

VALENCIA COMMUNITY 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> |
|----------------------------------|---------------|
| Lawrence D. Slocum, Chair (1) | Osceola |
| Lewis M. Oliver, III, Vice-Chair | Orange |
| Ronald Blocker | Orange |
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| Bertica Cabrera-Morris | Orange |
| Maria C. Grulich Toumazos | Osceola |
| Raymer F. Maguire, III | Orange |
| Edward A. Moore | Osceola |

Dr. Sanford C. Shugart, President

Note: (1) Board member served beyond the end of his term, May 31, 2008.

The audit team leader was Jeffrey M. Brizendine, CPA, and the audit was supervised by Brenda C. Racis, CPA. 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.

VALENCIA COMMUNITY COLLEGE

SUMMARY

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

Finding No. 1: The College does not have a written fraud policy for communicating and reporting known or suspected fraud.

Finding No. 2: The College needed to improve its controls over procurement cards.

Finding No. 3: The College had not developed a policy to require personnel evaluations for administrative and professional employees.

Finding No. 4: The College's procedures for monitoring access to its human resources system 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.

Valencia Community College has campuses in Orlando, Kissimmee, and Winter Park, Florida, and two centers and a Criminal Justice Institute located in Orlando, Florida. Additionally, credit and noncredit classes are offered in public schools and other locations throughout Orange and Osceola Counties. The College reported enrollment of 23,816 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: Policies for Reporting Fraud

The College had not developed policies for communicating and reporting known or suspected fraud. Such policies should clearly identify actions constituting fraud, incident reporting procedures, responsibility for fraud investigation, and consequences for fraudulent behavior. Fraud policies are necessary to educate employees about proper conduct, create an environment that deters dishonesty, and maintain internal controls that provide reasonable assurance of achieving management objectives and detecting dishonest acts. In addition, such policies serve to establish the responsibilities for investigating potential incidents of fraud, taking appropriate action, reporting evidence of such action to the appropriate authorities, and avoiding damage to the reputations of persons suspected of fraud but subsequently exonerated. Further, in the absence of such written policies, the risk increases that a known or suspected fraud may be identified but not reported to the appropriate authority.

In response to our inquiries, the College indicated that such policies are currently being developed.

Recommendation: The College should continue its efforts to development and implement policies for the detection, prevention, and reporting of known or suspected fraud.

Finding No. 2: Procurement Cards

The College administers a procurement card program, by which it authorizes the issuance of credit cards to its employees in order for the employees to procure certain work-related goods and services. The primary objective of the program is to expedite the ordering, receiving, and payment processes without the use of the standard requisition and purchase order system by delegating limited purchasing authority to the cardholders. The College appointed a Program Administrator and issued a comprehensive Procurement Card Program Procedures and Guidelines Manual (Guidelines) that addressed various management controls over procurement cards. The College issued procurement cards to 168 employees as of June 30, 2008, and incurred charges totaling approximately \$13.8 million during the 2007-08 fiscal year.

Our review of the transaction detail supporting the \$13.8 million of procurement card purchases disclosed the following:

- For 154 transactions totaling approximately \$37,000, documentation of the cardholder's review was not evident. In addition, approval of purchases by the cardholder's departmental card coordinator, prior to their posting to the accounting records and payment, was not evident for 452 transactions totaling approximately \$119,000. The College's Guidelines require that the cardholders review the purchasing card transactions on a daily basis, and that departmental card coordinators approve the previous week's transactions every Wednesday prior to the weekly download and subsequent payment to the bank. Subsequent to our audit inquiry, the College implemented procedures to identify transactions that were either not reviewed or approved prior to payment to the bank. These new procedures require cardholders and department card coordinators to manually review, approve receipts, and provide those approved receipts to the Procurement office.
- For 27 of 34 procurement cards issued with single-purchase limits in excess of \$25,000, there were no individual transactions in excess of \$25,000 that occurred during the 2007-08 fiscal year. Excessive single-purchase limits increase the risk of misuse, and the risk that purchases may exceed budget constraints, and not be detected timely.

Although a purchasing card program is useful for expediting purchases in an efficient manner, without effective monitoring and control, the College is at a greater risk that purchases may not be properly documented or authorized.

Recommendation: The College should continue their efforts to improve controls over the procurement card program to ensure that individual transactions are reviewed and approved for validity prior to payment and to compare usage to established card purchase limits and, where indicated, adjust limits periodically.

Finding No. 3: Performance Evaluations

Section 1001.64(18), Florida Statutes, requires that each board of trustees establish a personnel program for all employees that include standards for performance and conduct, and for performance evaluations. Our test of 20 employees disclosed that evaluations for 10 employees were not performed. These 10 employees filled professional and administrative positions. Our review of College policies disclosed that the College does not require

periodic performance evaluations for administrative and professional employees. An effective performance evaluation can provide an employee with an assessment of their performance in carrying out their assigned duties, communicate to the employee the results of the evaluation, and improve an employee's overall performance.

In response to our inquiries, the College indicated that a policy is currently being developed to provide for performance evaluations for its professional and administrative positions.

Recommendation: The College should continue its efforts to implement a policy requiring periodic performance evaluations for all of its employees, as required by Florida Statutes.

Finding No. 4: Information Technology – Access Controls

The College's electronic Human Resources (HR) system, which was implemented on July 1, 2007, maintains the personnel and payroll data needed to compensate employees for work performed. This system is comprised of many forms (screens), access to which is restricted to authorized personnel by means of a username and password. Our review of College records disclosed that payroll staff had update capabilities to the same screens that personnel staff utilized to perform such functions as establishing new employees in the system, terminating employees from the system, and making changes to existing payroll information, including rate of pay. Our test of 30 employees hired since the implementation of the new HR system did not disclose any indications of fraud or abuse; however, our audit procedures cannot substitute for an effective system of internal controls.

An effective system of internal control provides for the separation of duties between the personnel and payroll functions to ensure that no one employee has control over all phases of the payroll process. The ability of payroll staff to have full update access to personnel records increased risk that payroll funds could be misappropriated and not be detected in a timely manner. College procedures include the generation of exception reports when anyone other than personnel staff update the screens in question. However, these reports are initially reviewed by the Coordinator of HR Information Systems and not by appropriate HR administrative staff. In addition, the College does not maintain these reports evidencing review and resolution of the exceptions listed. Enhancement of these procedures could provide a compensating control to minimize the risks associated with an inappropriate segregation of duties.

Recommendation: The College should ensure that access to human resources data is limited to only those persons requiring such access for their assigned duties so that no one person has control over all phases of the employee compensation process, or maintain documentation of supervisory review of exception reports as a compensating control.

PRIOR AUDIT FOLLOW-UP

The College had taken corrective actions for findings included in our report No. 2007-152.

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. 2007-152. 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 |
|---|---|
| Procedures to timely prohibit terminated employees' access to electronic data files. | Sampled employees who terminated during the audit period and examined supporting documentation evidencing when the College terminated access privileges. |
| Security awareness and training program regarding the confidentiality of information. | Examined supporting documentation relating to the College's information technology (IT) security awareness and training program. |
| Procedures for authorizing access to IT resources. | Reviewed documentation to determine the College's process for requesting, approving, implementing, and removing system access to IT resources. Selected a sample of access privileges granted to determine whether the College properly authorized and granted application access in relation to employees' job functions. |
| 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. |
| Fraud policy and related procedures. | Examined written policies and procedures, and examined supporting documentation relating to the College's fraud policy and related procedures. |
| Bank account reconciliation procedures. | Reviewed procedures related to the reconciliation of bank account information. Tested certain monthly bank reconciliations to ensure that the reconciliations were performed in a timely manner. |
| Adoption of capital outlay budget. | Examined the annual budget and Board of Trustee minutes to determine whether the College's capital outlay budget had been adopted in accordance with Section 1013.61, Florida Statutes. |
| 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. |
| Tangible personal property records. | Examined tangible personal property records to determine whether they contained information necessary to account for and identify College-owned property. Selected a sample of property for physical observation to determine whether the College's property records accurately described the selected assets. |
| Land acquisition procedures. | Examined supporting documentation to determine whether the College obtained appraisals prior to acquiring land and, such appraisals were conducted pursuant to Section 1013.14, Florida Statutes. |

EXHIBIT A (Continued)
AUDIT SCOPE AND METHODOLOGY

| Scope (Topic) | Methodology |
|---|--|
| Use of safety and security fees. | Selected a sample of payments from safety and security fee revenues to determine whether the safety and security fee revenues were spent pursuant to requirements of Section 1009.23(4), Florida Statutes. |
| Cash collection procedures at decentralized collection point. | Reviewed collection procedures at selected locations and tested daily cash collections to determine the effectiveness of the College's collection procedures. |
| Procedures for payroll transactions. | Selected a sample of College employee compensation payments to determine whether such payments were in accordance with College rules and procedures and paid at the correct rate of pay. |
| Employee performance evaluations. | Reviewed policies and procedures for the completion of annual performance evaluations. Selected a sample of employees to determine whether annual performance evaluations were performed in compliance with Section 1001.64(18), Florida Statutes. |
| Travel to a terrorist state. | Examined the College's travel records and made inquiry of key personnel to determine if funds were used for travel to terrorist states. |
| Fingerprinting and background checks for personnel in a position of special trust or that had direct contact with children. | Reviewed College procedures to determine if the College had identified positions of special trust or of a sensitive nature and had implemented fingerprinting and background checks. |
| Procurement card policies and procedures. | Selected a sample of transactions to determine whether the procurement card program was administered in accordance with College policies and procedures. |
| Travel advance procedures. | Sampled travel advances to determine if the advances were reconciled to actual travel reimbursements in accordance with College policies. |
| Student activity and service fees assessed. | Verified the activity and service fee did not exceed 10 percent of the total tuition fee. |
| Construction subcontractor licensure requirements. | Examined supporting documentation to determine whether the College verified subcontractor licenses for major construction projects. |
| Procedures for the administration of energy performance-based contracts. | Examined supporting documentation of an energy performance-based contract to determine whether the contract was administered in accordance with Section 1013.23(3), Florida Statutes. |
| Procedures for monitoring payments made in accordance with construction manager contracts. | Examined procedures to determine if the College verified that payment requests from the construction manager were supported by adequate documentation. |

EXHIBIT A (Continued)
AUDIT SCOPE AND METHODOLOGY

| Scope (Topic) | Methodology |
|--|---|
| Procedures for insuring architects and engineers. | Examined major construction projects in progress to determine whether architects and engineers engaged during the audit period had required insurance. |
| 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. |
| Procedures for monitoring cellular telephone usage and compliance with related 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. |

EXHIBIT B
MANAGEMENT'S RESPONSE



February 26, 2009

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

Dear Mr. Martin:

This letter serves as written statement of explanation regarding the preliminary and tentative finding and recommendation on the operational audit of Valencia Community College "the College" for the Fiscal Year Ended June 30, 2008, pursuant to Section 11.45(4)(d), Florida Statutes.

Finding No. 1: The College does not have a written fraud policy for communicating and reporting known or suspected fraud.

A policy has been developed and is currently being vetted by our governing councils. The policy is expected to be taken to our District Board of Trustees on April 21, 2009.

Finding No. 2: The College needed to improve its controls over procurement cards.

Valencia's Procurement Services office implemented procedures to ensure that the reconciliation process is completed for transactions that are either not reviewed or approved in Payment Net. This new procedure requires cardholders and department card coordinators to manually review and approve receipts, to sign the receipts and to forward those signed/approved receipts to the Procurement Services office for filing in accordance with the College's established retention policy. These procedures have been incorporated into the P-Card Procedures and Guidelines Manual as of January 2009 and are specifically listed on page 20, section 19.2.4 and 19.2.5. All card holders and approvers were made aware of this reconciliation process procedure via an e-mail message. In addition, a revised copy of the P-Card Manual was sent electronically to all card holders and approvers, noting this specific change to the reconciliation process, in January 2009.

In November 2008, all Valencia P-Cardholder limits were reviewed and adjusted based on their average monthly spend. Cardholders were notified of any adjustment to their monthly and single transaction limits. A credit card limit usage review will be performed every four months by the P-Card Administrator. This review procedure has been incorporated into the P-Card Manual in Section 4.1.23. Language regarding the fact that Cardholder Credit Limits will be based on a combination of budgets and average spending is in Section 4.5.1.1. Cardholders, whose spending needs exceed their established limits, must contact the P-Card Administrator with a justification/request for a temporary increase.

Mr. David W. Martin
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Finding No. 3: The College had not developed a policy to require personnel evaluations for administrative and professional employees.

The college understands and agrees that performance evaluations can be a useful tool. This is why we have engaged a consultant to help develop effective performance evaluation tools and uniform procedures for the evaluation of all employees at the college. Currently, we are in the process of gathering feedback from the senior staff regarding the work completed to date. Once we have finished this phase of our work we will continue to develop and formalize the procedures that will cover the performance evaluation of all employees at the college.

Finding No. 4: The College's procedures for monitoring access to its human resources system needed improvement.

The college understands and agrees that the best situation would be complete and total separation of duties and access with regard to personnel and payroll processing. The reality is that nothing is absolute and the design of our personnel/payroll system requires that both personnel and payroll staff have update access to two forms used in the normal performance of their duties. We have implemented an independent review of all transactions involving the two forms in question prior to each payroll to eliminate the potential of any single person making a fraudulent change. The college will continue to ensure that access to personnel and payroll data is limited to only those requiring such access to perform their assigned duties, and we will provide appropriate supervision and controls.

Sincerely,



Keith W. Houck
Vice President for Administrative Services
And Chief Business Officer

c: Dr. Sanford Shugart
Ms. Jackie Lasch
Mr. Joe Livingston
Dr. William MULLOWNEY
Mr. Pedro Rivera
Ms. Undria Stalling
Dr. Stan Stone
Mr. Bill White