

NORTHWEST FLORIDA STATE COLLEGE

Operational Audit

For the Fiscal Year Ended
June 30, 2008



BOARD OF TRUSTEES AND PRESIDENT

Members of the Board of Trustees and President who served during the 2007-08 fiscal year are listed below:

	<u>County</u>
Joseph W. Henderson, Chair	Okaloosa
Esteena K. Wells, Vice-Chair	Walton
Elizabeth S. Campbell	Walton
Brian S. Pennington from 8-06-07	Okaloosa
Lamar S. Rainer to 8-05-07 (1)	Okaloosa
Dale Rice, Jr.	Okaloosa
Sandy Sims from 8-06-07	Okaloosa
J. E. Smith to 8-05-07 (1)	Okaloosa
Vercell Vance	Okaloosa
Wesley Wilkerson	Walton

Dr. James R. Richburg, President
July 1, 2007, to September 30, 2007, and from
November 1, 2007, to June 30, 2008

Dr. Jill J. White, Interim President
October 1, 2007, to October 31, 2007

Note: (1) Board members served beyond the end of
their term, May 31, 2007.

The audit team leader was Debbie S. Jabaley, CPA, and the audit was supervised by James W. Kiedinger, Jr., CPA. For the information technology portion of this audit, the audit team leader was Bill Allbritton, CISA, and the supervisor was Nancy Reeder, CPA, CISA. Please address inquiries regarding this report to James R. Stultz, CPA, Audit Manager, by e-mail at jimstultz@aud.state.fl.us or by telephone at (850) 922-2263.

This report and other audit reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 487-9024; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

NORTHWEST FLORIDA STATE COLLEGE

SUMMARY

Our operational audit for the fiscal year ended June 30, 2008, disclosed the following:

Finding No. 1: The College had not established policies regarding insurance requirements for design professionals.

Finding No. 2: The College did not provide individuals with a written statement to specify the purpose for collection of social security numbers (SSNs) for certain documents or file required certifications and reports by January 31, 2008, contrary to Section 119.071(5)(a), Florida Statutes.

Finding No. 3: The College's procedures do not ensure that it timely terminates information technology (IT) access privileges of former employees.

Finding No. 4: The College did not maintain written policies and procedures governing certain important security functions.

Finding No. 5: The College's security controls within the financial application and the supporting IT network needed improvement.

BACKGROUND

The College is under the general direction and control of the Florida Department of Education, Division of Community Colleges, and is governed by State law and State Board of Education rules. A board of trustees 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.

Pursuant to Section 1001.60(2)(b), Florida Statutes, the College's Board of Trustees approved the name change from Okaloosa-Walton College to Northwest Florida State College on July 10, 2008.

Northwest Florida State College has campuses in Niceville and Fort Walton Beach, Florida, and centers in DeFuniak Springs, Crestview, Eglin Air Force Base, and Hurlburt Field. Additionally, credit and noncredit classes are offered in public schools and other locations throughout Okaloosa and Walton Counties. The College reported enrollment of 5,224 full-time equivalent students for the 2007-08 fiscal year.

The results of our financial audit of the College for the fiscal year ended June 30, 2008, will be presented in a separate report. In addition, the Federal awards administered by the College are included within the scope of our Statewide audit of Federal awards administered by the State of Florida and the results of that audit, for the fiscal year ended June 30, 2008, will be presented in a separate report.

FINDINGS AND RECOMMENDATIONS

Finding No. 1: Design Professionals

The College contracts with design professionals such as architects and engineers for its construction projects. The Florida Department of Education (FDOE), in its *Guidelines for State Requirements for Educational Facilities 2007*, recommends that the Board develop a policy requiring the Board to carry professional liability insurance for its design

professionals or require the design professionals to carry professional liability insurance. During the 2007-08 fiscal year, there were various construction projects at the College with estimated completion costs of \$42 million.

Our review disclosed that the Board had not developed a policy providing for the type and amount of professional liability insurance required for design professionals. We selected three design professionals working on construction projects totaling approximately \$40 million. Our test disclosed that these design professionals carried \$1 million of professional liability insurance per claim, which may not be sufficient considering the approximate construction costs for the projects, which were \$3.4 million, \$30.6 million, and \$6 million, respectively. We also noted that two of the professional liability policies were on a one year claims-made basis. A claims-made policy provides coverage only during the period in which a claim is made, rather than the period in which the event occurs that gives rise to the claim. Claims-made liability policies may not provide the College with sufficient protection if, for example, a design or construction flaw was discovered subsequent to the construction period and the responsible architect no longer carried such insurance, carried an insufficient amount of insurance, or was no longer in business.

When developing policies on professional liability insurance, factors that should be considered are the design risks involved in construction projects and the approaches management should take to mitigate those risks. Since other professional liability insurance options (project riders, occurrence-based liability insurance, project liability insurance, etc.) that offer better coverage may be more costly, the policies should consider the extent of risk the Board is willing to take when deciding on the type and amount of required professional liability insurance. The level of acceptable risk may differ by type of project.

Additionally, our test disclosed that the College did not always verify that design professionals maintained professional liability insurance. For one of the three design professionals tested, the College had not obtained evidence of the \$1 million professional liability insurance. Subsequent to our inquiry, the College obtained evidence of professional liability insurance for this design professional.

Recommendation: The Board should establish policies relating to design professional liability insurance. These policies should require management to evaluate and document the College's exposure to design risk for each construction project and develop procedures to ensure that the College obtains the appropriate type and amount of professional liability insurance that is consistent with the College's risk management philosophy.

Finding No. 2: Social Security Numbers

The Legislature has acknowledged in Section 119.071(5)(a), Florida Statutes, the necessity of collecting social security numbers (SSNs) for certain purposes because of their acceptance over time as a unique numeric identifier for identity verification and other legitimate purposes. The Legislature has also recognized that SSNs can be used to acquire sensitive personal information, the release of which could result in fraud against individuals or cause other financial or personal harm. Therefore, public entities are required to provide extra care in maintaining such information to ensure its confidential status.

Effective October 1, 2007, Section 119.071(5)(a), Florida Statutes, as amended by Chapter 2007-251, Laws of Florida, provides that an agency may not collect an individual's SSN unless the agency has stated in writing the purpose for its collection and unless it is specifically authorized by law to do so or is imperative for the performance of that agency's duties and responsibilities as prescribed by law. Additionally, this Section requires that an agency collecting an individual's SSN provide the individual with a copy of the written statement indicating the purpose for collecting the number. Further, this Section provides that SSNs collected by an agency not be used for any purpose other than the

purpose provided in the written statement. This Section also requires that each agency review whether its collection of SSNs is in compliance with the above requirements; immediately discontinue the collection of SSNs for purposes that are not in compliance; and certify to the President of the Senate and the Speaker of the House of Representatives its compliance with these requirements no later than January 31, 2008. Further, this Section requires the agency to file a report by the same date with the Executive Office of the Governor, the President of the Senate, and the Speaker of the House of Representatives listing the identity of all commercial entities that have requested SSNs during the preceding calendar year and the specific purposes stated by each commercial entity regarding its need for SSNs. If commercial entities made no disclosure requests, the agency was required to so indicate.

The College collected SSNs from students, employees, and certain vendors for various record keeping purposes related to student enrollment, employment, and contract administration. Our review of the College's collection of SSNs disclosed the following:

- Although the College's 2008-2009 Catalog and Student Handbook contains a Notification of Social Security Number Collection and Use statement that provides very general reasons for collecting student SSNs, the College did not provide a written statement to students explaining the purpose for collecting their SSNs.
- The College did not provide a written statement to employees or vendors explaining the purpose for collecting their SSNs.
- The College did not timely or properly file the required certifications or reports due on January 31, 2008.

Effective controls to properly monitor the need for and use of SSNs and ensure compliance with statutory requirements reduce the College's risk that SSNs may be used for unauthorized purposes.

Recommendation: The College should continue its efforts to ensure compliance with Section 19.071(5)(a), Florida Statutes. In those instances in which the College determines that collection of the social security number is not imperative for performance of its duties and responsibilities, the College should discontinue obtaining such numbers.

Finding No. 3: Information Technology – Terminated Employee Access

The College's procedures do not ensure that it timely deletes information technology (IT) access privileges of former employees. The College uses complex IT systems to process and maintain its accounting, human resources, and student records, including financial aid. This data includes sensitive and nonpublic data on approximately 750 employees and approximately 4,800 unweighted full-time equivalent students. While performing their assigned responsibilities, certain College users can access this data through an extensive network system from many locations on and off the College's campuses. Due to the importance of the College's IT systems to its continued operations and the extent of sensitive and nonpublic information maintained on the systems, the College should have procedures for controlling access privileges that include timely removing access privileges of terminated employees.

College procedures require supervisors to notify Human Resources (HR) when an employee separates from service. HR then completes the Request for Removal from Systems form and forwards it to IT. Our test of 30 employees who separated from the College during the audit period disclosed four separated employees who continued to have access to the system for 11 to 20 days after their separation date. We determined that, in these instances, IT personnel timely deleted access privileges when notified; however, the supervisors did not timely notify HR when the employee separated from service. The College is exposed to a greater risk that former employees could access and make unauthorized changes to data when it does not timely delete access privileges to its IT systems.

Recommendation: The College should ensure that supervisors timely notify Human Resources so that department personnel can complete and forward the required Request for Removal from Systems form to IT.

Finding No. 4: Information Technology – Security Policies and Procedures

The College did not maintain written policies and procedures governing certain important security functions. Given the College's extensive IT resources and the data maintained on those resources, the College's security program should include written security policies and procedures that address all major systems and facilities and outline the duties of those who are responsible for overseeing security (the security management function), as well as those who own, use, or rely on the entity's computer resources.

Our review disclosed that the College had not established written security policies and procedures that covered the following:

- The administration of vendor-supplied identification codes (IDs).
- Guest accounts.
- Administrative passwords.
- Denial of administrator rights on workstations used by end-users.
- Administration and configuration of other security devices such as routers and firewalls.

When the College does not have complete and written security policies and procedures, it is exposed to a greater risk that controls may be inadequate or inconsistently applied and responsibilities may be unclear, misunderstood, and improperly implemented. This increases the risk that the College may not sufficiently protect sensitive or critical IT resources.

Recommendation: The College should develop and maintain written policies and procedures that cover all security activities to protect the confidentiality, integrity, and availability of IT resources.

Finding No. 5: Information Technology – Security Controls

Organizations that maintain complex computer information systems must have effective security controls to protect the confidentiality, integrity, and availability of data and IT resources. Our audit disclosed certain security controls that needed improvement in the areas of managing access privileges and protecting the confidentiality of user passwords. We have not disclosed specific details of these issues in this report to avoid the possibility of compromising the College's data and IT resources. However, we have notified appropriate College staff of the specific issues. Without adequate security controls, the confidentiality, integrity, and availability of data and IT resources may be compromised, increasing the risk that College data and IT resources may be subject to improper disclosure, modification, or destruction.

Recommendation: The College should improve its security controls related to managing access privileges and protecting the confidentiality of user passwords to provide increased assurance of the continued confidentiality, integrity, and availability of College data and IT resources.

OTHER MATTERS

The Grand Jury for the Second Judicial Circuit has instructed the State Attorney to gather information pertaining to the College's compliance with Florida's Government in the Sunshine Law. The review of these matters by the Grand Jury was still pending as of the completion of our audit.

PRIOR AUDIT FOLLOW-UP

The College had taken corrective actions for findings included in our report No. 2008-162, finding No. 2, and report No. 2007-058.

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 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: (1) obtain an understanding and make overall judgments as to whether College internal controls promoted and encouraged compliance with applicable laws, rules, regulations, contracts, and grant agreements; the economic and efficient operation of the College; the reliability of records and reports; and the safeguarding of assets; (2) evaluate management's performance in these areas; and (3) determine whether the College had taken corrective actions for findings included in our report No. 2008-162, finding No. 2, and report No. 2007-058. Also, pursuant to Section 11.45(7)(h), Florida Statutes, our audit may identify statutory and fiscal changes to be recommended to the Legislature.

The scope of this operational audit is described in Exhibit A. Our audit included examinations of various records and transactions (as well as events and conditions) occurring during the 2007-08 fiscal year.

Our audit methodology included obtaining an understanding of the internal controls by interviewing College personnel and, as appropriate, performing a walk-through of relevant internal controls through observation and examination of supporting documentation and records. Additional audit procedures applied to determine that internal controls were working as designed, and to determine the College's compliance with the above-noted audit objectives, are described in Exhibit A. Specific information describing the work conducted to address the audit objectives is also included in the individual findings.

AUTHORITY

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.



David W. Martin, CPA
Auditor General

MANAGEMENT'S RESPONSE

Management's response is included as Exhibit B.

EXHIBIT A
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Security awareness training program regarding the confidentiality of information.	Examined supporting documentation relating to the College's information technology (IT) security awareness training program.
IT policies and procedures.	Inspected the College's written IT policies and procedures to determine whether they addressed certain important IT control functions.
Procedures for granting access to IT resources.	Reviewed documentation to determine the College's process for requesting, approving, implementing, and reviewing system access to IT resources. Tested employee access to selected functions within different applications to determine if an appropriate separation of duties existed in relation to employees' job functions. Tested selected security software groups and system privileges granted to employees to determine if an appropriate separation of duties existed in relation to employees' job functions.
Procedures for IT authentication controls.	Examined supporting documentation to determine whether authentication controls were configured and enforced in accordance with IT best practices.
Procedures to timely prohibit terminated employees' access to electronic data files.	Sampled employees who terminated during the audit period and examined documentation to determine whether the College timely terminated computer access privileges.
Tuition for baccalaureate courses.	Compared tuition fees charged for baccalaureate courses to amounts authorized to ensure these fees were less than 85 percent of tuition and out-of-state fees charged by the nearest public university.
Nonbaccalaureate tuition, financial aid fees, and capital improvement fees assessed.	Compared nonbaccalaureate tuition, financial aid fees, and capital improvement fees assessed to amounts authorized by law.
Student activity and service fees assessed.	Verified that the activity and service fees assessed did not exceed 10 percent of the total tuition fee.
Procedures for calculating user and special course fees.	Selected a sample of user and special course fees to determine whether the College properly calculated these fees.
Adult general education program enrollment reporting.	Selected a sample of adult education students and examined supporting documentation to determine if the College reported instructional and contact hours in accordance with Florida Department of Education (FDOE) requirements.
Cash collection procedures at decentralized collection point.	Selected a sample of collections from a decentralized location to determine the effectiveness of the College's collection procedures.
Reimbursement of costs for services provided as fiscal agent.	Interviewed College personnel and examined documentation to determine whether the College received prompt reimbursements for fiscal agent services provided to a nonprofit entity.

EXHIBIT A (Continued)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Use of State sales tax exemption for direct purchases of construction materials.	Examined recent construction projects to determine if the College made use of its sales tax exemption to make direct purchases of construction materials or documented its justification for not doing so.
Professional liability insurance requirements for design professionals.	Examined Board policies to determine if the Board had established a policy regarding minimum professional liability insurance requirements for design professionals. Tested construction projects in progress during the audit period and examined supporting documentation to determine whether architects and engineers provided evidence of professional liability insurance.
Construction contractors' bonds and insurance.	Selected a sample of construction projects in progress during the audit period and examined supporting documentation to determine if contractors provided evidence of bonds and insurance.
Travel to terrorist states.	Reviewed the College's policies and procedures regarding travel and sampled travel expenses to determine compliance with those policies.
Fraud policy and related procedures.	Examined written policies and procedures relating to the College's fraud policy and related procedures.
Social security number requirements of Section 119.071(5)(a), Florida Statutes.	Examined supporting documentation to determine whether the College had provided individuals with a written statement as to the purpose of collecting social security numbers, certified compliance pursuant to Section 119.071(5)(a)4.b., Florida Statutes, and filed the required report specified by Section 119.071(5)(a)9.a., Florida Statutes, no later than January 31, 2008.
Sunshine Law requirements for Board meetings (i.e., proper notice of meetings, ready access to public, maintain minutes).	Read Board minutes and, for selected Board meetings, examined supporting documentation evidencing compliance with Sunshine Law requirements.
FDOE Distributive Aid Cash Advance Reconciliation reporting.	Reviewed June 30, 2008, FDOE Distributive Aid Cash Advance Reconciliation and supporting documentation to determine if College timely and correctly filed.
Procedures for monitoring cellular telephone usage and compliance with related Internal Revenue Service (IRS) reporting requirements.	Determined whether the College either provided for compliance with IRS substantiation requirements for cellular telephone usage or, for the most recent calendar year, reported the value of cellular telephone services provided to employees as income for those employees.
Procedures for cash and investment reconciliations.	Tested bank and investment reconciliations for June 30, 2008, to determine if the reconciliations were timely and accurate.

EXHIBIT B
MANAGEMENT'S RESPONSE



NORTHWEST FLORIDA
STATE COLLEGE

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

February 19, 2009

David W. Martin, CPA
Auditor General, State of Florida
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450

Dear Mr. Martin:

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, 2008.

Sincerely,

A handwritten signature in black ink, appearing to read "JRR", with a large, stylized flourish at the end.

James R. Richburg
President

JRR/du
Attachments

NWF State College Fort Walton Beach Campus (850) 863-6500 Chautauqua Center, DeFuniak Springs (850) 892-8100,
Eglin Center, Eglin Air Force Base (850) 678-1717 Hurlburt Center, Hurlburt Field (850) 884-6296
Robert L. F. Sikes Education Center, Crestview (850) 689-791
"An Equal Access/Equal Opportunity Institution"

NORTHWEST FLORIDA STATE COLLEGE
RESPONSE TO PRELIMINARY AND TENTATIVE OPERATIONAL AUDIT FINDINGS
FOR the Fiscal Year Ended June 30, 2008

Finding No. 1: Insurance Requirements for Design Professionals

Finding:

The College had not established policies regarding insurance requirements for design professionals.

Recommendation:

The Board should establish policies relating to design professional liability insurance. These policies should require management to evaluate and document the College's exposure to design risk for each construction project and develop procedures to ensure that the College obtains the appropriate type and amount of professional liability insurance that is consistent with the College's risk management philosophy.

Response:

An amendment to Northwest Florida State College Policy Number 6Hx17-8.10 Capital Outlay and Construction has been advertised and goes to the Board of Trustees for approval March 16, 2009. The amendment is to Local Language: Architects and engineers shall provide certificates of professional liability insurance for a minimum of \$1 million per claim prior to signing an agreement for services with the college.

Finding No. 2: Compliance with Section 119.071(5) (a), Florida Statutes

Finding:

The College did not provide individuals with a written statement to specify the purpose for collection of social security numbers (SSNs) for certain documents or file required certifications and reports by January 31, 2008, contrary to Section 119.071(5) (a), Florida Statutes.

Recommendation:

The College should continue its efforts to ensure compliance with Section 19.071(5) (a), Florida Statutes. In those instances in which the college determines that collection of the social security number is not imperative for performance of its duties and responsibilities, the College should discontinue obtaining such numbers.

Response:

College forms have been modified to include statements that notify students, employees, and vendors of the potential use of social security numbers supplied to the College. Any form that does not include a notification statement on its face will have a statement attached.

The College is now in compliance with Section 19.071(5) (a), Florida Statutes. Certified notices were sent to the President of the Senate and the Speaker of the House of Representatives October 3, 2008 and again January 21, 2009.

Finding No. 3: Information Technology –Terminated Employee Access

Finding:

The College's procedures do not ensure that it timely deletes information technology (IT) access privileges of former employees.

NORTHWEST FLORIDA STATE COLLEGE
RESPONSE TO PRELIMINARY AND TENTATIVE OPERATIONAL AUDIT FINDINGS
FOR the Fiscal Year Ended June 30, 2008

Recommendation:

The College should ensure that supervisors timely notify Human Resources so that department personnel can complete and forward the required Request for Removal from Systems from to IT.

Response:

The College is currently in the process of rewriting all Information Security policies using ISO/IEC 17799 standards. As part of this effort, the policies associated with terminating employees' access will be addressed covering the security policies and procedures identified in the audit.

Finding No. 4: Information Technology – Security Policies and Procedures

Finding:

The College did not maintain written policies and procedures governing certain important security functions.

Recommendation:

The College should develop and maintain written policies and procedures that cover all security activities to protect the confidentiality, integrity, and availability of IT resources.

Response:

The College has contracted with a company familiar and experienced with the requirements of educational institutions for a complete technology security assessment. The Contractor providing the assessment is also assisting the College with rewriting all Information Security policies and procedures using ISO/IEC 17799 standards. These policies and procedures will address all IT security activities to protect the confidentiality, integrity, and availability of IT resources.

Finding No. 5: Information Technology – Security controls
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Finding:

Certain security controls needed improvement in the areas of managing access privileges and protecting the confidentiality of user passwords.

Recommendation:

The College should improve its security controls related to managing access privileges and protecting the confidentiality of user passwords to provide increased assurance of the continued confidentiality, integrity, and availability of College data and IT resources.

Response:

The College has contracted with a company familiar and experienced with the requirements of educational institutions for a complete technology security assessment. The Contractor providing the assessment is also assisting the College with rewriting all Information Security policies and procedures using ISO/IEC 17799 standards. These policies and procedures will address security controls related to managing access privileges and protecting the confidentiality of user passwords to provide increased assurance of the continued confidentiality, integrity, and availability of College data and IT resources.

