours and will consult with FDOE regarding corrective actions, if any, required for incorrectly reported hours.

CONFIDENTIAL INFORMATION

Finding No. 8: The College did not always provide written notification to individuals when their social security numbers were collected, contrary to Section 119.071(5)(a), Florida Statutes.

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

College Response: The College agrees with Finding No. 8. The College implemented measures subsequent to the findings of report No. 2012-73 with regard to the implementation of Section 119.071(5)(a), FS but several issues related to the collection of student SSN remained. The College will continue its efforts to comply with Section 119.071(5)(a), FS.

Sincerely,



Dr. Judith Bilsky
Acting President
Florida State College at Jacksonville

jlb

cc: Christine Arab, Vice President of Administration
Andrew Kantor, Assistant General Counsel
James Stevenson, Vice President of Institutional Advancement
Cleve Warren, Chief Financial Officer