

Report No. 2018-034
November 2017

STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

STATE BOARD OF ADMINISTRATION

Florida Prepaid College Board
and Selected Administrative Activities



Sherrill F. Norman, CPA
Auditor General

State Board of Administration

Article IV, Section 4(e) of the State Constitution (1968), as amended, establishes the State Board of Administration (SBA). The three-member SBA Board of Trustees is composed of the Governor, as Chair, the Chief Financial Officer, and the Attorney General. The Trustees delegate administrative and investment authority to an appointed Executive Director. Ashbel Williams served as Executive Director during the period of our audit.

Florida Prepaid College Board

The Florida Prepaid College Board is established by Section 1009.971, Florida Statutes, and consists of seven members including the Attorney General, Chief Financial Officer, Chancellor of the State University System, Chancellor of the Division of Florida Colleges, and three members appointed by the Governor and subject to confirmation by the Senate. Each Board member not appointed by the Governor may name a designee to serve on the Board on his or her behalf. The Board appoints an Executive Director to serve as the Board's chief administrative and operational officer. During the period of our audit, Kevin Thompson served as Executive Director and the following individuals served as Board members.

Chief Financial Officer Designee	Philip E. Marshall
Attorney General Designee	Vacant from December 8, 2016 Duane L. Ottenstroer, through December 7, 2016; Chairman through September 29, 2016
Interim Chancellor of the State University System	Jan M. Ignash, through January 5, 2014
Designee of the Chancellor of the State University System	Chris Kinsley, from January 6, 2014
Chancellor of the Division of Florida Colleges	Ms. Madeline M. Pumariega, from May 13, 2015 Vacant January 2, 2015, through May 12, 2015 Mr. Randy Hanna, through January 1, 2015
Governor Appointee	James W. Rasmussen, from December 8, 2015 Vacant June 18, 2015, through December 7, 2015 Patrick T. Hogan, through June 17, 2015
Governor Appointee	The Honorable John D. Rood, from June 23, 2016; Chairman from September 30, 2016 Robert C. Champion, through June 23, 2016
Governor Appointee	Adria D. Starkey, from December 8, 2015 Vacant March 26, 2014, through December 7, 2015 Liana O'Drobinak, through March 25, 2014

The team leader was Ryan P. Marlar, CPA, and the audit was supervised by Allen G. Weiner, CPA.

Please address inquiries regarding this report to Kathryn D. Walker, CPA, Audit Manager, by e-mail at kathrynwalker@aud.state.fl.us or by telephone at (850) 412-2781.

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STATE BOARD OF ADMINISTRATION

Florida Prepaid College Board and Selected Administrative Activities

SUMMARY

This operational audit of the State Board of Administration (SBA) focused on the Florida Prepaid College Board (Prepaid Board) and selected administrative activities of the SBA. The audit also included a follow-up on the findings noted in our report No. 2015-083. Our audit disclosed the following:

Florida Prepaid College Board

Finding 1: The Prepaid Board contracted with service organizations for records administration and trust services. The Prepaid Board had not established procedures for documenting, and did not document, the service organization controls relied upon by the Prepaid Board. In addition, the Prepaid Board did not always verify that the service organizations monitored and evaluated the adequacy and effectiveness of controls established by subservice organizations.

Finding 2: Contrary to the Stanley G. Tate Florida Prepaid College Program master contract and procedures, the records administrator transferred two advance-payment contracts to a records administrator employee without a notarized request from the account owners.

Selected Administrative Activities

Finding 3: As similarly noted in our report No. 2015-083, SBA policies and procedures did not ensure that all computers were accounted for through the physical inventory process.

Finding 4: To enhance transparency, SBA management should ensure that the contract information posted on the SBA Web site is up-to-date and complete.

BACKGROUND

The State Constitution¹ establishes the State Board of Administration (SBA) governed by a three-member Board of Trustees composed of the Governor, as Chair, the Chief Financial Officer, and the Attorney General. The SBA provides investment management and debt administrative services to various State and local governmental entities. As of June 30, 2017, SBA-managed assets were valued at approximately \$191.46 billion while SBA-administered long-term debt totaled approximately \$16.8 billion.

¹ Article IV, Section 4(e) of the State Constitution.

FINDINGS AND RECOMMENDATIONS

FLORIDA PREPAID COLLEGE BOARD

Pursuant to State law,² the Legislature established the Florida Prepaid College Board (Prepaid Board) to administer the Stanley G. Tate Florida Prepaid College Program (Prepaid Program) and the Florida College Savings Program (Savings Program). The Prepaid Board is assigned to and administratively housed within the SBA, but independently exercises its powers and duties.

In 1987, the Legislature established the Prepaid Program to provide a medium (advance-payment contracts) through which the cost of registration and dormitory residence may be paid in advance of enrollment in a State postsecondary institution at a rate lower than the projected corresponding cost at the time of actual enrollment.³ In 1999, the Legislature established the Savings Program to enable persons to contribute funds that are combined and invested to pay the subsequent higher education expenses of a designated beneficiary.⁴ The Prepaid and Savings Programs constitute qualified tuition programs under Section 529 of the Internal Revenue Code.

Finding 1: Service Organization Controls

As the Prepaid Board contracts with two service organizations, one for records administration and one for trustee services, it is incumbent upon the Prepaid Board to take steps to reasonably ensure that service organization controls relevant to the services performed on behalf of the Prepaid Board are suitably designed and operating effectively. Additionally, when the service organizations utilize subservice organizations⁵ to perform services for the Prepaid Board, it is necessary for the Prepaid Board to obtain assurances regarding the subservice organizations' controls relevant to those services.

Provisions in the Prepaid Board contracts^{6,7} require the service organizations to provide for audits of the design and effectiveness of the service organization's relevant internal controls and to submit reports of such audits to the Prepaid Board. The records administration service organization obtained multiple audit reports each year covering controls related to the Prepaid Program and Savings Program administration services systems, the Prepaid Records Information Management and Administration (PRIMA Florida) system, and the disaster recovery program supporting the records administration systems.

² Sections 1009.971(1), 1009.97(3)(d), 1009.97(3)(n), Florida Statutes.

³ Section 1009.98, Florida Statutes.

⁴ Section 1009.981, Florida Statutes.

⁵ A subservice organization is a service organization used by another service organization to perform some of the services provided to user entities that are likely to be relevant to those user entities' internal control.

⁶ The records administration contract dated October 23, 2008, incorporated provisions of the Invitation to Negotiation which required a report and audit on policies and procedures placed in operation and tests of operating effectiveness for the electronic data processing system, including internal controls and the security of the Web site used for the Prepaid and Investment Plans, in accordance with American Institute of Certified Public Accountants (AICPA) Statement on Auditing Standards (SAS) No. 70. Subsequent to the date of the contract, SAS No. 70 was superseded by Statement on Standards for Attestation Engagements No. 16 (SSAE 16), *Reporting on Controls at a Service Organization*.

⁷ The trustee services contract dated October 31, 2012, required the trustee to provide to the Prepaid Board SSAE 16 reports and any additional auditing or financial reports which may replace or supplant the SSAE 16 reports.

As part of our audit, we reviewed the Prepaid Board contracts with the two service organizations, performed inquiries with management, and examined 4 of the 11 records administration service auditor reports and 1 of the 3 trustee services service auditor reports received by the Prepaid Board during the period January 2014 through December 2016. Our examination of the 5 selected service auditor reports and discussions with Prepaid Board staff disclosed that:

- The Prepaid Board had not documented which service organization controls it relied upon or established procedures to document the review of service auditor reports. Additionally, the Prepaid Board did not document the review, follow-up, and resolution of deficiencies noted in the service auditor reports.
- The Prepaid Board had not documented the consideration and implementation of complementary user entity controls⁸ identified in the 5 service auditor reports.
- 3 of the 4 records administration service auditor reports noted that the service organization utilized subservice organizations to perform services such as data center hosting, managed backup, system support, and network intrusion protection system monitoring and management services. However, the reports indicated that the service auditor did not perform any audit procedures related to, and provided no opinion regarding, the design or operating effectiveness of the subservice organizations' controls. In addition, absent assurances from the service auditor regarding the subservice organizations' controls, the Prepaid Board had not made other efforts to ensure that the subservice organizations' controls were in place and operating effectively.
- It was the Prepaid Board's understanding that the records administration service organization contract required annual service organization audits based on the service organization's fiscal year (January 1 through December 31). However, none of the 4 records administration service auditor reports provided assurance over the Records Administrator's controls for the required 12-month period. Specifically, for 3 of the 4 reports, the specified period was December 1st through May 31st and, for the other report, the specified period was December 1st through June 30th. In addition, Prepaid Board management had not established additional monitoring procedures to ensure that that relevant service organization controls were suitably designed and operating effectively for the months not included in the scope of the service auditor reports.

Documenting all service organization controls relied upon by the Prepaid Board and the review, follow-up, and disposition of deficiencies noted in service auditor reports,⁹ and documenting that complementary user entity controls were in place and operating effectively, would better facilitate the Prepaid Board's assessment of whether service organization reports clearly and specifically address the design and operating effectiveness of all relevant controls. Additionally, when service organizations utilize subservice organizations to perform services for the Prepaid Board, procedures to ensure that the design and operating effectiveness of the subservice organizations' controls have been appropriately evaluated are necessary.

Recommendation: We recommend that Prepaid Board management establish procedures for documenting the service organization controls relied upon by the Prepaid Board and work with the service organizations to ensure that the service auditor reports clearly and specifically address the design and operating effectiveness of all relevant controls and cover a period of time

⁸ Complementary user entity controls are controls that management of the service organization assumes, in the design of the service organization's system, will be implemented by user entities and are necessary to achieve the control objectives stated in management's description of the service organization's system.

⁹ AICPA AT-C Section 320, *Reporting on an Examination of Controls at a Service Organization Relevant to User Entities' Internal Control Over Financial Reporting* should be used for service organization auditor reports dated on or after May 1, 2017.

relevant to the Board's needs. In addition, the Prepaid Board and the service organizations should take appropriate action to ensure that there are no gaps in time between service auditor reports. We also recommend that Prepaid Board management establish procedures for the review of service auditor reports, including follow-up and resolution of reported deficiencies and documentation that complementary user entity controls are in place and operating effectively, and verify that service organizations monitor and evaluate the adequacy and effectiveness of subservice organization controls or otherwise ensure that subservice organization service auditor reports provide the necessary assurances.

Finding 2: Prepaid Program Account Owner Changes

To change an account owner, the Prepaid Program Master Contract and Records Administrator Business Rules require the account owner to submit a notarized request to the Records Administrator authorizing the change. Also, in instances where account owners cannot access their online accounts, the Records Administrator's process was to create a service ticket and refer the matter to the Systems Department for resolution.

Our audit procedures included an analysis of account owner changes during the period January 2014 through December 2016 to determine whether multiple unrelated accounts were transferred to a single new account owner. For 27 Prepaid Program accounts transferred from 17 account owners to 13 new account owners, we reviewed Records Administrator records to determine whether a notarized request was received. We found that 2 accounts were transferred to a Records Administrator employee absent a notarized request from the 2 account owners. Our review of the Records Administrator system notes related to these accounts disclosed that:

- In each instance, the account owner had established an initial account and then subsequently established a second, duplicative account for the same beneficiary. As an account owner can only set up one account of each type for a particular beneficiary,¹⁰ the two account owners were unable to access online information for the initial accounts. To allow the account owners online access to the initial accounts, the Records Administrator employee was linked as the account owner for the second accounts.
- For one of the two accounts transferred to the Records Administrator employee, the actual account owner was relinked to the account 2 days after the change; however, as of June 2017, the Records Administrator employee remained the account owner on the other account.

We also noted that there was no service ticket or other documentation to demonstrate that the Records Administrator's established process was followed in either instance.

Although neither account held funds subject to refund at the time of the change, unauthorized changes of account owners may result in misappropriation of Prepaid Program funds. In addition, absent the creation of a service ticket notifying the Systems Department of technical errors, the Records Administrator cannot demonstrate that appropriate processes were followed or provide assurance that

¹⁰ The Prepaid Program Master Contract provides that a specific beneficiary may only be named in one active account, unless all accounts for that beneficiary only contain up to four 1-Year Florida University Plans and up to one 2-Year Florida College Plan. Under this exception, a maximum sum of 120 credit hours may be purchased for a named beneficiary in one or more accounts. In both instances, the beneficiary was named in two active 4-Year Florida University plans before the records administrator canceled the duplicate account.

errors preventing account owners from accessing online accounts will be timely resolved without unauthorized account ownership changes.

Recommendation: We recommend that Prepaid Board management work with the Records Administrator to ensure that all Prepaid Program account owner changes are authorized by notarized account owner requests and that Records Administrator employees follow the process established by the Record Administrator for correcting system errors.

SELECTED ADMINISTRATIVE ACTIVITIES

As part of our audit, we also evaluated selected SBA administrative activities and controls, including those related to property management and contract administration.

Finding 3: Annual Physical Inventory

Effective controls for management of property require that property items be controlled, safeguarded, and accounted for by management. SBA policies¹¹ defined property and required the Office Services Section and Inspector General to conduct an annual physical inventory verifying the existence and location of each property item recorded in SBA records. To record and maintain accountability for all SBA property items, the SBA used an asset management system.

In our report No. 2015-083 (finding No. 3), we noted that SBA policies and procedures did not ensure that all property items, including computers, were accounted for during the annual physical inventory process. As part of our audit follow-up procedures, we obtained updated SBA policies and procedures for the annual physical inventory process and compared SBA property records to the listing of items included in the most recent physical inventory conducted during the period October 2016 through February 2017. Our audit procedures again disclosed that SBA policies and procedures did not ensure that all computers were accounted for in the annual physical inventory. Specifically, the Office Services Section and Inspector General did not account for 28 computers with acquisition costs totaling \$32,748 during the physical inventory.

In response to our inquiry, SBA management indicated that the program used to determine which property items were to be included in the annual physical inventory inadvertently contained filters that excluded 4 of the 28 computers because they were in storage and, although SBA policies defined property to include computing equipment with a value equal to or greater than \$500, the remaining 24 computers were excluded because they had a value of less than \$1,000. We noted that the value for each of the 24 computers exceeded \$500.

Effective controls for the safeguarding of SBA assets should ensure that all tangible personal property items are subject to the annual physical inventory. Computers, by nature of their portability, adaptability for personal use, and data storage capabilities, are more susceptible to loss and theft. Therefore, controls to ensure the proper accountability for these items, and any sensitive and confidential data they may

¹¹ SBA Policy 10-425, *SBA or State-Owned Property*. The policy defined "property" as all tangible personal property owned by the State or the SBA and stated that tangible personal property was composed of three groups: (1) computing equipment with a value equal to or greater than \$500; (2) office furniture and equipment or other tangible personal property with a value equal to or greater than \$1,000; and (3) hardback books with a value equal to or greater than \$250.

contain, are especially important. Absent effective controls, designed and implemented to ensure the complete and proper physical inventory of SBA property and equipment, SBA management has reduced assurances regarding the appropriate control and safeguarding of, and accountability for, SBA property and equipment.

Recommendation: We again recommend that SBA management enhance controls to ensure that all SBA property items, including computers, are accounted for during the annual physical inventory process.

Finding 4: Contract Information Reporting

To provide transparency in government spending and pursuant to State law,¹² the Department of Financial Services established the Florida Accountability Contract Tracking System (FACTS), an online tool that provides users and the public with access to State contract information. State law requires various State entities, such as boards and departments of the executive branch of State Government, and all parts of the judicial branch of State Government, to post certain information relating to each contract to FACTS, such as:

- The names of the contracting entities and the procurement method.
- Contract beginning and ending dates and the nature or type of the commodities or services purchased.
- Applicable contract unit prices and deliverables and the total compensation to be paid or received under the contract.
- All payments made to the contractor to date and applicable contract performance measures.
- If a competitive solicitation was not used to procure the goods or services, the justification of such action, including citation to a statutory exemption or exception from competitive solicitation, if any.
- Electronic copies of the contract and procurement documents redacted to exclude confidential or exempt information.

In lieu of posting to FACTS, State law¹³ allows the Department of Legal Affairs and the Department of Agriculture and Consumer Services to post the required contract information to their own agency-managed Web sites in a downloadable format that allows offline analysis. However, there is no statutory requirement for the SBA to post contract information on the SBA Web site.

As of March 2017, the SBA was responsible for 992 active contracts totaling \$85,358,499. We noted that, although not required by State law, the SBA had posted some contract information on its Web site; however, as of June 2017, the information was limited to a list of contracts as of September 2015. We also noted that the SBA Web site did not identify payments made to contractors, include electronic copies of the contract and procurement documents, or provide for downloadable data to allow offline analysis.

In response to our inquiry, SBA management indicated that staff turnover may have contributed to contract information not being timely updated to the SBA Web site. While the SBA's use of FACTS may not be feasible given that the SBA does not use the State's accounting system or receive legislative

¹² Section 215.985(14), Florida Statutes.

¹³ Section 215.985(14)(i), Florida Statutes.

appropriations, appropriate contract information timely posted to the SBA Web site would enhance transparency in government spending.

Recommendation: For enhanced transparency, we recommend that SBA management ensure that contract information is timely posted to the SBA Web site and that the posted information include payments made to contractors, electronic copies of the contract and procurement documents, and downloadable data to allow offline analysis.

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the SBA had taken corrective actions for the applicable findings included in our report No. 2015-083.

OBJECTIVES, SCOPE, AND METHODOLOGY

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

We conducted this operational audit from February 2017 through July 2017 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.

This operational audit of the State Board of Administration (SBA) focused on the Florida Prepaid College Board (Prepaid Board) and selected administrative activities. The overall objectives of the 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 State law, administrative rules, contracts, grant agreements, and guidelines.
- To 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, the reliability of records and reports, and the safeguarding of assets, and identify weaknesses in those internal controls.
- To identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

Our audit also included steps to determine whether management had corrected, or was in the process of correcting, all deficiencies noted in our report No. 2015-083.

This audit was designed to identify, for those programs, activities, or functions included within the scope of the audit, deficiencies in management's internal controls, instances of noncompliance with applicable governing laws, rules, or contracts, 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's 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 transactions and records during the period January 2014 through December 2016 and selected actions taken subsequent thereto. Unless otherwise indicated in this report, these transactions and records 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 agency management, staff, and vendors, and as a consequence, cannot be relied upon to identify all instances of noncompliance, fraud, abuse, or inefficiency.

In conducting our audit we:

- Reviewed Prepaid Board procurement procedures, performed inquiries, and inspected Prepaid Board documents and records to determine whether Prepaid Board management had adequately designed and implemented controls for the procurement of goods and services.
- Examined procurement and contract files for four contracts, totaling \$3,505,507, from the population of six Prepaid Board marketing, audit services, and investment management contracts totaling \$3,505,507,¹⁴ procured during the period January 2014 through December 2016, to determine whether Prepaid Board contracts were procured and contained contract terms in accordance with State law, rules, and other guidelines.
- Performed inquiries and inspected Prepaid Board documents and records to determine whether the Prepaid Board had adequately designed and implemented procedures for monitoring contracts.
- Tested 25 Prepaid Board contract payments totaling \$6,618,203, from the population of 989 contract payments totaling \$72,284,236 paid during the period January 2014 through December 2016, to determine whether the payments were authorized, supported, reviewed, paid only after the receipt of contract deliverables, and accurately recorded in accordance with State law, contract provisions, and other guidelines.

¹⁴ Three contracts did not have a specified contract amount as the contract amount varied based on the amount of investments managed by the contractor.

- Performed inquiries and reviewed Prepaid Board contracts with service organizations to gain an understanding of the services provided and to determine whether the contract terms required the service organizations to provide appropriate service auditor reports.
- Examined 5 of the 14 Prepaid Board service auditor reports received during the period January 2014 through December 2016 to determine whether Prepaid Board personnel reviewed the service auditor reports prepared for service organizations to ensure the reports addressed all applicable controls being relied upon and any complementary controls that need to be in place for the service organizations controls to be relied upon and appropriately followed up on all applicable deficiencies noted in the reports.
- Reviewed Prepaid Board meeting minutes and Senate confirmation records for the period January 2014 through December 2016, to determine whether the Prepaid Board was organized in accordance with State law and other guidelines. In addition, we reviewed Commission on Ethics financial disclosure filings as of July 2017 for the seven Prepaid Board members as of December 2016, to determine whether the Prepaid Board members filed required financial disclosures.
- Performed inquiries and reviewed Prepaid Board records to gain an understanding of, and assess the Prepaid Board's processes for, developing actuarial assumptions used to annually evaluate the actuarial soundness of the Florida Prepaid College Trust Fund (Prepaid Trust Fund).
- Reviewed the Stanley G. Tate Florida Prepaid College Program (Prepaid Program) master contract and other records to determine whether advance-payment contracts for University, Florida College, and dormitory plans for the enrollment period beginning October 2016 were established, contained contract prices in accordance with actuarially determined advance-payment contract prices, and made available in accordance with State law.
- Tested 25 Prepaid Board payments totaling \$346,687, from the population of 52,640 payments totaling \$272,813,372 during the period January 2014 through December 2016 excluding refunds, to private and out-of-State postsecondary institutions and career centers to determine whether the payments were made in accordance with State law, the master contract, Records Administrator business rules, and Prepaid Board procedures.
- Tested 56 Prepaid Program refunds totaling \$1,872,924 paid to individuals, organizations, and foundations from the population of 128,921 advance-payment contract refunds totaling \$566,672,382, paid during the period January 2014 through December 2016, to determine whether refunds were correctly calculated and paid in accordance with State law, the master contract, business rules, and Prepaid Board procedures.
- Tested 25 payments totaling \$70,177, from the population of 9,958 payments to State postsecondary institutions totaling \$890,429,422 paid during the period January 2014 through December 2016, to determine whether the payments were made in accordance with State law, the master contract, business rules, and Prepaid Board procedures.
- Analyzed Prepaid Program and Florida 529 Savings Plan (Savings Plan) account owner, survivor, beneficiary, and address changes during the period January 2014 through December 2016 to determine whether new account owners, survivors, beneficiaries, or addresses appeared to be linked to multiple unrelated accounts.
- Examined Prepaid Program records related to changes in 27 account owners, ten survivors, three beneficiaries, and 54 addresses during the period January 2014 through December 2016 to determine whether the changes were authorized in accordance with State law, the master contract, business rules, and Prepaid Board procedures.
- Examined Savings Plan records related to changes in six account owners, three survivors, two beneficiaries, and 28 addresses during the period January 2014 through December 2016 to

determine whether the changes were authorized in accordance with State law, the master participation agreement, business rules, and Prepaid Board procedures.

- Reviewed the Savings Plan master participation agreement and other records to determine whether the Prepaid Board developed terms and conditions for the Savings Plan in accordance with State law.
- Tested 25 Savings Plan distributions totaling \$2,135,401, from the population of 20,481 distributions totaling \$79,848,787 made to educational institutions, beneficiaries, and account owners made during the period January 2014 through December 2016, to determine whether the distributions were made in accordance with State law, the master participation agreement, business rules, and Prepaid Board procedures.
- Tested the escheatment of 25 advance-payment contract accounts totaling \$181,695, from the population of 5,900 escheated accounts totaling \$10,237,692 for the period January 2014 through December 2016, to determine whether unused contract benefits, unclaimed refunds, and unclaimed credit balances escheated to the Prepaid Trust Fund in accordance with State law, the master contract, and Prepaid Board rules and procedures.
- Evaluated SBA actions to correct all findings noted in our report No. 2015-083. Specifically, we:
 - Examined SBA records related to nine noncompetitively procured contractual services contracts, totaling \$159,200, entered into during the period January 2014 through December 2016 to determine whether the contracts were procured in accordance with established policies and procedures.
 - Determined whether *Cardholder Agreement Forms* had been completed prior to purchasing card (PCard) issuance and use for 45 of the 217 cardholders whose PCards were active during the period January 2014 through December 2016.
 - Reviewed SBA policies and procedures for the annual physical inventory process and compared SBA property records to the listing of items included in the most recent physical inventory conducted during the period October 2016 through February 2017. As of October 31, 2016, the SBA was responsible for 1,293 property items with acquisition costs totaling \$14,166,454.
- Observed, documented, and evaluated the effectiveness of SBA processes and procedures for:
 - The SBA's budgetary process and management of real property leases.
 - The administration of SBA contracts. As of March 3, 2017, the SBA was responsible for 992 active contracts totaling \$85,358,499.
 - The administration of SBA travel in accordance with SBA policies and procedures. SBA travel expenditures totaled \$3,643,554 during the period January 2014 through December 2016.
- 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 State agency 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.



Sherrill F. Norman, CPA
Auditor General

MANAGEMENT'S RESPONSE



The Honorable John D. Rood
Chairman

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Chancellor
State University System
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W. Radford Lovett II
Lovett Miller & Co.

Philip E. Marshall
Advantage Capital Partners

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November 13, 2017

The Honorable Sherrill F. Norman, CPA
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Re: Florida Prepaid College Board Response to Preliminary and
Tentative Audit Findings and Recommendations

Dear Auditor General Norman,

Thank you for the recommendations set forth in your preliminary and tentative audit findings report created pursuant to your operational audit of the Florida Prepaid College Board (the "Board") dated October 11, 2017. Please find below the Board's response for implementing your recommendations.

Finding 1:

The Prepaid Board contracted with service organizations for records administration and trust services. The Prepaid Board had not established procedures for documenting, and did not document, the service organization controls relied upon by the Prepaid Board. In addition, the Prepaid Board did not always verify that the service organizations monitored and evaluated the adequacy and effectiveness of controls established by subservice organizations.

Recommendation: We recommend that Prepaid Board management establish procedures for documenting the service organization controls relied upon by the Prepaid Board and work with the service organizations to ensure that the service auditor reports clearly and specifically address the design and operating effectiveness of all relevant controls and cover a period of time relevant to the Board's needs. In addition, the Prepaid Board and

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the service organizations should take appropriate action to ensure that there are no gaps in time between service auditor reports. We also recommend that Prepaid Board management establish procedures for the review of service auditor reports, including follow-up and resolution of reported deficiencies and documentation that complementary user entity controls are in place and operating effectively, and verify that service organizations monitor and evaluate the adequacy and effectiveness of subservice organization controls or otherwise ensure that subservice organization service auditor reports provide the necessary assurances.

Board Response to Finding 1 & Recommendation:

The Board has now documented procedures for the service organization controls relied upon by the Board, including working with the service organizations to ensure that the service auditor reports document the design and operating effectiveness of all relevant controls without a gap in time between service auditor reports. The procedures also document the Board's review of service auditor reports, including follow-up and resolution of reported deficiencies; documentation of complementary user entity controls, if any, in place and operating effectively; and verification that service organizations monitor and evaluate the adequacy and effectiveness of subservice organization controls, or that subservice organization service auditor reports provide the necessary assurances. Additionally, the Board is pursuing a contract amendment to document the Records Administrator's responsibility to perform due diligence on, and provide copies of, service auditor reports for subservice organizations covered under SSAE16 / SSAE18 guidelines.

Finding 2:

Contrary to the Prepaid Program master contract and procedures, the records administrator transferred two advance-payment contracts to a records administrator employee without a notarized request from the account owners.

Recommendation: We recommend that Prepaid Board management work with the Records Administrator to ensure that all Prepaid Program account owner changes are authorized by notarized account owner requests and that Records Administrator employees follow the process established by the Record Administrator for correcting system errors.

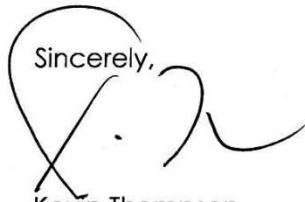
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Board Response to Finding 2 & Recommendation:

The Board and the Records Administrator continue working together to ensure that account transactions are processed according to the Master Contract and operating procedures, and that employees follow the operating processes established for correcting system errors. With respect to the two identified accounts, the employee of the Records Administrator was attempting to assist customers, at their request, who had access to new accounts blocked by system limitations. Although both accounts transferred had been cancelled beyond the reinstatement period, and neither account had any monetary value, the employee of the Records Administrator nevertheless failed to follow internal procedures of the Records Administrator that would have required reporting both issues to their systems unit for creation of a service ticket. The Records Administrator advised the Board that the employee has been counseled.

Once again, thank you for helping us better serve our customers and stakeholders.

Sincerely,



Kevin Thompson,
Executive Director
Florida Prepaid College Board



STATE BOARD OF ADMINISTRATION
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EXECUTIVE DIRECTOR & CIO

October 31, 2017

Ms. Sherrill F. Norman
Auditor General, State of Florida
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450

Dear Ms. Norman:

Our responses to the preliminary and tentative findings and recommendations which may be included in your report on the Operational Audit of the State Board of Administration are discussed below:

Finding No. 3:
Annual Physical Inventory

Recommendation: We again recommend that SBA management enhance controls to ensure that all SBA property items, including computers, are accounted for during the annual physical inventory process.

Response: Management agrees and has implemented additional controls to ensure that all SBA property items, including computers, are accounted for during the annual physical inventory process.

Finding No. 4:
Contract Information Reporting

Recommendation: For enhanced transparency, we recommend that SBA management ensure that contract information is timely posted to the SBA Web site and that the posted information include payments made to contractors, electronic copies of the contract and procurement documents, and downloadable data to allow offline analysis.

Ms. Sherrill F. Norman
October 31, 2017
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Response: Management agrees and has already taken steps to update the SBA website with the most current contract information available to post. In addition, the SBA has commenced a months-long process of upgrading the procurement and contract management modules of its Enterprise Resource Planning software to facilitate document posting and more up-to-date reporting.

If you have any questions, please do not hesitate to contact me.

Sincerely,



Ashbel C. Williams
Executive Director & Chief Investment Officer

cc: Kimberly Stirner, Chief Audit Executive
Lamar Taylor, Chief Operating/Financial Officer