

# NORTHWEST FLORIDA STATE COLLEGE

---

## Operational Audit



## BOARD OF TRUSTEES AND PRESIDENT

Members of the Board of Trustees and President who served during the 2013-14 fiscal year are listed below:

	<u>County</u>
Brian S. Pennington, Chair (1)	Okaloosa
Rachel R. Gillis, Vice Chair (2)	Walton
C. Wayne Ansley	Okaloosa
Patrick E. Byrne, II to 7-9-13 (3)	Okaloosa
D. Bradley Drake	Walton
Michael M. Flynt, Sr.	Walton
Paul A Foster to 10-21-13 (4)	Okaloosa
Marijo Strauss	Okaloosa

Dr. Ty Handy, President

- Notes: (1) Board Member served beyond the end of term, May 31, 2011.
- (2) Board Member served beyond the end of term, May 31, 2013.
- (3) Board member resigned on July 9, 2013, and the position remained vacant from July 10, 2013, through June 30, 2014.
- (4) Board member served through October 21, 2013, and the position remained vacant through June 30, 2014.

The audit team leader was Joseph D. Dykes, CPA, and the audit was supervised by James W. Kiedinger, Jr., 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.

**NORTHWEST FLORIDA STATE COLLEGE**

**EXECUTIVE SUMMARY**

**Our operational audit disclosed the following:**

**BOARD POLICIES**

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

**CONTRACT ADMINISTRATION**

**Finding No. 2: The College needed to enhance controls over payments for contractual services.**

**BACKGROUND**

Northwest Florida State College (College) is under the general direction and control of the Florida Department of Education, Division of Florida Colleges, and is governed by State law and State Board of Education rules. A board of trustees (Board) governs and operates the College. The Board constitutes a corporation and is composed of eight 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 Ft. Walton Beach, and Niceville, Florida, and centers in Crestview, DeFuniak Springs, Eglin Air Force Base, Hurlburt Field, and South Walton County, Florida. Additionally, credit and noncredit classes are offered in public schools and other locations throughout Okaloosa and Walton Counties. The College reported enrollment of 5,023 full-time equivalent students for the 2013-14 fiscal year.

The results of our financial audit of the College for the fiscal year ended June 30, 2014, 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, 2014, 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 Florida College System institution board of trustees to adopt written policies prescribing the accounting and control procedures under which funds are allowed to be moved by electronic transaction for any purpose including direct deposit, wire transfer, withdrawal, investment, or payment. This law also requires that electronic transactions comply with the provisions of Chapter 668, Florida Statutes, which discusses the use of electronic signatures in electronic transactions between colleges and other entities.

According to the College’s records, the College made \$11.1 million of electronic funds transfers (EFTs) during the 2013-14 fiscal year. Board Policy Nos. FA 15.00 and 16.00 authorize the President to designate individuals who may initiate EFTs and establish procedures related to EFTs. However, the Board Policies do 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. The College was in the process of implementing a new enterprise resource system during the 2013-14 fiscal year and College personnel stated that they would develop written procedures upon successful implementation of the new system. A similar finding was noted in our report No. 2013-022.

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

**Contract Administration**

**Finding No. 2: Contract Monitoring**

As a matter of good business practice, contractual arrangements should be evidenced by written contracts embodying all provisions and conditions of the procured services. The use of a well written, complete, and properly executed 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.

Our review disclosed that the College issued a purchase order (contract) to a vendor to provide temporary employment services and paid this vendor \$93,104 during the 2013-14 fiscal year. The contract with the vendor provided that the College would pay the vendor specified hourly pay rates for nonunion workers depending on which of four types of services were being provided. Further, the contract provided that the College would pay the vendor 132.5 percent of the union hourly rates for union workers; however, the contract did not specify the union hourly rates or the types of services to be provided by union workers.

We reviewed invoices supporting 12 payments over \$1,000 paid to this vendor, totaling \$69,005. Our review disclosed that the invoices contained temporary worker claims totaling \$64,143 for which there was not sufficient details to determine whether amounts invoiced agreed to hourly pay rates specified in the contract. The invoices did not indicate the type of services being provided and did not include information necessary to verify the vendor’s classification of the workers as union or nonunion. In addition, the rates billed did not correlate to the rates indicated in the contract and College records did not otherwise evidence the basis for the hourly rates paid.

Although these invoices were signed by supervisory personnel authorizing payment, absent sufficient details supporting amounts invoiced, there is an increased risk of paying the vendor incorrect pay rates. A similar finding was noted in our report No. 2013-022.

**Recommendation:** The College should ensure that sufficiently detailed contracts are executed with vendors and that invoices for goods and services are in sufficient detail to ensure that payments are in accordance with contract terms.

**PRIOR AUDIT FOLLOW-UP**

The College had taken corrective actions for findings included in our report No. 2013-022, except finding Nos. 1 and 2 were noted in the prior audit report as finding Nos. 1 and 3.

---

**OBJECTIVES, SCOPE, AND METHODOLOGY**

---

The Auditor General conducts operational audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

We conducted this operational audit from May 2014 to September 2014 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of this operational audit were to:

- Evaluate management's performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse, and in administering assigned responsibilities in accordance with applicable laws, rules, regulations, contracts, grant agreements, and other guidelines.
- Examine internal controls designed and placed in operation to promote and encourage the achievement of management's control objectives in the categories of compliance, economic and efficient operations, reliability of records and reports, and safeguarding of assets.
- Determine whether management had taken corrective actions for findings included in our report No. 2013-022.
- 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, weaknesses 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 2013-14 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 College 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 College procedures for maintaining and reviewing access to IT resources.
Deactivation of employee IT access.	Reviewed College procedures to prohibit former employees’ access to electronic data files.
IT data loss prevention.	Reviewed the College’s written security policies and procedures governing the classification, management, and protection of sensitive and confidential information.
IT disaster recovery plan.	Determined whether a comprehensive IT disaster recovery plan was in place and had been recently tested.
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.
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 awareness and training.	Determined whether a comprehensive IT security awareness and training program was in place.
IT program change management controls.	Reviewed IT procedures for requesting, testing, approving, and implementing changes to the College’s business system.
IT security incident response.	Reviewed the College’s written policies and procedures, plans, and forms related to security incident response and reporting.
IT physical access controls.	Reviewed the data center’s physical access controls to determine whether vulnerabilities existed.
Fund equity controls.	Determined whether the unencumbered balance in the unrestricted current fund of the College Board of Trustees’ approved operating budget was below 5 percent of the total available fund balance at June 30, 2014, and if so, whether the College notified the Florida Department of Education, as required by Section 1011.84(3)(e), Florida Statutes. Performed analytical procedures to determine whether financial transactions in other funds may require resources from other unrestricted funds that would cause a significant reduction in available unrestricted current or auxiliary funds.
Direct-support organization.	Tested payments between the College and its direct-support organization to determine the legal authority of such payments.
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.
Distance learning fees.	Determined whether distance learning fees were assessed and collected as provided by Section 1009.23(16)(b), Florida Statutes.
Dual enrollment program.	Reviewed College policies and procedures related to the dual enrollment program. Determined, on a test basis, whether revenues collected for dual enrolled students were consistent with the applicable dual enrollment agreement and Section 1007.271, Florida Statutes.
Auxiliary operations contract compliance.	Examined selected auxiliary operations contracts to determine whether the College was properly monitoring compliance with the contract terms regarding fees, insurance, and other provisions. Also, performed analytical procedures to determine whether the College's auxiliary services were self-supporting.
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.
President's compensation.	Determined whether the President's compensation was in accordance with Florida law, rules, and Board policies.
Bonuses.	Determined whether employee bonuses were paid in accordance with Section 215.425(3), Florida Statutes.
Background screenings.	Reviewed the College's policies and procedures for obtaining background screenings for personnel. Determined whether employees in sensitive positions, such as positions in direct contact with minors, had undergone the appropriate background screenings.

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

Scope (Topic)	Methodology
Eligibility for health insurance benefits.	Reviewed College policies and procedures to ensure health insurance was provided only to eligible employees, retirees, and dependents and that such insurance was timely cancelled upon employee termination. Also, determined whether the College had procedures for reconciling health insurance costs to employee, retiree, and Board-approved contributions.
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, and that contract terms were adequately supported. Also, reviewed the third-party service provider contract to determine whether the College adequately monitored the service provider and obtained and reviewed the third-party service provider's report.
Earmarked capital project resources.	Determined, on a test basis, whether Public Education Capital Outlay (PECO) and other restricted capital outlay expenditures were expended in compliance with the restrictions imposed on the use of these resources. Determined if PECO funds were properly encumbered by the required reversion date.
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.
Procurement of goods and services.	Reviewed College policies and procedures related to the procurement of goods and services to ensure the competitive vendor selection process. Tested disbursements to determine whether purchase orders were issued prior to the College incurring an obligation for the goods or services. Tested purchases subject to competitive bids/proposals to determine compliance with bid requirements.
Employee payments.	Tested employee payments, other than travel and payroll payments, to determine whether such payments were reasonable, adequately supported, and for valid College purposes. Also, determined whether such payments were not for employees doing business with the College, contrary to Section 112.313, Florida Statutes.

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

Scope (Topic)	Methodology
Related-party transactions.	Reviewed College policies and procedures related to identifying potential conflicts of interest. For selected College officials, reviewed Department of State, Division of Corporation, records; statements of financial interest; and College records to identify any potential relationships that represent a conflict of interest with vendors used by the College.
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.

**EXHIBIT B  
MANAGEMENT'S RESPONSE**



100 College Boulevard • Niceville, FL 32578-1295 • (850) 678-5111 • www.nwfsc.edu

October 22, 2014

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

Dear Mr. Martin:

Attached is the Northwest Florida State College response to preliminary and tentative findings to be included in a report to be prepared on the operational audit for the Fiscal Year Ended June 30, 2014.

Sincerely,

A handwritten signature in black ink, appearing to read "Ty J. Handy", is written over a faint, light-colored signature line. The signature is fluid and cursive.

Ty J. Handy  
President

Cc: Randall White  
Pam Kaby

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



RESPONSE TO PRELIMINARY AND TENTATIVE OPERATIONAL AUDIT FINDINGS  
For the Fiscal Year Ended June 30, 2014

**Finding No. 1: Electronic Fund Transfers**

Finding:

Board Policies do not prescribe accounting and control procedures for payments by Electronic Fund Transfer (EFT) or address the use of electronic signatures when conducting electronic transactions with other entities.

Recommendation:

The Board should enhance its written policies and procedures to address accounting and control procedures for electronic fund transfers, including the use of electronic signatures.

Response:

The College agrees with the recommendation and is taking actions required to address the issues raised in the finding. Our Policy and Procedure for the initiation and approval of vendor EFT transactions is the same process for initiation and approval of vendor paper check issuance; vendors have the option of choosing whether they wish to receive payment via check or EFT. We believed that our policy was in compliance with Florida State Statute. We are in the process of revising Board Policy No's FA 15.00 and 16.00 to expand the accounting procedures to include specific guidance and authority to process EFT payments to vendors and to allow certain State and Federal agencies to initiate Automated Clearing House transactions for payment of College obligations. The new Board Policies will be submitted to the Board of Trustees no later than the November 2014 monthly trustee meeting.

**Finding No. 2: Contract Monitoring**

Finding:

We reviewed invoices supporting 12 payments over \$1,000 paid to a vendor, totaling \$69,005. Our review disclosed that the invoices contained temporary worker claims totaling \$64,143 for which there was not sufficient details to determine whether amounts invoiced agreed to hourly pay rates specified in the contract. The invoices did not indicate the type of services being provided and did not include information necessary to verify the vendor's classification of the workers as union or nonunion. In addition, the rates billed did not correlate to the rates indicated in the contract and College records did not otherwise evidence the basis for the hourly rates paid.

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



RESPONSE TO PRELIMINARY AND TENTATIVE OPERATIONAL AUDIT FINDINGS  
For the Fiscal Year Ended June 30, 2014

Recommendation:

The College should ensure that sufficiently detailed contracts are executed with vendors and that invoices for goods and services are in sufficient detail to ensure that payments are in accordance with contract terms.

Response:

The College agrees with the recommendation and is taking actions required to address the issues raised in the finding. We are amending our contract to include what labor is being provided (stage hands, crew, or crew heads) and the specific allowable labor rates (minimum and maximum) for each category of labor. This will be accomplished not later than November 1, 2014.