

PALM BEACH 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:

Carolyn L. Williams, Vice Chair to 8-13-13,
Chair from 8-14-13 (1)
John W. Dowd, III, Vice Chair from 8-14-13 (2)
David H. Talley to 6-3-14, Chair to 8-13-13 (3)
William Berger
Charles K. Cross, Jr., from 6-4-14
Wendy S. Link

Dr. Dennis P. Gallon, President

Notes: (1) Board member served beyond the end of term, May 31, 2013, until reappointment on March 13, 2014.
(2) Board member served beyond the end of term, May 31, 2014.
(3) Board member served beyond the end of term, May 31, 2013.

The audit team leader was Samantha M. Palaigos, CPA, and the audit was supervised by Diana G. Garza, 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.

PALM BEACH STATE COLLEGE

EXECUTIVE SUMMARY

Our operational audit disclosed the following:

PERSONNEL AND PAYROLL

Finding No. 1: The College needed to enhance its procedures to require verification of the eligibility of all dependents covered by the College’s health insurance plan.

INFORMATION TECHNOLOGY

Finding No. 2: The College had not developed and tested a formal written disaster recovery plan for its information technology (IT) operations.

Finding No. 3: College IT controls related to data loss prevention needed improvement.

BACKGROUND

Palm Beach 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 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 campuses in Belle Glade, Boca Raton, Lake Worth, and Palm Beach Gardens, Florida. Additionally, credit and noncredit classes are offered in public schools and other locations throughout Palm Beach County. The College reported enrollment of 20,057 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

Personnel and Payroll

Finding No. 1: Healthcare Benefits

Pursuant to Board Policy No. 6Hx-18-5.14, insurance coverage is provided for eligible employees, including: health, dental, life/accidental death and dismemberment insurance, and long-term disability. For health insurance coverage, the College pays the premium for full-time employees. Employees may elect to purchase health insurance coverage for eligible dependents and domestic partners through payroll deduction. Eligible dependents are defined as a spouse recognized by the State of Florida; domestic partner meeting criteria under the plan provisions; and child (employee’s child, step-child, or child of domestic partner) through the calendar year in which the dependent reaches age 26, or children age 26 to 30 if they are dependent upon the parent for support, a Florida resident or student out-of-state, unmarried, and have no children of their own. Employees are eligible to enroll in health insurance coverage upon hire

date or during the annual open enrollment period. Changes to health insurance plans can only be made during the open enrollment period unless the plan changes meet the Internal Revenue Service’s (IRS) qualifying events (marriage, divorce, Medicare eligibility, birth, spouse obtaining gainful employment with benefits, adoption, and death).

When an employee makes a change regarding dependent coverage outside of the open enrollment period, the College requires the employee to provide proof of loss or acquisition of coverage of the dependent to meet IRS qualifications. However, the College does not require new full-time employees or employees electing to purchase health insurance coverage for their dependents, during the open enrollment period, to provide documentation evidencing the dependents’ eligibility, except in the case of domestic partners. Although employees making health insurance coverage changes are required to complete and sign a medical enrollment form containing language regarding fraud, misrepresentations, omissions, concealment of facts, and incorrect statements, without verifying the eligibility of all dependents covered through the College’s health insurance plan, there is an increased risk that the dependents receiving insurance coverage may be ineligible participants.

Employees are required to pay health insurance premiums for dependent coverage; however, future premium rates for the College’s health insurance plan are based on prior claims experience. Therefore, claims for an ineligible dependent could result in future increases in health insurance premiums paid by the College for employees’ healthcare coverage.

Recommendation: The College should enhance its procedures to require verification of the eligibility of all dependents covered by the College’s health insurance plan.

Information Technology

Finding No. 2: Disaster Recovery Plan

Disaster recovery planning is an element of information technology (IT) controls established to manage the availability of valuable data and IT resources in the event of a processing disruption. The primary objective is to provide the entity a plan for continuing critical operations in the event of a major hardware or software failure. An effective disaster recovery plan identifies the data, processes, and applications that are critical to the College and contains a step-by-step plan for recovery and restoration of data. In addition, plan elements should be tested periodically to disclose any areas not addressed and to facilitate proper conduct in an actual disruption of IT operations.

The College had not prepared a formal written disaster recovery plan for its IT operations detailing the procedures to be followed to affect the recovery and restoration of financial, student records, and other critical applications and had not entered into a formal agreement with another entity to serve as an alternate-processing site. The College did have an agreement with an entity regarding an alternate site that addressed renting space and network connectivity for maintaining the College’s daily off-site backups. However, the agreement did not discuss alternate-processing procedures.

In response to our inquiry, College personnel provided us with an Emergency Payroll Recovery Plan to detail the procedures to be followed to affect the recovery of payroll. However, the Plan did not include several key provisions. For instance, the Plan did not identify the employees responsible for creating the emergency payroll file or transmitting the emergency payroll file for processing. In addition, the Plan had not been tested. College personnel stated that since the file transmitted to the bank every payroll is exactly the same as what would be transmitted in emergency situations, the Plan is essentially tested every time a payroll file is transmitted to the bank. However, although requested, College personnel did not provide us a copy of an agreement with their bank documenting the

emergency payroll recovery plan. Absent such an agreement detailing the rights and responsibilities of each party and a lack of testing the payroll recovery plan, there is an increased risk that the emergency payroll recovery plan may not operate as intended.

The lack of a formal written disaster recovery plan for IT operations and periodic testing thereof increases the risk that the College may not promptly and effectively resume all critical IT operations, or maintain availability of IT data and resources, in the event of a disaster or other service interruption.

Recommendation: The College should prepare and implement a formal written disaster recovery plan over IT operations, including payroll recovery, and should periodically test the feasibility of the plan. The College should also enter into a formal agreement with another appropriate entity to serve as an alternate-processing site for critical operations.

Finding No. 3: Security Controls – Data Loss Prevention

Security controls are intended to protect the confidentiality, integrity, and availability of data and IT resources. Our audit disclosed that certain College security controls related to data loss prevention needed improvement. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising College data and IT resources. However, we have notified appropriate College management of the specific issues. Without adequate security controls related to data loss prevention, the risk is increased that the confidentiality, integrity, and availability of College data and IT resources may be compromised. A similar finding regarding data loss prevention was noted in our report No. 2013-036.

Recommendation: The College should improve IT security controls related to data loss prevention to ensure the continued confidentiality, integrity, and availability of College data and IT resources.

PRIOR AUDIT FOLLOW-UP

The College had taken corrective actions for findings included in our report No. 2013-036, except that finding No. 3 was also noted in prior audit report No. 2013-036, as finding No. 7 (data loss prevention).

OBJECTIVES, SCOPE, AND METHODOLOGY

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

We conducted this operational audit from March 2014 to October 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. 2013-036.
- 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 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.
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).
Fraud policy and related procedures.	Determined whether the College had developed a fraud policy and procedures to provide guidance to employees for communicating known or suspected fraud to appropriate individuals.
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.
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 College payments to 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.
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
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.
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.
Personnel and payroll.	For selected employees, determined the accuracy of the rate of pay, validity of employment contracts, and certifications by supervisory personnel of employee time reports.
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.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
President’s compensation.	Determined whether the President’s compensation was in accordance with Florida law, rules, and Board policies.
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.
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.
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 for employees doing business with the College, contrary to Section 112.313, Florida Statutes.
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.
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 the purchasing card program 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.
Motor vehicle utilization.	Tested vehicle logs for completeness, supervisory review, and use of logs to schedule preventative maintenance.
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.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
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.
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.

EXHIBIT B
MANAGEMENT'S RESPONSE



PALM BEACH STATE
COLLEGE

OFFICE OF
THE PRESIDENT

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December 17, 2014

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

Dear Mr. Martin,

On November 19, 2014, we received the preliminary and tentative audit findings and recommendations for Palm Beach State College's Operational and Compliance Audit administered by the State of Florida Auditor General Office for the fiscal year ended June 30, 2014. The recommendations identified in the audit will be used to improve the operations of the College in the future.

Our response to the findings is attached. Please contact Mr. Richard A. Becker, Vice President of Administration and Business Services, at (561) 868-3137, if additional information is needed.

Sincerely,

Dennis P. Gallon, Ph.D.
President

w/attachment

- c: Palm Beach State College District Board of Trustees
- Richard A. Becker, VP of Administration & Business Services
- Diana Garza, Auditor

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

Palm Beach State College responses to the
Auditor General's Operational and Compliance Audit of
Palm Beach State College
for the fiscal year ended June 30, 2014

PERSONNEL AND PAYROLL

Finding No. 1: The College needed to enhance its procedures to require verification of the eligibility of all dependents covered by the College's health insurance plan.

The College will look at other practices to determine and implement the best method to ensure all dependents enrolled in our health insurance coverages are eligible.

INFORMATION TECHNOLOGY

Finding No. 2: The College had not developed and tested a formal written disaster recovery plan for its information technology (IT) operations.

The College will look into the feasibility and cost of establishing a complete written and tested disaster recovery plan with our legacy software (Integrow). As we transition to a new ERP over the next few years the ability to have a formal written disaster recovery plan with a formal agreement for off-site processing will be a high priority.

Finding No 3: College IT controls related to data loss prevention needed improvement.

The College will work to continue to improve IT security controls related to data loss prevention.