

STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

Report No. 2021-068
December 2020

NORTHWEST FLORIDA STATE COLLEGE



Sherrill F. Norman, CPA
Auditor General

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The team leader was Barbara J. Sturdivant, CPA, and the audit was supervised by Kenneth C. Danley, CPA.

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NORTHWEST FLORIDA STATE COLLEGE

SUMMARY

This operational audit of Northwest Florida State College (College) focused on selected College processes and administrative activities and included a follow-up on findings noted in our report No. 2018-108. Our operational audit disclosed the following:

Finding 1: Controls over the College's cash and cash equivalent accounts, with general ledger balances totaling \$11.8 million at June 30, 2019, were deficient as College records did not demonstrate monthly reconciliations to bank and State Board of Administration investment account balances for the 2018-19 fiscal year.

Finding 2: College monitoring of the construction management entity (CME) subcontractor competitive selection and payment processes needs improvement. Subcontractor service costs of \$4.6 million were included in the \$7 million CME guaranteed maximum price contract for the Buildings 310 and 400 Renovations Project (Renovations Project).

Finding 3: College personnel did not verify the licenses of applicable subcontractors on the Renovations Project before the subcontractors commenced work.

Finding 4: The College needs to enhance controls over negotiating, monitoring, and documenting the reasonableness of CME general conditions costs, which totaled \$868,364 for the Renovations Project.

Finding 5: Contrary to State law, neither the Board nor a Board-designated employee approved four construction contract change orders that increased Renovations Project costs by \$1.6 million.

Finding 6: College records did not evidence that the College used Public Education Capital Outlay moneys only for authorized purposes, resulting in questioned costs totaling \$72,984.

Finding 7: The College did not always demonstrate compliance with State law by limiting distance learning and hybrid course user fees to the costs of services for those courses and accurately reporting distance learning expenses to the Florida Department of Education, Division of Florida Colleges.

Finding 8: College controls over contracted services and related payments continue to need improvement.

Finding 9: Contrary to State law, the College did not submit June 2017 and June 2018 budget amendments to the Florida College System Chancellor for transfers totaling \$4 million from the College's current unrestricted fund.

Finding 10: Contrary to State law, the College did not always provide public notice for committee meetings or record minutes of those meetings for public inspection. A similar finding was noted in our report No. 2018-108.

Finding 11: Some unnecessary information technology user access privileges existed that increase the risk for unauthorized disclosure, modification, or destruction of finance or human resources information to occur.

BACKGROUND

Northwest Florida 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 eight 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 Fort Walton Beach and Niceville. Additionally, credit and noncredit classes are offered in public schools and other locations throughout Okaloosa and Walton Counties.

FINDINGS AND RECOMMENDATIONS

Finding 1: Cash and Cash Equivalent Account Reconciliations

The College maintained nine cash accounts with a bank and a cash equivalent investment account with the State Board of Administration (SBA) Florida PRIME investment pool¹ during the 2018-19 fiscal year. At June 30, 2019, general ledger balances for these ten accounts totaled \$11.8 million.

State law² requires each Florida College System institution to establish and maintain internal controls designed to, among other things, detect fraud, ensure reliability of financial records and reports, and safeguard assets. Effective internal controls require reconciliations of cash and cash equivalent general ledger account balances to bank and SBA account balances be performed on a timely, routine basis with reconciling items promptly identified, thoroughly investigated, adequately documented, and resolved. Such controls also require that the reconciliations be reviewed and approved by supervisory personnel to verify the proper performance of the reconciliations and the accuracy and support for any related accounting entries.

College procedures require College personnel to prepare monthly bank and SBA account reconciliations that are to be reviewed and approved by College management. However, although we requested, College records were not provided to demonstrate the monthly reconciliations for the 2018-19 fiscal year.

According to College personnel, after the employee responsible for preparing the reconciliations separated from College employment in June 2019, they searched but could not locate reconciliations prepared for July 2018 through May 2019. In December 2019, College personnel substantially completed a consolidated account reconciliation for the ten account balances at June 30, 2019, which was approved by supervisory personnel, but the reconciliation did not identify why the general ledger account balances were \$77,402 more than the bank and SBA account balances. To reconcile the balances, in January 2020, the College recorded an accounting entry to reduce the general ledger cash and cash equivalent account balances by that amount. While the June 2019 reconciliation indicated that the

¹ College investments in the Florida PRIME investment pool, which the SBA indicates is a Securities and Exchange Commission Rule 2a7-like external investment pool, are similar to money market funds in which shares are owned in the fund rather than the underlying investments.

² Section 1010.01(5), Florida Statutes.

general ledger account balances were materially correct and properly classified at June 30, 2019, for financial reporting purposes, the entry was not supported by College records explaining why the difference existed.

In addition, College personnel indicated that preparing the June 2019 consolidated account reconciliation took considerable time and effort and caused delays in completing reconciliations for the remainder of the 2019 calendar year. Specifically, July and August 2019 consolidated account reconciliations were not substantially completed until February 2020 and the September through December 2019 consolidated account reconciliations were not substantially completed until July 2020. Moreover, neither the December 2019 reconciliation nor other College records explained why the bank and SBA account balances exceeded the general ledger account balances by \$33,560 as of December 31, 2019.

Absent effective procedures for the timely preparation and review of reconciliations of general ledger account balances to bank and SBA account balances, along with well-supported accounting entries to timely resolve reconciling items, there is an increased risk that any cash and cash equivalent transaction errors or fraud that may occur will not be timely detected and resolved. Additionally, without such procedures, the reliability of the general ledger financial information, needed by the Board to effectively monitor the College's financial position throughout the year, is diminished.

Recommendation: The College should continue efforts to determine and document an explanation for the unreconciled difference between the College general ledger account balances and the December 2019 bank and SBA account balances. The College should also enhance procedures to ensure that:

- **College general ledger account balances are promptly and properly reconciled to the bank and SBA account balances and that the reconciliations are documented evidencing that reconciling items were promptly identified, thoroughly investigated, explained, and resolved.**
- **Adjustments to the general ledger cash and cash equivalent investment account balances required as a result of the bank and SBA account reconciliations are timely made, well-supported, reviewed, and approved.**

Finding 2: Subcontractor Services

Under the construction management entity (CME) process, contractor profit and overhead are contractually agreed upon, and the CME is responsible for all scheduling and coordination in both the design and construction phases and is generally responsible for the successful, timely, and economical completion of the construction project. The CME may be required to offer a guaranteed maximum price (GMP), which allows for the difference between the actual cost of the project and the GMP amount, or the net cost savings, to be retained by the College. Good business practices dictate that College personnel monitor the CME subcontractor selection, contracting, and payment processes to ensure that services are obtained at the lowest cost consistent with acceptable quality and to realize maximum cost savings under the GMP contract.

The College executed a \$7 million GMP contract with a CME for the Buildings 310 and 400 Renovations Project (Renovations Project), which included \$4.6 million for 23 subcontractors.

During the 2019 calendar year, the College incurred expenses totaling \$3.1 million for that project.³ The GMP contract required the CME to solicit subcontractor bids and award subcontracts. The CME retained subcontractor contracts and provided the College copies of subcontractor bid correspondence, including bid proposals, bid tabulations, and award recommendations for subcontractor services. College personnel indicated that, to verify the propriety of CME payment requests, they reconciled the requests to the GMP contract and subcontractor invoices. However, College procedures did not require College personnel attendance at, nor did College personnel attend, the CME subcontractor bid openings to verify that the CME competitively selected subcontractors. In addition, College personnel did not verify the propriety of the subcontractor payment process by obtaining the subcontractor contracts from the CME and comparing the contracts to subcontractor bid correspondence and CME payment requests. Instead, College personnel relied on the CME subcontractor selection and payment processes; however, such reliance provided the College with limited assurance that subcontractor services were obtained at the lowest cost consistent with acceptable quality.

We requested, and College personnel obtained from the CME, the subcontractor contracts for the 23 subcontractors, who, according to the CME payment requests, provided services on the Renovations Project. We found that subcontractor bids totaling \$4.6 million and listed on the bid tabulation sheets agreed with subcontractor contracts. We also requested for examination College records for the Renovations Project that supported selected expenses totaling \$1.4 million, including \$1.3 million for subcontractor services and \$155,810 for CME services. Our examination found that the selected expenses totaling \$1.4 million materially agreed with the CME contract and subcontractor contracts and invoices. However, our procedures cannot substitute for College management's responsibility to implement adequate controls over subcontractor selection, contracting, and payment processes.

College personnel attendance at subcontractor bid openings and comparison of CME payment requests to subcontractor contracts and subcontractor bid correspondence would provide additional assurance that subcontractor services were obtained at the lowest cost consistent with acceptable quality and that CME payment requests included appropriate amounts for subcontractor costs. Absent such monitoring efforts, the College may not realize maximum cost savings under a GMP contract.

Recommendation: To ensure that the College realizes maximum cost savings under a GMP contract, the College should establish procedures to require and document College personnel attendance at CME subcontractor bid openings and to verify that the CME selected, contracted with, and paid the subcontractor with the lowest bid consistent with acceptable quality.

Finding 3: Subcontractor Licenses

State law⁴ provides that a CME must consist of, or contract with, licensed or registered professionals for the specific fields or areas of construction to be performed. State law⁵ also establishes certain certification requirements for persons engaged in construction contracting, including licensing

³ During the 2019 calendar year, the College had two major construction projects with expenses totaling \$6.1 million and we selected the Renovations Project with expenses totaling \$3.1 million and evaluated the propriety of College controls over that project.

⁴ Section 1013.45(1)(c), Florida Statutes.

⁵ Chapter 489, Florida Statutes.

requirements for specialty contractors such as electrical, air conditioning, plumbing, and roofing contractors.

The College had not established procedures requiring that verifications of subcontractor licenses be performed and documented before the subcontractors commence work on College facilities. In response to our inquiry, College personnel indicated that they did not verify subcontractor licenses but relied on the CME license verification process to ensure that subcontractors performing services for the Renovations Project were properly licensed. However, College reliance on the CME subcontractor license verification process provides limited assurance absent College efforts to evaluate the effectiveness of that process.

Timely documented verifications that subcontractors are appropriately licensed provides the College assurance that the subcontractors who will be working on College facilities meet the qualifications to perform the work for which they are engaged. As part of our audit procedures, we determined through online licensing searches that the four subcontractors (paid a total of \$1.7 million for Renovations Project services), who were required to be licensed, were properly licensed. However, our procedures do not substitute for College management's responsibility to implement adequate internal controls over subcontractor services.

Recommendation: The College should establish procedures to ensure that subcontractors are properly licensed before they commence work on College facilities. Such procedures could require College personnel to verify each subcontractor's license or, alternatively, to document evaluations of the effectiveness of the CME subcontractor license verification process.

Finding 4: General Conditions Costs

GMP contracts typically include provisions for general conditions costs that are not directly associated with a particular activity. Appropriate guidance for negotiating, monitoring, and documenting the reasonableness of general conditions costs is essential to ensure that potential cost savings are realized under GMP contracts. The GMP contract for the Renovations Project provided for general conditions costs, including costs for compensation of certain CME personnel and general operating supplies and expenses related to the Renovations Project, to be billed in even monthly installments. General conditions costs for the Renovations Project totaled \$868,364 and were generally billed in accordance with the contract.

According to College personnel, general conditions costs were proposed by the CME based on the complexity and duration of the Renovations Project and were comparable to those of similar projects of similar size; however, the College had not established effective policies or procedures to provide guidance for negotiating, monitoring, and documenting the reasonableness of the general conditions costs. Additionally, College records did not document the methodology used and factors considered during the negotiation process to establish the reasonableness of the general conditions costs. Further, detailed documentation, such as CME payroll records or copies of CME-paid invoices, was not obtained by the College to support the propriety of the general conditions costs billed and paid.

Absent effective negotiation of general conditions costs and monitoring of detailed documentation to support CME general conditions costs, the College may be limited in its ability to determine the propriety

of CME payment requests for general conditions costs or to recover any cost savings associated with these costs.

Recommendation: The College should establish policies and procedures to provide guidance for negotiating, monitoring, and documenting the reasonableness of GMP contract general conditions costs. Such policies and procedures should require documentation of the methodology used and factors considered in negotiating general conditions costs. In addition, GMP contracts should require CMEs to document the reasonableness of general conditions costs and the College should maintain records to evidence the receipt and review of sufficiently detailed documentation supporting the general conditions costs included in CME payment requests.

Finding 5: Construction Contract Change Orders

State law⁶ provides that, to expedite construction work in progress, the Board may authorize the President or other designated individual to approve change orders in the name of the Board for preestablished amounts, and such approvals shall be reported to the Board and entered in its official minutes. However, in response to our inquiries, College personnel indicated that the Board had not authorized the President or other designated individual to approve change orders on behalf of the Board.

Our examination of College records indicated that during the period May 2018 through August 2019 the Renovations Project had 13 change orders to the GMP contract, including 4 change orders that increased the cost by \$1.6 million, 8 change orders that reduced the cost by \$922,069, and 1 change order that revised the substantial completion date by adding 47 days. As part of our audit procedures, we requested for examination College records evidencing Board approval of the 4 change orders that increased the Renovations Project costs. Such records were not provided; however, according to College personnel, the College Director of Facilities Planning approved the change orders instead of the Board due to College personnel oversights.

Absent Board approval of change orders, the risk increases that revisions to construction projects may not be consistent with Board intent and the Board's ability to oversee the scope and costs of construction projects is limited.

Recommendation: The Board should either approve all change orders or authorize the President or other designated individual to approve change orders in the name of the Board for preestablished amounts. If the Board authorizes the President or other designated individual to approve change orders, approvals should be for the purpose of expediting the work in progress and reported to the Board and entered in its official minutes.

Finding 6: Public Education Capital Outlay Expenditures

The State allocates Public Education Capital Outlay (PECO) moneys to the College on an annual basis. State law⁷ provides that PECO moneys allocated for remodeling, renovation, maintenance, repair, or site improvement projects must expand or upgrade current educational plants to prolong the useful life of the applicable plants.

⁶ Section 1013.48, Florida Statutes.

⁷ Section 1013.64(1)(c), Florida Statutes.

The College accounts for PECO and other restricted capital improvement proceeds in the Unexpended Plant Fund (Fund). During each fiscal year, College personnel record applicable Fund expenses by organizational codes associated with the project for which the expenses were incurred. College personnel periodically prepare analyses of project expenses and accounting entries to classify the expenses by funding source, and supervisory personnel review and approve the entries. For the 2019 calendar year, the College classified \$502,274 in project expenses as expenses from PECO moneys allocated to the College for remodeling, renovation, maintenance, repair, or site improvement projects. To evaluate the propriety of these expenses, we scanned the College's accounting entry, dated May 10, 2019, for potential misclassified PECO expenses, along with the support for that entry, resulting in our examination of College records supporting PECO expenses totaling \$228,495. Through our procedures, we found expenses totaling \$72,984 for such items as surveys and studies, a statue, travel, and carpet cleaning that were not for purposes authorized by State law for PECO moneys and, therefore, represent questioned costs.

In response to our inquiries, College personnel indicated that it was the College's intent to use capital improvement fees for these expenses. However, a College employee mistakenly classified the expenses as PECO expenses on the accounting entry and the error was not detected by supervisory personnel who reviewed and approved the entry. The absence of effective procedures to properly classify and approve Fund expenses increases the risk that restricted resources may be used for unauthorized purposes.

Recommendation: The College should enhance procedures to ensure that PECO proceeds are used only for authorized purposes. Such enhancements should include appropriate preparation of PECO expense accounting entries and supervisory review and approval of the entries. In addition, College personnel should review the propriety of the remaining 2019 calendar year PECO expenses totaling \$273,779 and restore any unauthorized expenses, including the \$72,984 in questioned costs we noted, to the PECO funding source.

Finding 7: User Fees

State law⁸ authorizes the Board to establish a distance learning course user fee but the fee may not exceed the additional costs of the services provided which are attributable to the development and delivery of the course. By September 1 of each year, the Board must report to the Florida Department of Education, Division of Florida Colleges (DFC), the total amount of revenue generated by the fee for the prior fiscal year and how the revenue was expended. State law⁹ also authorizes the Board to establish certain user fees, such as hybrid course user fees relating to facilities and equipment use, that do not exceed the cost of the services provided.

During the 2018-19 fiscal year, the College assessed a \$15 per-credit-hour distance learning user fee and reported distance learning fee revenue totaling \$628,290. The Board reported to the DFC in August 2019 that the distance learning course user fees generated for the 2018-19 fiscal year were totally expended for personnel, computer software, materials and supplies, and repairs and maintenance. However, although we requested in May 2020, College records were not provided to support the

⁸ Section 1009.23(16), Florida Statutes.

⁹ Section 1009.23(12)(a), Florida Statutes.

expenses reported to the DFC as a key staff member responsible for that support had separated from College employment. Subsequent to our request, College personnel provided us with revised distance learning expense records that showed expenses totaling \$699,536 for the 2018-19 fiscal year that indicated:

- Distance Learning Department direct personnel and other costs of \$378,638.
- Information Technology personnel and contractor personnel costs of \$282,637 allocated to distance learning.
- Computer software costs of \$38,261 allocated to distance learning.

The revised total distance learning expense amounts exceeded distance learning fee revenue by \$71,246. As part of our audit procedures, we requested for examination, and College personnel provided, College records supporting the Distance Learning Department direct personnel and other costs; however, College personnel indicated that personnel activity reports¹⁰ or other records were not maintained to demonstrate that the allocated costs (totaling \$320,898) were for distance learning. As such, the fee revenue exceeded supported costs by \$249,652 and College records did not demonstrate compliance with the requirement in State law limiting distance learning fees to the costs of services provided.

In addition, during the 2018-19 fiscal year, the College assessed a \$9 per-credit-hour facilities and equipment user fee for hybrid courses that combined traditional College courses with online activities, and hybrid fee collections for that fiscal year totaled \$101,943. In response to our inquiries, College personnel indicated that the hybrid fees were assessed as applicable courses required the use of additional resources from the Information Technology and Center for Innovative Teaching and Learning Departments. However, although we requested, College records were not provided to evidence the specific facilities and equipment costs incurred for the hybrid courses. Absent such evidence, College records did not demonstrate compliance with the requirement in State law limiting those fees to the costs of services provided.

Recommendation: The College should enhance procedures to demonstrate compliance with the requirements in State law limiting distance learning course user fees and hybrid course user fees to the costs of services for those courses and to accurately report distance learning expenses to the DFC.

Follow-Up to Management's Response

Management indicates in their response that they largely agree with this finding but believe the College was "in compliance and that the allocated costs did support the statutory requirements to document expenses related to the distance learning fee." Notwithstanding this response, although we requested during our fieldwork, College records were not provided to demonstrate that the distance learning course user fees did not exceed the additional costs of the attributable services provided. Consequently, the finding and related recommendation stand as presented.

¹⁰ Personnel activity reports reflect an after-the-fact distribution of the actual activity of each individual who worked on multiple activities.

Finding 8: Contracted Services

Effective contract administration requires that contracts or purchase orders embodying all provisions and conditions for the procurement of services be properly executed before services are received and that satisfactory receipt of the services is documented before payments are made. Board policies¹¹ provide that no obligations for materials and services are permitted without proper authorization in advance of the purchase. In addition, the *College Purchasing Manual* provides that purchase orders must be processed and approved before services are rendered.

For the 2019 calendar year, the College paid a total of \$4.8 million for contracted services not related to construction activities. As part of our audit procedures, we requested for examination College records supporting selected contracted services expenses totaling \$353,351 paid to 26 vendors and noted that the College paid 4 vendors a total of \$12,786 for services such as sports officiating, honoraria and travel expenses, welding testing, and photography that were received before contracts or purchase orders were executed. In addition, the College paid 1 of the 4 vendors \$5,400 before services (contracted sports officiating) were received. In response to our inquiries, College personnel indicated that, although employees are instructed and reminded to follow College purchasing requirements, the requirements are not always followed.

Without contracts or purchase orders properly executed before services are received, and documentation of satisfactory receipt of services before payment is made, there is an increased risk that the College may overpay for services, the services may not be received consistent with Board expectations, and any overpayments that occur may not be timely detected or recovered. Similar findings were noted in our report Nos. 2018-108 and 2015-022.

Recommendation: College personnel should comply with College policies and procedures by properly executing contracts or purchase orders before services are received and documenting satisfactory receipt of the services before payments are made. To promote compliance, the College should periodically reemphasize these requirements to College personnel responsible for contracted services expenses.

Finding 9: Budget Amendments – Transfers Between Funds

Pursuant to State law,¹² upon Board approval of the College budget, the budget must be transmitted to the Florida Department of Education (FDOE) for review. State Board of Education (SBE) rules¹³ provide that the FDOE Chancellor of the Florida College System must review the College budget for completeness, correctness, conformity with the law and SBE rules, and preparation in accordance with accepted accounting standards. In addition, State Board rules require that the FDOE Chancellor review budget amendments involving the transfer of funds from the College's current unrestricted fund and that such transfers not handicap the College's current operations.

¹¹ Board Policy BS 16.00 *Purchasing Goods and Services* and Board Policy BS 5.00 *Expenditures*.

¹² Section 1011.30, Florida Statutes.

¹³ SBE Rule 6A-14.0716, Florida Administrative Code.

In June 2017 and June 2018, the College made Board-approved budget amendments of \$3 million and \$1 million, respectively, for transfers from the current unrestricted fund to the unexpended plant fund for building renovations. However, College personnel indicated that the budget amendments were not submitted to the FDOE Chancellor and an explanation for the oversights was unavailable as the employee responsible for the submissions had separated from College employment. While the funds transfers from the College's current unrestricted fund did not appear to handicap College current operations, absent FDOE Chancellor review of the transfers, the ability of the Chancellor to effectively monitor College financial operations and relay appropriate guidance to the College is limited.

Recommendation: The College should comply with SBE rules by ensuring that budget amendments involving the transfer of funds from the current unrestricted fund are submitted to the FDOE Chancellor for review.

Finding 10: Sunshine Law

State law¹⁴ requires that reasonable notice of public meetings be given and minutes of public meetings be promptly recorded and open for public inspection. Additionally, the Florida Supreme Court¹⁵ has held that meetings of certain advisory boards and fact-finding committees participating in the decision-making function of a governmental agency are public meetings under the Sunshine Law.¹⁶

College procedures provide for screening committees approved by the President to assist in the process of filling position vacancies by interviewing applicants. The screening committees rank all interviewed candidates and committee chairs decide which of the ranked candidates will be submitted to the President for further consideration. Because screening committees exclude some qualified applicants from the President's consideration and thereby participate in the decision-making process, these committees are subject to the Sunshine Law.

During the 2019 calendar year, the College hired 69 employees. Our examination of College records supporting the screening and hiring of 3 selected employees, including a professional, administrative, and career service employee, indicated that public notices of the screening committee meetings were not provided and that written minutes of those meetings were not maintained. In response to our inquiries, College personnel indicated that they intended to revise procedures so that the screening committees would not exclude qualified applicants from the President's consideration but, due to misunderstandings, College procedures were not revised as intended.

Without notification of committee meetings, the public access anticipated in State law is thwarted and, absent recorded, approved minutes of these meetings, information regarding actions taken at the meetings may not be readily available for public inspection. A similar finding was noted in our report No. 2018-108.

Recommendation: The College should enhance procedures to ensure that reasonable notice be given to the public for meetings of committees participating in the decision-making function and that minutes of those meetings be promptly recorded and open for public inspection. In addition,

¹⁴ Sections 286.011(1) and (2), Florida Statutes.

¹⁵ Wood v. Marston, 442 So. 2d 934 (Fla. 1983).

¹⁶ The Sunshine Law regarding open government is established in Article I, Section 24 of the State Constitution and codified in Chapter 286, Florida Statutes.

if the College does not intend screening committees to participate in decision-making, College procedures should be revised to specify that those committees will not exclude any qualified applicants from the President's consideration.

Finding 11: Information Technology User Access Privileges

Access controls are intended to protect data and information technology (IT) resources from unauthorized disclosure, modification, or destruction. Effective access controls provide IT users access to IT resources based on a demonstrated need to view, change, or delete data and restrict IT users from performing incompatible functions or functions outside of their areas of responsibilities. Periodically evaluating assigned IT access privileges helps ensure that IT users cannot access or modify IT resources that are unnecessary or incompatible with their assigned duties.

College procedures require an annual evaluation of assigned IT access privileges and our examination of College records for the 2019 calendar year disclosed that the College conducted an evaluation dated April 2019. We also examined College records in May 2020 for the 24 employees with IT access privileges to selected critical functions within the College finance and human resources systems and found that:

- 7 employees, including personnel in the Business Services,¹⁷ College Advancement, and Collegiate High School Academic Administration Departments were assigned unnecessary access to functions in the finance system that allowed them to, for example, add or change vendor information.
- 5 employees, including personnel in the Business Services, Information Technology, Collegiate High School Academic Administration, and Human Resources Departments¹⁸ were assigned unnecessary access to functions in the human resources system that allowed them to, for example, add or change direct deposit information.

In response to our inquiries, College personnel indicated that the unnecessary IT access privileges were not detected and removed for various reasons, including oversights, and the privileges had not been evaluated since April 2019 because of the COVID-19 pandemic. College personnel also indicated that, subsequent to our examination, the unnecessary IT access privileges for these employees were removed during the period June through August 2020.

Although the College had certain controls (e.g., payroll and other expense processing controls) that somewhat mitigated the unnecessary access, the existence of unnecessary access privileges increases the risk of unauthorized disclosure, modification, or destruction of College data and IT resources may occur and not be timely detected.

Recommendation: The College should continue efforts to ensure that IT users are restricted from performing incompatible functions or functions outside of their areas of responsibilities. Such efforts should include timely and effective evaluations to identify and remove any IT user access privileges that are unnecessary or incompatible with employee assigned duties.

¹⁷ The Business Services Department employees performed certain accounts payable or invoice processing functions that did not require update access to vendor information.

¹⁸ The Human Resources Department employees recorded salary changes and employee leave or coordinated hiring activities; however, those duties did not require update access to direct deposit information.

PRIOR AUDIT FOLLOW-UP

The College had taken corrective actions for findings included in our report No. 2018-108 except as noted in Findings 8 and 10 and shown in Table 1.

Table 1
Findings Also Noted in Previous Audit Reports

Finding	Operational Audit Report No. 2018-108, Finding	Operational Audit Report No. 2015-022, Finding
8	4	2
10	1	Not Applicable

OBJECTIVES, SCOPE, AND METHODOLOGY

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

We conducted this operational audit from March 2020 through July 2020 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 focused on information technology resources and related controls; public meetings and communications; textbook affordability; budgetary transfers; bank reconciliations; construction management; student and user fees; direct-support organizations; contractual services; expenses from selected restricted resources; adult general education contact hour reporting; industry certifications; and other processes and administrative activities. For those areas, our audit objectives 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. 2018-108.
- Identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

In planning and conducting our audit, we assessed whether internal controls were significant to our audit objectives by considering the internal control integrated framework established by the Committee of

Sponsoring Organizations (COSO)¹⁹ and adapted for a government environment within the *Standards for Internal Control in the Federal Government* issued by the United States Government Accountability Office. That framework is illustrated in the following table.

COSO Internal Control Integrated Framework

Internal Control Component	Description	Underlying Principles (To be Applied by the Board and Management)
Control Environment	Standards, processes, and structures that provide the basis for carrying out internal control across the organization. Represents the foundation on which an effective internal control system is built.	<ul style="list-style-type: none"> • Demonstrate commitment to integrity and ethical values. • Exercise oversight responsibility. • Establish structures and reporting lines and assign authorities and responsibilities. • Demonstrate commitment to a competent workforce. • Hold individuals accountable for their responsibilities.
Risk Assessment	Management’s process to consider the impact of possible changes in the internal and external environment and to consider actions to mitigate the impact. The basis for how risks will be managed.	<ul style="list-style-type: none"> • Establish clear objectives to define risk and risk tolerances. • Identify, analyze, and respond to risks. • Consider the potential for fraud. • Identify, analyze, and respond to significant changes that impact the internal control system.
Control Activities	Activities in the form of policies, procedures, and standards that help management mitigate risks. Control activities may be preventive in nature or detective in nature and may be performed at all levels of the organization.	<ul style="list-style-type: none"> • Design control activities to achieve objectives and respond to risks. • Design control activities over technology. • Implement control activities through policies and procedures.
Information and Communication	Information obtained or generated by management to support the internal control system. Communication is the dissemination of important information to help the organization meet requirements and expectations.	<ul style="list-style-type: none"> • Use relevant and quality information. • Communicate necessary information internally to achieve entity objectives. • Communicate necessary information externally to achieve entity objectives.
Monitoring	Periodic or ongoing evaluations to verify that the internal control system is present and functioning properly.	<ul style="list-style-type: none"> • Conduct periodic or ongoing evaluations of the internal control system. • Remediate identified internal control deficiencies on a timely basis.

We determined that all internal control components were significant to our audit objectives. The associated underlying principles significant to our objectives included:

- Board and management commitment to integrity and ethical values.
- Board exercise of oversight responsibility.
- Management establishment of an organizational structure, assignment of responsibility, and delegation of authority to achieve the College’s goals and objectives.
- Management establishment of clear objectives to enable the identification of risks and define risk tolerances.
- Management consideration of the potential for fraud.
- Management identification and analysis of and response to significant changes that could impact the internal control system.
- Management design of control activities to achieve the College’s objectives and respond to risks.
- Management design of controls over information technology.

¹⁹ The Committee of Sponsoring Organizations (COSO) of the Treadway Commission was established in 1985 to develop guidance in the areas of risk and control which enable good organizational governance and reduction of fraud. Pursuant to their mission, COSO developed a framework for internal control that consists of five components and 17 underlying principles.

- Management establishment of policies and procedures to implement internal control activities.
- Management use of relevant and quality information to achieve the College's objectives.
- Management communication of information internally necessary to achieve the College's objectives.
- Management communication of information externally necessary to achieve the College's objectives.
- Management activities to monitor the college's internal control system and evaluate the results.
- Management remediation of identified internal control deficiencies on a timely basis.

This audit was designed to identify, for those areas included within the scope of the audit, weaknesses in management's internal controls significant to our audit objectives; 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; identifying and evaluating internal controls significant to our audit objectives; 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 2019 through December 2019 and selected College actions taken prior and 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 applicable laws, rules, College policies and procedures, and other guidelines, and interviewed College personnel to obtain an understanding of applicable processes and administrative activities.

- Reviewed College information technology (IT) policies and procedures to determine whether the policies and procedures addressed certain important IT control functions, such as security, user authentication, and disaster recovery.
- Evaluated College procedures for maintaining and reviewing employee access to IT data and resources. We examined College records for the 24 employees with IT access privileges to selected critical functions within the College finance and human resources systems to determine the appropriateness and necessity of the access based on the employees' assigned job duties and the adequacy with regard to preventing the performance of incompatible duties.
- Evaluated College procedures for protecting sensitive personal information of students, including social security numbers (SSNs). We examined College records supporting the access privileges granted to the 26 employees who had access to sensitive personal information of students to determine the appropriateness and necessity of the access privileges based on the employees' assigned job duties.
- Reviewed application security settings to determine whether authentication controls were configured and enforced in accordance with IT best practices.
- Examined College records for the audit period 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 for the audit period to determine compliance with Sunshine Law requirements (i.e., proper notice of meetings, meetings readily accessible to the public, and properly maintained meeting minutes).
- Determined whether the College's unencumbered balance in the general fund at June 30, 2019, was above the threshold established in Section 1011.84, Florida Statutes.
- Examined College records to determine whether budget amendments for transfers from the current unrestricted fund to other funds were approved by the Board and reviewed by the Florida Department of Education (FDOE) Chancellor of the Florida College System in accordance with State Board of Education Rule 6A-14.0716(3), Florida Administrative Code.
- Examined College records supporting textbook adoptions for the 768 course sections offered during Fall 2019 Semester to determine whether the College textbook affordability procedures complied with Section 1004.085, Florida Statutes.
- Examined College records to determine whether cash and cash equivalent account reconciliations for the 2018-19 fiscal year and last 6 months of the 2019 calendar year were timely and accurately performed, reviewed by appropriate College personnel, and accounting entries to resolve reconciling items were timely made and adequately supported.
- Examined College records for 30 students with recorded fees totaling \$49,637 selected from the population of 8,511 students with recorded fees totaling \$16.4 million during the 2019 Spring, Summer, and Fall Semesters, to determine whether student fees were properly assessed and authorized, accurately calculated, and correctly recorded in accordance with Board policies and statutory and State Board requirements.
- From the population of 16 user fees generating revenue totaling \$1.6 million during the 2018-19 fiscal year, examined College records supporting 4 selected user fees generating revenue totaling \$877,288 to determine whether the fees did not exceed the costs of the services provided in accordance with Sections 1009.23(12)(a) and 1009.23(16)(b), Florida Statutes, and whether applicable fee revenue was accurately and timely reported in accordance with Section 1009.23(16)(b), Florida Statutes.

- Examined College records supporting the 382 distance learning course sections with fee revenue totaling \$512,475 during the Spring and Fall 2019 Semesters to determine whether the course sections were listed in the Statewide Internet-based catalog of distance learning courses in compliance with Section 1009.23(16)(a), 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 College direct-support organization (DSO) must comply in order to use College property, facilities, and personal services and whether the Board documented consideration and approval of anticipated property, facilities, and personal services provided to the DSO and the related costs.
- From the population of contracted services expenses (not related to construction) totaling \$4.8 million during the audit period, examined College records supporting selected contracted services expenses totaling \$353,351 to determine whether services were competitively selected, contracts were timely executed, and receipt of services was properly documented.
- From the population of two major construction projects with expenses totaling \$6.1 million during the audit period, examined College records supporting one construction project with expenses totaling \$3.1 million during the audit period to determine whether:
 - The architect and CME were properly selected pursuant to Sections 287.055 and 255.103, Florida Statutes, respectively; licensed; and insured.
 - The College established policies and procedures with guidance for effectively negotiating, monitoring, and documenting the reasonableness of the general condition costs totaling \$868,364.
 - The four subcontractors (paid for project services totaling \$1.7 million), who were required to be licensed, were properly licensed.
 - Bids totaling \$4.6 million for the 23 project subcontractors agreed with the subcontractor contracts.
 - CME payment requests totaling \$1.4 million, including \$1.3 million for subcontractor services and \$155,810 for CME services, were properly approved, adequately supported, and agreed with the CME contract and applicable subcontractor contracts and invoices.
 - The College made use of its sales tax exemption to make direct purchases of materials or documented its justification for not doing so.
 - The Board or Board designee approved four change orders that increased the project costs by \$1.6 million.
- From the population of Public Education Capital Outlay (PECO) moneys allocated for remodeling, renovation, maintenance, repair, or site improvement projects with expenses totaling \$502,274 and other restricted capital outlay expenses totaling \$9.6 million during the audit period, examined records supporting related PECO expenses totaling \$228,495 and other restricted capital outlay expenses totaling \$6.7 million to determine whether the funds were expended in compliance with the restrictions imposed on the use of these resources.
- From the population of 431 adult general education instructional students reported for 34,747 contact hours for the Spring 2019 Semester, examined College records supporting 2,873 reported contact hours for 30 selected students to determine whether the College reported the instructional contact hours in accordance with the FDOE requirements.
- From the population of 319 industry certifications reported for performance funding during the 2018-19 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.

A handwritten signature in blue ink that reads "Sherrill F. Norman". The signature is fluid and cursive, with the first name being the most prominent.

Sherrill F. Norman, CPA
Auditor General

MANAGEMENT'S RESPONSE



100 College Boulevard • Niceville, FL 32578-1295 • (850) 678-5111 • www.nwfsc.edu

December 7th, 2020

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

Dear Ms. Norman:

Attached is the Northwest Florida State College response to preliminary and tentative findings to be included in a report to be prepared on the operational audit for the Fiscal Year Ended June 30, 2019.

Sincerely,

A handwritten signature in blue ink, appearing to read "Devin Stephenson", with a long horizontal line extending to the right.

Devin Stephenson
President

RESPONSE TO PRELIMINARY AND TENTATIVE OPERATIONAL AUDIT FINDINGS
For the Fiscal Year Ended June 30, 2019

Finding No. 1: Cash and Cash Equivalent Account Reconciliations

Response:

We agree with this finding and have taken all necessary steps to bring this into compliance. The person responsible for reconciling all bank statements is the Controller. Unfortunately, our previous Controller, who had worked for the College for 17 years, left the College for other employment three weeks before the end of Fiscal Year 2018/19. We discovered after she departed that no bank reconciliations had been accomplished since the end of fiscal year 2017/18. Our practice had been to require bank reconciliation on a monthly basis, but the Chief Financial Officer (CFO) only signed the final one for the fiscal year. This experience exposed the need for the CFO to review and sign each monthly reconciliation and that is now our standing procedure. All bank statements have been reconciled completely with no outstanding balances at this point and we are fully in compliance with state law and College policy. (Closed)

Finding No. 2: Subcontractor Services

Response:

The College agrees with the recommendation, and has taken action to address the issue raised in the finding. We have updated our written procedures within the Facilities Department to mandate participation in all bid-opening and selection processes of sub-contractors with the CM Contractor. This updated process will insure the College receives the best qualified and best cost in selection of the sub-contractors. (Closed)

Finding No. 3: Subcontractor Licenses

Response:

The College agrees with the recommendation and has taken action to address the issue raised in the finding. We have updated our written procedures within the Facilities Department to request copies of all sub-contractors licenses and insurance documents. These will be maintained in the job file for the project. (Closed)

Finding No. 4: General Conditions Costs

Response:

The College agrees with the recommendation and has taken action to address the issue raised in the finding. We have changed the procedures of the Facilities Department to maintain documentation of the negotiation, monitoring process, and the reasonableness of the GMP for each project. The methodology used and the factors considered in the General Conditions cost of the project shall also be provided. The College shall require and retain copies of all receipts and documentation supporting the General Conditions cost. (Closed)

Finding No. 5: Construction Contract Change Orders

Response:

We agree with this finding and will add a delegation of authority to sign construction change orders to our Board of Trustees Policy Manual. Due to Sunshine Law requirements, the new policy must have three separate public hearings and that process will take until March 31, 2021 to complete.

Finding No. 6: Public Education Capital Outlay

Response:

We agree with this finding and have taken the necessary steps to bring this into compliance. As stated previously, our Controller of 17 years departed the College for other employment three weeks before the end of Fiscal Year 2018/19. Our long-standing practice was for the Controller to perform a review of all Fund 7 expenses prior to the end of the fiscal year and clear up any discrepancies between charges that should have been Public Education Capital Outlay or Capital Improvement Fee funded, and posting journal entries for any corrections. Due to the untimely departure of our Controller, that practice was not followed in this instance. It will be followed in all future years. We have performed a thorough review of all Fund 7 expenses for fiscal year 2018/2019 and have correctly categorized the expenses between Public Education Capital Outlay and Capital Improvement Fee. (Closed)

Finding No. 7: User Fees

Response:

The College largely agrees with this finding and, in response, has instituted a Course Fees Work Group responsible for recommending updated, enhanced procedures to strengthen compliance with State law. The work group's charge is "to analyze, define, and evaluate course fee structure, ensuring that

course fees reflect compliance with Florida statutes.” The group’s work has commenced. The revised procedures proposed by this work group will result in clear and current supporting documentation that demonstrates distance learning course user fees and hybrid course user fees collected do not exceed the costs of services required to support for those courses.

The College will redevelop our distance learning and hybrid fees to coincide with the discovery of the cost of distance learning support and infrastructure in accordance with enrollment projections for each upcoming year. Revised distance learning and hybrid fees reflected of distance learning costs and the costs of hybrid instruction, respectively, will be reviewed and approved by the Board of Trustees with the College’s FY22 budget for fees, which will go into effect for Academic Year 2021-2022.

The product of the Course Fees Work Group’s efforts is expected by March 1, 2021, so that their recommendation will be a part of the College’s budget planning for the upcoming year. The updated distance learning and hybrid course fees will be presented to the Board by July 1, 2021.

However, we believe we are in compliance and that the allocated costs did support the statutory requirements to document expenses related to the distance learning fee. We have always used allocated costs to support these expenses and they have never been questioned in previous audits or by the Florida Department of Education. The 2020 edition of the Florida College System Accounting Manual supports allocating these costs (see chapter 17.6) and we believe that allocating these costs were and are appropriate.

Finding No. 8: Contracted Services

Response:

We agree with this finding and are making major changes in our purchasing department. These issues have been long-standing concerns and our Director of Purchasing is retiring at the end of December 2020. This retirement will allow the College to train our new Director of Purchasing on the full scope of responsibilities, including those noted in this finding. On August 21, 2020, we issued an edict to all employees that no one other than the Chief Financial Officer is allowed to sign any contract or to obligate the College contractually in any way. If an employee does this, they have to find a way to reconcile that obligation on their own, even if it is from their own personal funds. The College will not, under any circumstances, take on the unauthorized obligation that the employee created. (Closed)

Finding No. 9: Budget Amendments – Transfers Between Funds

Response:

We agree with this finding and will take steps to ensure compliance in the future. This budget amendment was approved by our Board of Trustees and recorded in the minutes. We were fully transparent about it. We even invited the Chancellor to the grand opening of the facility the funds were spent to renovate and she did attend. We were simply unaware of the requirement to submit this for review by the Chancellor. Should we ever transfer funds again, we will ensure compliance with this statute. (Closed)

Finding No. 10: Sunshine Law

Response:

We agree with this finding and have already changed our process to eliminate the Sunshine Law issue. Per our revised Personnel Handbook, Screening Committees will rank all applicants and send the entire list of ranked candidates to Human Resources and the Screening Committee Chair. The Screening Committee Chair will have sole discretion regarding which applicants will be interviewed. Once all interviews have been completed the Screening Committee Chair will send the entire list of ranked applicants along with a recommendation to the President for his consideration and final decision. (Closed)

Finding No. 11: Information Technology User Access Privileges

Response:

As stated in the audit finding, our IT Department immediately made all appropriate systems and user access changes to address the auditors' concerns. Our IT Department made and confirmed these changes with the auditors during the review process.

Furthermore, NWFSC has identified a new procedure that will result in a more rapid assessment of user privileges as employees change roles within the institution and further prevent the issues identified by the auditors. (Closed)