

STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

Report No. 2019-046
November 2018

GULF COAST STATE COLLEGE



Sherrill F. Norman, CPA
Auditor General

Board of Trustees and President

During the period January 1, 2017 through December 31, 2017, Dr. John R. Holdnak served as President of Gulf Coast State College and the following individuals served as Members of the Board of Trustees:

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Ralph C. Roberson	Gulf
Joe K. Tannehill, Jr.	Bay
David P. Warriner	Gulf

The team leader was Melissa F. Hall, CPA, and the audit was supervised by Shelly G. Curti, CPA.

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

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GULF COAST STATE COLLEGE

SUMMARY

This operational audit of Gulf Coast State College (College) focused on selected College processes and administrative activities and included a follow-up on findings noted in our report No. 2016-089. Our operational audit disclosed the following:

Finding 1: College cash collection procedures continue to need improvement.

BACKGROUND

Gulf Coast 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 Panama City and Port St. Joe. Additionally, credit and noncredit classes are offered in public schools and other locations throughout Bay, Gulf, and Franklin Counties.

FINDING AND RECOMMENDATION

Finding 1: Cash Collections

Board policies¹ require that persons or groups that collect moneys for College services remit the collections to the Business Office or designee and obtain a receipt for the remittances. During the 2017 calendar year, the College had nine decentralized locations that collected cash, checks, and credit card payments for student tuition and fees and auxiliary fund revenue. During that period, auxiliary fund revenue totaled \$2.4 million, including \$19,117 for Dental Clinic and \$10,413 for Culinary Department services.

Effective controls over collections require that prenumbered receipts be issued promptly when cash is collected, collections be properly secured and timely deposited, and the incompatible duties of collecting and recording cash be appropriately separated. If a sufficient number of staff are not available to appropriately separate duties, compensating controls, such as supervisor-documented comparisons of historical and current cash collections, periodic observations of the cash collection process, and evaluations of the reasonableness of collections based on the comparisons and observations, are necessary.

Our discussions with College personnel and evaluation of College records supporting cash collections at the Dental Clinic and Culinary Department for the calendar year 2017 year disclosed that controls over

¹ Policy No. 5.050, *Receipt and Deposit of Funds*.

Dental Clinic collections could be enhanced. The Dental Clinic students performed various dental procedures including dental cleanings, x-rays, and examinations. Fees for the services ranged from \$2 to \$42 and the Dental Clinic receptionist collected fees and input information into a fee collection system that generated fee receipts. The system also generated daily production reports listing the total value of the services, collections, and impact on client receivables. The receptionist also stored records, such as production reports, along with the collections in a lockable cash box in a lockable cabinet drawer. At least once a week, the receptionist was responsible for submitting the collections and supporting records to the Business Office for deposit.

Our examination of College records supporting three selected remittances totaling \$4,027 during the 2017 calendar year from the Dental Clinic to the Business Office for 18 daily collections disclosed that:

- The fee receipts were not prenumbered to account for the collections. Without use of prenumbered receipts, accountability for cash collections is diminished.
- The Dental Clinic receptionist had the incompatible duties of collecting cash and recording entries in the fee collection system. In addition, no one independently reconciled the fee collections to daily fee receipts, production reports, and other collection records and controls were not in place to compensate for the incompatible duties. Separation of recordkeeping and cash collection functions, or adequate compensating controls, helps detect fraud associated with cash collections.
- 11 daily collections ranging from \$26 to \$426 were untimely remitted to the Business Office as the collections were remitted 6 to 26 business days after the collections were made. Also, although Dental Clinic personnel kept collections in a locked cash box in a locked drawer; the keys to the cash box and cabinet drawer were kept overnight in an unlocked drawer that was accessible to individuals in the reception area. Subsequent to our audit inquiry, in June 2018 College personnel indicated that they started storing the keys overnight in a secure location. Prompt cash remittances to the Business Office and proper security over collections decrease the risk of theft.

In response to our inquiries, College personnel explained that the Dental Clinic collection control deficiencies existed because of the limited number of staff and lack of established procedures at the Dental Clinic.

Effective controls established to adequately safeguard cash collections are necessary to promote accountability and to limit the risk that loss or theft of collections could occur and not be timely detected. A similar finding was noted in our report No. 2016-089.

Recommendation: The College should establish procedures to require and ensure that Dental Clinic cash collections are adequately safeguarded. Such procedures should ensure that prenumbered receipts are used for cash collections, cash is properly secured and timely deposited, and the incompatible duties of collecting cash and recording entries into the fee collection system are appropriately separated. If a sufficient number of staff are not available to appropriately separate duties, compensating controls should be implemented to ensure proper accountability for cash collections.

PRIOR AUDIT FOLLOW-UP

The College had taken corrective actions for findings included in our report No. 2016-089 except that the finding in this report was also noted in report No. 2016-089 as Finding 3.

OBJECTIVES, SCOPE, AND METHODOLOGY

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

We conducted this operational audit from May 2018 through September 2018 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. 2016-089.
- 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 transactions, as well as events and conditions, occurring during the audit period of January 2017 through December 2017 and selected College actions taken subsequent thereto. 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 College information technology (IT) policies and procedures to determine whether the policies and procedures addressed certain important IT control functions, such as data center physical security, authentication, and disaster recovery.
- Examined access privileges for the 17 employees assigned access privileges to either the finance or payroll applications during the audit period 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.
- From a population of 356 expense journal entries totaling a net amount of \$3,313,734 during the audit period, examined College records for 30 journal entries totaling a net amount of \$993,729 to determine whether College controls included supervisory review and approval of journal entries.
- 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 balance at June 30, 2017. We also 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 four payments totaling \$50,538, made during the audit period, from the College to its direct-support organization (DSO), examined College records supporting the payments to determine whether the payments were authorized as described in Section 1004.70(1)(a)2., (3), and (4), Florida Statutes.
- Examined College records to determine whether the Board had prescribed by rule, pursuant to Section 1004.70(3)(b), Florida Statutes, the conditions with which the DSO must comply in order to use College property, facilities, and personal services and whether the Board documented consideration and approval of anticipated College property, facilities, and personal services used by the DSO and the related costs.
- Examined supporting documentation for the 902 course sections offered during the Fall 2017 Semester to determine whether College textbook affordability procedures complied with Section 1004.085, Florida Statutes.
- From the population of 777 student accounts receivable totaling \$539,167 recorded prior to January 1, 2018, and still outstanding as of June 5, 2018, examined College records for 30 selected student accounts receivable totaling \$36,987 to determine whether student accounts receivable were properly authorized, adequately documented, and accurately recorded. Additionally, we evaluated whether College tuition and fee collection procedures were adequate and restrictions on student records and holds on transcripts and diplomas were appropriate and enforced for students with delinquent accounts in accordance with Board Policies established pursuant to Section 1010.03, Florida Statutes.

- Examined College records to determine whether uncollectible accounts totaling \$244,626 written off during the audit period were properly approved.
- From the population of the nine decentralized locations collecting total auxiliary revenues of \$2.4 million during the audit period, selected two locations with collections totaling \$29,530 and examined College records supporting collections totaling \$9,173 to determine the effectiveness of College collection procedures.
- From the population of 473 distance learning courses with fee revenue totaling \$295,860 during the audit period, examined College records supporting 30 selected distance learning courses with fee revenue totaling \$8,235 to determine whether distance learning fees were assessed, collected, and separately accounted for in accordance with Section 1009.23(16)(a) and (b), Florida Statutes.
- From the population of compensation payments totaling \$4,648,946 made to 72 supervisors during the audit period, selected 27 compensation payments totaling \$151,366 and examined the related payroll attendance records to determine whether management reviewed and approved employee reports of time worked.
- From the population of 213 industry certifications reported for performance funding that were attained by students during the 2016-17 fiscal year, examined 30 industry certifications to determine whether the College maintained documentation for student attainment of the industry certifications.
- 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.



Sherrill F. Norman, CPA
Auditor General

MANAGEMENT'S RESPONSE



November 1, 2018

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

Re: Gulf Coast State College Operational Audit
Preliminary and Tentative Finding Response

Dear Ms. Norman,

The staff of Gulf Coast State College agrees with Finding 1: College cash collection procedures continue to need improvement. as presented in your Preliminary and Tentative Findings letter dated October 3, 2018. Included in the finding were the following recommendation from the audit staff.

The College should establish procedures to require and ensure that Dental Clinic cash collections are adequately safeguarded. Such procedures should ensure that pre-numbered receipts are used for cash collections, cash is properly secured and timely deposited, and the incompatible duties of collecting cash and recording entries into the fee collection system are appropriately separated. If a sufficient number of staff are not available to appropriately separate duties, compensating controls should be implemented to ensure proper accountability for cash collections.

Although the college is not currently operating its dental clinic due to the catastrophic damage resulting from Hurricane Michael on October 10, 2018, the following changes will be made once the clinic is again operational:

- Although the current accounting system used by the dental clinic does not create pre-numbered receipts, the college will implement a system that does utilize pre-numbered receipts even if it requires the use of a manual system until technology is identified to address this concern.

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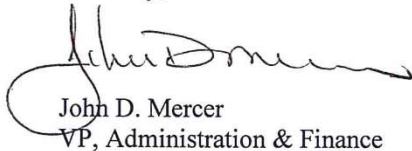
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- The college recognizes that the limited staff in the dental clinic does create an issue with segregation of duties. However there are a number of other staff in the Health Sciences Division that can, and will, be tasked with providing segregation of duties to ensure safekeeping of college assets. In addition, the college may choose to move all cash collection for the dental clinic to the business office, providing that needed separation of functions.
- The above changes will also eliminate the issues with a one-person staff and the possibility of storing cash collections in an inappropriate location and possibly delay remittance to the business office and to the bank.

Thank you for the service that you and your staff provide to Gulf Coast State College and please let me know if you should need additional information or have questions. You may reach me at jmercerc@gulfcoast.edu or by cell (850) 532-9986 until our offices are restored.

Sincerely,



John D. Mercer
VP, Administration & Finance

cc: Shelly Curti
Kimberly Phillips

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