

STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

Report No. 2016-048
December 2015

LAKE-SUMTER STATE COLLEGE



Sherrill F. Norman, CPA
Auditor General

Board of Trustees and President

During the 2014-15 fiscal year, Dr. Charles R. Mojock served as President and the following individuals served as members of the Board of Trustees:

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Timothy Morris, Chair	Lake
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Emily A. Lee ^b	Lake
Kelly S. Rice ^b	Sumter
Peter F. Wahl ^a	Sumter

Notes: ^a Board member served beyond the end of term, May 31, 2015.

^b Board member served beyond the end of term, May 31, 2014, until reappointment on February 4, 2015.

^c Position remained vacant at June 30, 2015.

The team leader was Christina T. Rider, CPA, and the audit was supervised by Brenda C. Racis, CPA.

Please address inquiries regarding this report to Jaime N. Hoelscher, CPA, Audit Supervisor, by e-mail at jaimehoelscher@aud.state.fl.us or by telephone at (850) 412-2868.

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LAKE-SUMTER STATE COLLEGE

SUMMARY

This operational audit of the Lake-Sumter State College (College) focused on selected College processes and administrative activities and included a follow-up on findings noted in our report No. 2013-041. Our operational audit disclosed the following:

Finding 1: The College needed to establish a mechanism for exempt employees to report time worked and procedures requiring supervisors to document the review and approval of such time.

Finding 2: The College contracted for bookstore services but had not solicited competitive proposals for such services in the past 14 years.

BACKGROUND

Lake-Sumter 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 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 Clermont, Leesburg, and Sumterville, Florida. Additionally, credit and noncredit classes are offered in public schools and other locations throughout Lake and Sumter Counties. The College reported enrollment of 2,787 full-time equivalent students for the 2014-15 fiscal year.

This operational audit focused on selected College processes and administrative activities and included a follow-up on findings noted in our report No. 2013-041. The results of our financial audit of the College for the fiscal year ended June 30, 2015, 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, 2015, will be presented in a separate report.

FINDINGS AND RECOMMENDATIONS

Finding 1: Payroll Processing Procedures

Effective internal controls require supervisory approval of time worked and leave used by employees to ensure that compensation payments are appropriate and leave balances are accurate. The College pays exempt employees (i.e., Technical, Executive, and Administrative employees and Faculty) on a payroll-by-exception basis whereby employees are paid a fixed authorized gross amount for each payroll cycle unless the amount is altered. A payroll-by-exception methodology assumes, absent any payroll action to the contrary, that an employee worked or used available accumulated leave for the required number of hours in the pay period.

During the 2014-15 fiscal year, the College reported salary costs of \$9.3 million for exempt employees. According to College personnel, when exempt employees anticipate use of leave in excess of their accumulated leave balances, the employees are to note the additional leave on a monthly leave summary form and submit the form to their supervisors. Supervisors are to approve the leave summary forms and then provide the approved forms to the Payroll Department. The Payroll Department is to confirm that supervisory approval was obtained and then enter the unpaid leave into the payroll system. However, the College did not require exempt employees to prepare time sheets or other records to document their time worked. Without such records and supervisory review and approval of the records, there is limited assurance that exempt employee services were provided consistent with Board expectations. In addition, without appropriate records of time worked and supervisory review, there is an increased risk that employees may be incorrectly compensated and employee leave balances may not be accurate. In response to our inquiry, College personnel indicated that they planned to implement electronic time sheets for all employees except faculty in January 2016.

Recommendation: The College should continue efforts to establish a mechanism for exempt employees to report time worked and also establish procedures requiring supervisors to document the review and approval of such time.

Finding 2: Bookstore Services

The Legislature has recognized in State law¹ that fair and open competition is a basic tenet of public procurement and that such competition reduces the appearance and opportunity for favoritism and inspires public confidence that contracts are awarded equitably and economically.

During the 2014-15 fiscal year, the College received bookstore commissions based on 9.75 percent of bookstore sales up to \$1.25 million and 11.5 percent on sales over that amount, resulting in bookstore commissions totaling \$161,223. The College initially entered into a contract in July 2001 with a vendor for bookstore services based on a competitive selection process and, as of September 2015, continued to use the same vendor for these services. However, the College had not solicited competitive proposals for the bookstore services in the past 14 years. College personnel indicated that the College plans to go through a competitive selection process for bookstore services in the spring of 2016. Without periodically obtaining competitive proposals, there is an increased risk that such services will not be provided at the best value for the College.

Recommendation: The College should procure bookstore services on a periodic basis using a competitive selection process.

PRIOR AUDIT FOLLOW-UP

The College had taken corrective actions for findings included in our report No. 2013-041.

¹ Section 287.001, Florida Statutes.

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 2015 to September 2015 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, and identify weaknesses in those controls.
- Determine whether management had taken corrective actions for findings included in our report No. 2013-041.
- To 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.

As described in more detail below, 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.

Our audit included the selection and examination of records and transactions. Unless otherwise indicated in this report, these records and transactions were not selected with the intent of statistically projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

An audit by its nature does not include a review of all records and actions of management, staff, and vendors, and as a consequence, cannot be relied upon to identify all instances of noncompliance, fraud, waste, abuse, or inefficiency.

In conducting our audit, we:

- Reviewed the College's written Information Technology (IT) policies and procedures to determine whether the policies and procedures addressed certain important IT control functions, such as security, systems development and maintenance, and disaster recovery.
- Reviewed College procedures for maintaining and reviewing access to IT resources to determine the appropriateness and necessity of the access based on employees' job duties and user account functions and whether the access prevented the performance of incompatible duties. We also examined administrator account access privileges granted and procedures for oversight of administrator accounts for the network, operating system, database, and application to determine whether these accounts had been appropriately assigned and managed. Specifically, we:
 - Determined if the actions of the three system administrators were logged and monitored and reviewed the adequacy of all operating system administrative access privileges accounts.
 - Reviewed the adequacy of access for all employees with critical access privileges to the enterprise resource planning finance (7 accounts) and human resources (8 accounts) application data bases.
 - Reviewed the access privileges granted for all employees with update access to the finance journal entry application (78 accounts).
- Reviewed College procedures designed to prohibit former employees' access to electronic data files. From the population of 36 employees who separated from College employment during the period July 1, 2014, through February 28, 2015, we reviewed access privileges for 19 former employees to determine whether their privileges had been timely deactivated.
- Evaluated the adequacy of the College's written security policies and procedures governing the classification, management, and protection of sensitive and confidential information.
- Reviewed operating system, database, network, and application security settings to determine whether authentication controls were configured and enforced in accordance with IT best practices.
- 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.
- Determined whether an adequate comprehensive IT security awareness and training program was in place.
- Reviewed Board minutes to determine whether Board approval was obtained for policies and procedures in effect during the 2014-15 fiscal year and for evidence of compliance with Sunshine law requirements (i.e., proper notice of meetings, ready access to public, and maintenance of minutes).
- Determined whether the College informed students and employees at orientation and on its Web site of the existence of the Florida Department of Law Enforcement sexual predator and

sexual offender registry Web site and the toll-free telephone number that gives access to sexual predator and sexual offender public information, as required by Section 1006.695, Florida Statutes.

- Determined whether the College had developed an anti-fraud policy and procedures to provide guidance to employees for communicating known or suspected fraud to appropriate individuals. Also, we evaluated whether the College had implemented appropriate and sufficient procedures to comply with its anti-fraud policies.
- Reviewed procedures and supporting documentation to determine whether the College provided individuals with a written statement of the purpose for collecting their social security numbers.
- Reviewed the College's policies and procedures related to its identity theft prevention program for compliance with the Federal Trade Commission's Red Flags Rule.
- Analyzed 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 balances at June 30, 2015. We performed analytical procedures to determine whether financial transactions in other funds may require resources from unrestricted funds that would cause a significant reduction in available unrestricted current or auxiliary funds.
- From the population of 28 payments totaling \$25,724 from the College to its direct-support organization made during the period July 1, 2014, through February 28, 2015, examined 3 payments totaling \$12,674 to determine whether the payments were authorized by Section 1004.70(1)(a)2 and (3), Florida Statutes.
- From a population of 79 delinquent student receivable accounts totaling \$119,019 that were at least 91 days past due as of June 1, 2015, and greater than \$1,000, examined College records for 24 delinquent student receivable accounts totaling \$35,791 to determine whether collection efforts were adequate and restrictions on student records and holds on transcripts and diplomas were appropriate and enforced.
- Determined whether uncollectible accounts written-off were properly approved.
- Evaluated whether established controls were adequate to ensure that students who had not paid fees in an approved manner were not considered in calculating full-time equivalent (FTE) enrollments for State funding purposes pursuant to Sections 1009.22(11) and 1009.23(9), Florida Statutes.
- From three student populations composed of: (1) first-time College students (1,450 students), (2) Caribbean/Latin students classified as Florida residents (34 students), and (3) students with status changes (270 students), examined documentation for 40 students to determine whether the College correctly assessed tuition in compliance with Sections 1009.21, 1009.22, and 1009.23, Florida Statutes, and State Board of Education Rule 6A-10.044, and 6A-14.054, Florida Administrative Code.
- From the population of 4 auxiliary operation contracts, which generated revenue totaling \$173,974 for the 2014-15 fiscal year, examined 3 contracts, which generated revenue totaling \$161,223, to determine whether the College properly monitored compliance with the contract fee provisions. Also, performed analytical procedures to evaluate whether the College's auxiliary services were self-supporting.
- From the population of 92 textbooks for 74 classes offered during the Summer 2015 Term B, selected 30 textbooks for 24 classes and examined the related documentation to determine whether College policies and procedures for textbook affordability complied with Section 1004.085, Florida Statutes.
- From the population of 684 employees compensated a total of \$9,583,530 for the period July 1, 2014, through February 28, 2015, selected and examined records for 30 employees

compensated a total of \$50,432 to determine the accuracy of the rate of pay, validity of employment contracts, adequacy of qualifications, and accuracy of leave records, and whether performance evaluations were completed and supervisory personnel certified employee time reports.

- Reviewed College policies and procedures for payments of accumulated annual and sick leave (terminal leave pay) to determine whether the policies and procedures promoted compliance with State law and Board policies. From the population of 36 former employees paid \$229,231 for the period July 1, 2014, through February 28, 2015, we selected and examined records for 19 former employees paid terminal leave pay totaling \$142,732 to determine whether the terminal leave pay was calculated in compliance with Sections 110.122 and 1012.865, Florida Statutes, and College Administrative Procedure No. 5-11.
- Evaluated the severance pay provision in the College President's employment agreement for compliance with Section 215.425(4), Florida Statutes.
- Evaluated the College President's compensation contract for the 2014-15 fiscal year to determine whether amounts paid did not exceed the limits established by Section 1012.885, Florida Statutes.
- Determined whether employee bonuses were paid in accordance with Section 215.425(3), Florida Statutes.
- Evaluated College policies and procedures for obtaining background screenings for personnel. We determined whether employees in positions of special trust and responsibility, such as positions in direct contact with minors, had undergone appropriate background screenings.
- Examined College expenditure records to determine whether expenditures were reasonable, correctly recorded, and adequately documented; for a valid College purpose; properly authorized and approved; and in compliance with applicable laws, rules, contract terms, and Board policies. From the population of expenditures totaling \$4,371,977 for the period July 1, 2014, through February 28, 2015, we examined:
 - Documentation relating to 30 payments for general expenditures totaling \$124,155.
 - Documentation relating to 30 travel expenditures totaling \$8,054.
 - Documentation relating to 6 agreements for contractual services totaling \$57,320.
- From a population at March 31, 2015, of 57 vendor credit cards issued by 9 vendors to 28 College employees, and 21 bank credit cards issued to 21 College employees, examined 5 vendor credit card transactions and 25 bank credit card transactions made during the period July 1, 2014, through March 31, 2015, to determine whether the cards were administered in accordance with College policies and procedures. Specifically, we:
 - Evaluated the reasonableness of the credit limits, as of March 31, 2015, for all credit cards.
 - Tested College records for the 4 former employees who were assigned bank credit cards and separated from College employment during the period July 1, 2014, through February 28, 2015, to determine whether the cards were timely canceled upon employment separation.
- From a population of payments totaling \$31,540 made to employees during the period July 1, 2014, through February 28, 2015, for other than travel and compensation, selected and examined 5 payments totaling \$9,385 to determine whether such payments were reasonable, adequately supported, for valid College purposes and whether such payments related to employees doing business with the College, contrary to Section 112.313, Florida Statutes.
- Evaluated College policies and procedures related to identifying potential conflicts of interest. We reviewed Department of State, Division of Corporation, records; statements of financial interests;

and College records to identify any potential relationships that represent a conflict of interest with vendors used by the College.

- Determined whether the College had adopted a policy regarding electronic funds transfers. From a population of 70 electronic funds transfers totaling \$7,491,414 made during the period July 1, 2014, through March 19, 2015, we selected and examined 5 transfers totaling \$3,429,331 to determine whether the transfers were adequately supported and properly authorized.
- Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.
- Prepared and submitted for management response the findings and recommendations that are included in this report and which describe the matters requiring corrective actions. Management's response is included in this report under the heading **MANAGEMENT'S RESPONSE**.

AUTHORITY

Section 11.45, Florida Statutes, requires that the Auditor General conduct an operational audit of each College on a periodic basis. 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.

A handwritten signature in blue ink that reads "Sherrill F. Norman". The signature is written in a cursive style with a large initial "S".

Sherrill F. Norman, CPA
Auditor General

MANAGEMENT'S RESPONSE



November 25, 2015

Ms. Sherrill F. Norman, CPA
Auditor General
State of Florida
G 74 Claude Pepper Building
111 West Madison Street
Tallahassee, FL 32399-1450

Dear Ms. Norman,

The attached is Lake-Sumter State College's response to the preliminary and tentative findings and recommendations pertaining to the Operational Audit for the fiscal year ended June 30, 2015.

Should you have any questions on any of our responses please don't hesitate to contact me at 352-365-3525.

Sincerely,

Charles R. Mojock, Ed.D.
President

CRM/Imp

Enclosure

Cc: Brenda Racis, Auditor General
Richard M. Scott, Sr. V.P. Business Affairs
Vicki Ward, Assoc. V.P., Business Services

Operational Audit Responses

2014-2015

Finding 1: Payroll Processing Procedure

Recommendation: The College should continue efforts to establish a mechanism for exempt employees to report time worked and also establish procedures requiring supervisors to document the review and approval of time.

Response: The College has developed an electronic time reporting mechanism for all full-time and Part-time staff starting in January, 2016. Supervisors will review and approve these online submissions every two weeks. This process affects all employees including exempt employees.

All Full and part-time staff will submit electronic timesheets to their supervisors for approval by agreeing to the following statements:

"I certify that this is a true and accurate reflection of any and all hours taken as leave time during this bi-weekly pay period."

"I attest that I have met my working hour's obligations as defined in Administrative Procedure 5-13 for this bi-weekly pay period."

Finding 2: Bookstore Services

Recommendation: The College should procure bookstore services on a periodic basis using a competitive selection process.

Response: The College agrees. In the past, the College has informally checked with other colleges on the terms and conditions of their contracts for bookstore services. In those instances, the College found that our contract at LSSC was better than most, if not all of our competitors. There did not seem much to win by going through the entire expensive bidding process so we negotiated new terms of service instead which kept our contract very competitive. Nonetheless, we will bid our bookstore services in 2016.

