

STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

Report No. 2016-100
March 2016

ST. JOHNS RIVER STATE COLLEGE



Sherrill F. Norman, CPA
Auditor General

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Notes: ^a Board member served beyond the end of term, May 31, 2014, and was reappointed June 12, 2015.

^b Board member served beyond the end of term, May 31, 2014.

^c Board member served beyond the end of term, May 31, 2015.

The team leader was Nick Druash and the audit was supervised by Randy R. Arend, 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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ST. JOHNS RIVER STATE COLLEGE

SUMMARY

This operational audit of the St. Johns River State College (College) focused on selected College processes and administrative activities and included a follow-up on findings noted in our report No. 2013-021. Our operational audit disclosed the following:

Finding 1: The College needs to enhance procedures for reporting payments for accumulated annual leave to the Florida Retirement System.

Finding 2: The College needs to strengthen controls to ensure the accurate reporting of instructional contact hours for adult general education classes to the Florida Department of Education (FDOE). A similar finding was noted in our report No. 2013-021.

Finding 3: The College did not always accurately report performance funding for industry certifications to the FDOE.

BACKGROUND

St. Johns River 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 seven 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 Orange Park, Palatka, and St. Augustine, Florida. Additionally, credit and noncredit classes are offered in public schools and other locations throughout Clay, Putnam, and St. Johns Counties. The College reported enrollment of 4,722 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. 2013-021. 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: Reporting Accumulated Annual Leave Payments to the Florida Retirement System

Florida Department of Management Services (DMS) rules¹ provide for the calculation of retirement benefits for Florida Retirement System (FRS) members upon retirement, with the defined benefit calculation based, in part, on the average final compensation. Average final compensation is defined by DMS rule² to include payments for accumulated annual leave, not to exceed 500 hours, and all payments defined as compensation. Participating employers are to submit monthly retirement reports of payments and contributions for all members and the *FRS Employer Handbook*³ provides guidance for reporting payment types. For example, regular compensation payments are to be reported under code 12 and payments for accumulated annual leave are to be reported under code 21. Reporting payments for accumulated annual leave under the correct code is necessary to ensure the proper calculation of a member's average final compensation which is used to determine the member's retirement benefit.

The Board's employment contracts for certain administrative personnel, such as the Vice-Presidents and the Chief Information Officer, provide for up to 80 hours of accumulated annual leave to be paid at the election of the administrator. Additionally, the employment contract for the President provides for up to 480 hours of accumulated annual leave to be paid at the election of the President.

During the 2014-15 fiscal year, the College paid 38 employees for accumulated annual leave, ranging from \$92 to \$34,926 and totaling \$218,107. To determine whether the College properly reported the payments in accordance with the *FRS Employer Handbook*, we reviewed College records supporting accumulated annual leave payments totaling \$180,510 made to 15 employees. We found that, in June 2015, the College paid accumulated annual leave to 7 administrators and the President in amounts ranging from \$4,235 to \$34,926 (\$69,998 total) and reported the payments to the FRS as regular compensation (code 12) instead of as payments for accumulated annual leave (code 21). We expanded our procedures to review College records supporting annual leave payments made during the 2010-11 through 2013-14 fiscal years and found additional annual leave payments totaling \$264,901 and representing 2,866 hours of accrued annual leave, made by the College to 8 administrators and the President, that were also misreported under code 12 instead of code 21.

In response to our inquiries, College personnel identified additional accumulated annual leave payments, totaling \$13,314 and representing 278 hours of annual leave, made to 2 administrators in prior fiscal years that were misreported to the FRS under code 12 instead of code 21. College personnel indicated that the incorrect reporting for accumulated annual leave payments was the result of oversights and, subsequent to our inquiries, the College submitted corrected payroll information to the FRS.

By reporting accumulated annual leave payments as regular compensation, the employee receives credit for the entire payment as regular compensation and continues to have all 500 hours of annual leave available for payment and credit to the average final compensation. As such, reporting payments to the

¹ DMS, Division of Retirement (DOR) Rules, Chapter 60S-4, Florida Administrative Code (FAC).

² DMS, DOR Rule 60S-6.001(6), FAC.

³ *FRS Employer Handbook*, Chapter 3.

FRS for accumulated annual leave as regular compensation increases the risk that retirement benefits would be calculated and paid at a higher amount than allowed under DMS rules.

Recommendation: The College should ensure that future accumulated annual leave payments are properly reported in accordance with the *FRS Employer Handbook* guidance.

Finding 2: Adult General Education

State law⁴ 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 General Appropriations Act⁵ proviso language requires each college to report enrollment for adult general education programs in accordance with Florida Department of Education (FDOE) instructional hours reporting procedures.⁶

FDOE procedures state 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. The procedures also require colleges to develop a procedure for withdrawing students for nonattendance and provide 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. There is also a minimum enrollment threshold of 12 hours of attendance for each program that must be met before a student can be counted for funding purposes.

During the 2014-15 fiscal year, the College reported 68,280 instructional contact hours for 118 adult general education classes provided to 455 students. As part of our audit, we reviewed 1,446 hours reported for 30 students enrolled in 23 adult general education classes. We found that the College reported 77 instructional contact hours each for 3 students for the Fall 2014 term, although College records indicated that the students had not attended any classes. As a result, the College over reported 231 instructional contact hours for these 3 students.

In response to our inquiries, College personnel indicated that a programming error caused the default number of hours for the respective term (generally 77 hours for Fall 2014 and 68 hours for Spring 2015) to be misreported in the adult education attendance system for students with zero contact hours. College personnel calculated the total number of instructional contact hours misreported as a result of the programming error and determined that, for the 2014-15 fiscal year, the College over reported a total of 4,878 hours as the College over reported 2,772 hours for Fall 2014 and 2,106 hours for Spring 2015.

Since future funding is based, in part, on enrollment data reported to FDOE, it is important that the College report accurate data. Similar findings were noted in our report Nos. 2011-032 and 2013-021.

Recommendation: The College should strengthen controls to ensure instructional contact hours for adult general education classes are accurately reported to the FDOE. The College should also contact the FDOE for proper resolution of the over-reported hours for the 2014-15 fiscal year.

⁴ Section 1004.02(3), Florida Statutes.

⁵ Chapter 2014-51, Laws of Florida, Specific Appropriation 126.

⁶ FDOE-issued Memorandum No. 06-14, dated May 15, 2006, *Reporting Procedures for Adult General Education Enrollments*.

Finding 3: Performance Funding for Industry Certifications

State law⁷ provides performance funding for industry certifications for Florida College System institutions contingent upon specific appropriation in the General Appropriations Act. General Appropriations Act⁸ proviso language provided funding for colleges based on industry certifications attained by students during the 2013-14 and 2014-15 academic years in certain occupational areas, such as public safety, health sciences, and computer programming, and specified that performance funding could not be awarded for certifications earned through continuing workforce education programs. Additionally, pursuant to State law,⁹ expenditures for the College's continuing workforce education programs must be fully supported by fees, and enrollments in continuing workforce education courses are not to be counted for purposes of funding full-time equivalent enrollment.

During the 2014-15 fiscal year, the College received performance funding of \$107,999 for 182 industry certifications reported to the FDOE. Subsequent to our request for documentation to support the reported certifications, College personnel determined that 16 certifications were earned through continuing workforce education programs and had been misreported to the FDOE for performance funding. In addition, our review of College records for the remaining 166 certifications disclosed that the College had misreported 2 other industry certifications as the students had not actually attained the certifications.

In response to our inquiries, College personnel indicated that the industry certifications were misreported because of oversights. In October 2015, the College returned to the FDOE the \$10,681 of unearned performance funding for the 18 industry certifications misreported. Since performance funding is based on the number of industry certifications attained in certain occupational areas, it is important that the College report accurate data.

Recommendation: The College should enhance controls to ensure that industry certifications attained by students are accurately reported to the FDOE.

PRIOR AUDIT FOLLOW-UP

The College had taken corrective actions for findings included in our report No. 2013-021, except as noted in Finding 2. As discussed in Finding 2, we noted similar findings in our prior report Nos. 2013-021 (finding No. 4) and 2011-032 (finding No. 2).

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.

⁷ Section 1011.81(2), Florida Statutes.

⁸ Chapter 2014-51, Laws of Florida, Specific Appropriation 125.

⁹ Section 1011.80(5), Florida Statutes.

We conducted this operational audit from June 2015 to December 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. 2013-021.
- 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:

- Evaluated the College's written security policies and procedures governing the classification, management, and protection of sensitive information.
- Evaluated College documentation for information technology (IT) authentication controls to determine whether such controls were configured and enforced.
- Reviewed College procedures for maintaining and reviewing employee access to IT resources to determine the appropriateness and necessity of the access based on employees' job duties and whether the access prevented the performance of incompatible duties. We also examined 25 College employees' accounts to evaluate the appropriateness of the access privileges.
- Reviewed Board minutes for evidence of compliance with Sunshine Law requirements (i.e., proper notice of meetings, meetings readily accessible to the public, and properly maintained meeting minutes).
- Examined College records to determine 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.
- Examined College records to determine 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 determined whether the College had implemented appropriate and sufficient procedures to comply with its anti-fraud policy.
- Analyzed the unencumbered balance in the unrestricted current fund of the Board-approved operating budget to determine whether the balance was below 5 percent of the total available fund balances at June 30, 2015. We also 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.
- Evaluated College policies and procedures regarding textbook affordability for compliance with Section 1004.085, Florida Statutes. Also, we examined documentation to determine whether the College's policies and procedures regarding textbook affordability, for the 913 textbooks added during the 2014-15 fiscal year, were in accordance with Section 1004.085, Florida Statutes.
- Examined support for a \$595 payment made by the College to its direct-support organization to determine whether the payment was authorized by Section 1004.70(1)(a)2. and (3), Florida Statutes.
- From the population of 10,563 electronic funds transfers and payments totaling \$27,569,955 during the 2014-15 fiscal year, examined College records supporting 30 selected transfers and payments totaling \$1,427,901 to determine whether the transfers and payments were adequately supported and properly authorized.
- From the population of 2,222 student receivables totaling \$988,525 at June 30, 2015, examined student receivable documentation supporting 30 selected student receivables totaling \$46,470 to determine whether collection efforts were adequate and restrictions on student records and holds on transcripts and diplomas were appropriate and enforced for students with delinquent receivable accounts.

- Examined College records to determine whether uncollectable accounts written-off, totaling \$235,060, were properly approved.
- Evaluated controls over student fees to determine whether students who had not paid fees in an approved manner were not considered in calculating full-time equivalent enrollments for State funding purposes pursuant to Sections 1009.22(11) and 1009.23(9), Florida Statutes.
- From the population of 4,722 full-time equivalent students enrolled during the 2014-15 fiscal year, examined College student enrollment records supporting 30 selected students who were enrolled as Florida residents to determine whether the College documented Florida residency and correctly assessed tuition in compliance with Section 1009.21, Florida Statutes, and State Board of Education Rule 6A-10.044, Florida Administrative Code.
- Examined the College's five auxiliary operations vendor contracts totaling \$10,850 for the 2014-15 fiscal year to determine whether the College properly monitored compliance with the contract terms for fees, insurance, and other provisions. Also, we performed analytical procedures to determine whether the College's auxiliary services were self-supporting.
- From the population of 193 laboratory fees with revenue totaling \$274,557 during the 2014-15 fiscal year, examined College records supporting 13 selected laboratory fees that generated revenues totaling \$29,450 to determine whether the fees were assessed and collected as provided by Section 1009.23(12)(a), Florida Statutes, applicable Division of Florida Colleges guidance, and College operating procedure.
- Examined College records for all 184 distance learning courses with fee revenue totaling \$381,015 during the Fall 2014 and Spring 2015 terms to determine whether distance learning fees were assessed in accordance with Section 1009.23(16)(b), Florida Statutes.
- From the population of 146 exempt employees, examined time sheet records supporting 26 selected employees for evidence of supervisory review and approval of time worked and leave used and evaluated whether compensation payments were appropriate and leave balances were accurate.
- Reviewed the College's policies and procedures for payments of accumulated annual and sick leave to determine whether the policies and procedures promoted compliance with State law, College rules, and employee contracts. From the population of 48 former or active employees who received \$302,515 in annual or sick leave payments, we examined College records supporting 17 selected employees who received payments totaling \$238,132 to evaluate whether the payments, including the related retirement benefit contributions, were in compliance with Sections 110.122 and 1012.865, Florida Statutes; Division of Retirement Rule 60S-6.001, Florida Administrative Code; and Florida Retirement System guidelines.
- Reviewed the severance pay provisions in 27 of 146 employee contracts (including the President's) to determine whether the provisions were in compliance with Section 215.425(4), Florida Statutes. Also, we examined College records supporting the one employee paid \$5,173 in severance pay during the 2014-15 fiscal year to determine whether the severance payment complied with State laws and Board policies.
- Examined the College President's compensation contract for the 2014-15 fiscal year to determine whether the amounts paid (totaling \$475,883) did not exceed limits established by Section 1012.885, Florida Statutes, and the President's contract.
- Evaluated College policies and procedures for obtaining personnel background screenings and reviewed College records to determine whether individuals in positions of special trust and responsibility, such as positions in direct contact with persons under age 18, had undergone the appropriate background screenings.
- Reviewed College policies and procedures to determine whether health and life insurance was provided only to eligible employees, retirees, and dependents and that such insurance was timely

canceled upon separation from employment. Also, we determined whether the College had procedures for reconciling health insurance costs to employee, retiree, and Board-approved contributions.

- From the population of 898 employees compensated a total of \$22,003,298 during the 2014-15 fiscal year, examined compensation records for 30 selected employees, who were compensated a total of \$528,728, to determine whether College payroll procedures were designed properly and operating effectively.
- From the population of 1,793 travel expenses totaling \$446,517 for the 2014-15 fiscal year, examined travel records supporting 35 selected travel expenses totaling \$15,723 to determine whether the travel expenses were reasonable, adequately supported, for valid College purposes, and complied with State law.
- From the population of contractual service payments totaling \$2,509,272 for other than construction, examined College records supporting 30 payments for contractual services totaling \$1,156,455 to determine whether the related purchase orders or contracts were properly awarded and executed, the contractor was not an employee of the College, and the payments were made in accordance with contract terms.
- From the population of 4,537 purchasing card (P-card) transactions and 160 fuel card transactions totaling \$708,178 and \$9,650, respectively, during the 2014-15 fiscal year, examined College records supporting 27 P-card and 3 fuel card transactions totaling \$33,180 and \$199, respectively, to determine whether the P-card and fuel card programs were administered in accordance with College policies and procedures.
- For all 10 employees with assigned P-cards who separated from College employment during the 2014-15 fiscal year, examined P-card documentation to determine whether the cards were timely canceled upon the cardholder's separation from College employment.
- From the population of 78 payments totaling \$14,787 made to employees for other than travel and compensation during the 2014-15 fiscal year, examined documentation supporting 6 selected payments totaling \$10,000 to determine whether such payments were reasonable, adequately supported, and for valid College purposes, and whether such payments were related to employees doing business with the College, contrary to Section 112.313, Florida Statutes.
- Evaluated College rules, policies, and procedures related to identifying potential conflicts of interest. For selected College officials, we reviewed Florida 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.
- From the population of Public Education Capital Outlay (PECO) and other restricted capital outlay payments totaling \$2,576,557, examined records supporting 25 selected payments totaling \$1,263,995 to determine whether the funds 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 or returned as required by Section 216.301(2)(a) and (c), Florida Statutes.
- From the population of expenses, other than compensation and student financial aid, totaling \$17,354,215, examined College records supporting 30 selected transactions totaling \$8,977 to determine whether the expenses were recorded in the correct amounts; adequately documented; made in accordance with applicable laws, rules, and applicable contract terms; and properly authorized and approved.
- Examined supporting documentation for adult general education instructional and contact hours reported by the College to the Florida Department of Education (FDOE) to determine whether the hours were reported in accordance with FDOE requirements.

- Determined whether the College maintained documentation for student attainment of industry certifications for the industry certifications eligible for performance funding during the 2014-15 fiscal year and reported to the FDOE.
- Reviewed the College's annual cost analysis reports and supporting documentation to determine whether the reports were timely filed, properly prepared, and agreed to College records.
- 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



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EQUAL OPPORTUNITY/EQUAL ACCESS COLLEGE

February 29, 2016

Ms. Sherrill F. Norman
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Dear Ms. Norman:

The following is the response to the preliminary and tentative audit findings of your most recent operational audit of St. Johns River State College as listed in your letter dated February 12, 2016.

Finding 1: Leave payment reporting to the Florida Retirement System

Acknowledged. The College incorrectly reported certain annual leave payments for some senior management employees as regular compensation (under code 12) instead of as annual leave payments (under code 21). The College has submitted corrected payroll information to the Florida Retirement System regarding all incorrectly reported/coded payments. In addition, the College has revised internal procedures to ensure that all future accumulated annual leave payments (regardless of whether they are contractual or due to termination from employment) are properly reported under code 21.

Finding 2: Reporting contact hours for adult general education classes

Acknowledged. A reports file programming error in the College's locally developed *Adult Education* database caused the default number of hours to be misreported for students with zero contact hours in the final report period submission files. For future submissions of Adult Education contact hours, the College will, as a part of its standard report submission review period, use a unique set of reports reflecting each student's first date of contact/attendance as recorded by the *Adult Education* database for that specific report term. Adult Education staff will then confirm actual start and end dates of instructional contact. Staff will also monitor and track those students who physically start the enrollment paperwork process, but never attend any class, to verify that they are reflected correctly in any IT generated instructional contact hours review file. Those students not evidencing actual dates of instructional contact will be removed from the College's student registration database for that specific reporting term by the Adult Education staff utilizing the approved method/paperwork. The IT reports staff will also remove those identified students from the final set of instructional contact hours submission report files.

Finding 3: Performance Funding for Industry Certifications

Acknowledged. This error was isolated to the one department of Criminal Justice and Public Safety for students completing the equivalency of training program which results in their eligibility to sit for the law enforcement certification. Our internal verification process did not find this error. In addition, State edits did not result in critical errors. Staff training and enhanced verification/approval processes have been implemented. Additionally, all funds received from the State related to the misreported industry certifications have been returned.

Sincerely,

A handwritten signature in blue ink, appearing to read "Joe H. Pickens".

Joe H. Pickens, J.D.
President