

CHIPOLA COLLEGE

Operational Audit



BOARD OF TRUSTEES AND PRESIDENT

Members of the Board of Trustees and President who served during the 2012-13 fiscal year are listed below:

	<u>County</u>
Jan L. Page, Chair (1)	Washington
Mark S. Plummer, Vice Chair to 6-23-13 (2)(3)	Liberty
Dr. Leisa H. Bailey (4)	Holmes
Nolan V. Baker from 6-24-13	Holmes
Hannah S. Causseaux from 6-24-13	Liberty
Gary F. Clark	Washington
Jeff Crawford, Jr., to 6-23-13 (1)	Jackson
Robert L. Jones to 6-23-13 (1)	Holmes
Thomas S. Lassmann from 6-24-13	Jackson
John W. Padgett	Jackson
Daniel E. Ryals, III (4)	Calhoun
Virginia C. Stuart (4)	Jackson

Dr. Gene Prough, President

- Notes: (1) Board member served beyond the end of term, May 31, 2011.
- (2) Board member served beyond the end of term, May 31, 2010.
- (3) Vice Chair position was vacant from June 24, 2013 through June 30, 2013.
- (4) Board member served beyond the end of term, May 31, 2013.

The audit team leader was Shelly G. Curti, CPA, and the audit was supervised by Patricia S. Crutchfield, 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) 412-2869.

This report and other reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 412-2722; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

CHIPOLA COLLEGE

EXECUTIVE SUMMARY

Our operational audit disclosed the following:

BOARD POLICIES

Finding No. 1: The Board needed to enhance its policies and procedures relating to electronic funds transfers.

DECENTRALIZED COLLECTIONS

Finding No. 2: The College needed to strengthen controls over swimming pool operations collections.

PERSONNEL AND PAYROLL

Finding No. 3: The College did not properly calculate the President’s compensation for purposes of Florida Retirement System contributions.

Finding No. 4: The College did not require background checks and fingerprinting for employees who have direct contact with children.

INFORMATION TECHNOLOGY

Finding No. 5: The College had not developed a written, comprehensive information technology risk assessment.

BACKGROUND

Chipola College (College) is under the general direction and control of the Florida Department of Education, Division of Florida Colleges, and is governed by State law and State Board of Education rules. A board of trustees (Board) governs and operates the College. The Board constitutes a corporation and is composed of nine members appointed by the Governor and confirmed by the Senate. The College President serves as the executive officer and the corporate secretary of the Board, and is responsible for the operation and administration of the College.

The College has a campus in Marianna, Florida. Additionally, credit and noncredit classes are offered in public schools and other locations throughout Jackson County. The College reported enrollment of 1,602 full-time equivalent students for the 2012-13 fiscal year.

The results of our financial audit of the College for the fiscal year ended June 30, 2013, 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, 2013, will be presented in a separate report.

FINDINGS AND RECOMMENDATIONS

Board Policies

Finding No. 1: Electronic Funds Transfers

Section 1010.11, Florida Statutes, requires each college board of trustees to adopt written policies prescribing the accounting and control procedures under which funds are allowed to be moved by electronic transaction for any purpose including direct deposit, wire transfer, withdrawal, investment, or payment. This law also requires that

electronic transactions comply with the provisions of Chapter 668, Florida Statutes, which discusses the use of electronic signatures in electronic transactions between colleges and other entities.

According to the College's records, \$26.2 million in electronic funds transfers (EFTs) were made during the 2012-13 fiscal year for transactions such as employee payments, retirement payments, and investment transactions. Board Policy 5.061 authorizes the President or designee to withdraw, transfer, pay, or disburse College funds by any means of electronic transfer pursuant to Florida Statutes. Additionally, the Policy states that appropriate procedures will be established to ensure funds are adequately protected. However, the Policy does not prescribe accounting and control procedures for EFTs or address the use of electronic signatures when conducting electronic transactions with other entities. While the College had informal controls over EFTs, the lack of specific guidance in the form of Board-approved written policies and procedures increases the risk that electronic transactions will not be executed in accordance with Board directives and the provisions of Chapter 668, Florida Statutes.

Recommendation: The Board should enhance its written policies and procedures to prescribe accounting and control procedures for electronic funds transfers, including the use of electronic signatures.

Decentralized Collections

Finding No. 2: Collections for Swimming Pool Operations

The College's swimming pool operations sells daily swim passes for \$3 for ages 13 and over and \$2 for ages 12 and under; season swim passes ranging from \$55 for an individual to \$120 for a family of four and an additional \$10 for each child for families of five or more; and offers two-week swim lessons for a \$55 fee. During the 2012-13 fiscal year, collections from pool operations totaled \$18,572.

Based on inquiries with College personnel, daily swim pass collections are entered into a cash register by rotating student workers who serve as both lifeguards and cashiers. Registration forms are completed for swim lessons and season pass sales. All swimmers are required to sign a daily swim log, which includes the date, their name, emergency contact, and an indication of the type of user (i.e. daily, season passholder, etc.). Collections along with a cash sales report are remitted to the Business Office for recording and bank deposit. However, the College had not developed written procedures for swimming pool operations collections.

Our review of eight deposits totaling \$9,324 disclosed the following control deficiencies:

- For six of the eight deposits of pool collections tested, totaling approximately \$8,690, collections were not timely remitted to the Business Office. The Pool Manager remitted these collections from 4 to 49 days after the collection date. Untimely deposit of collections increases the risk of loss or theft of collections.
- There was no independent reconciliation of collections to supporting daily swim logs and registration forms. For the eight deposits tested, reconciliations could not be performed due to incomplete swim logs and 22 missing registration forms. Such reconciliations are necessary to ensure that collections are adequately supported and accounted for.
- When cashiers are rotated throughout the day, the cash register is not closed out. Cash collections are not counted and transfer receipts are not prepared to acknowledge the transfer of funds between cashiers. Under these conditions, the College may be limited in its ability to fix responsibility should a loss or theft of collections occur.

Recommendation: The College should establish written procedures for its swimming pool operations. The College should also strengthen controls over swimming pool operations collections to ensure the timely remittance of collections for deposit, reconciliation of participation records to collections, and proper accountability over the transfers of funds between cashiers.

Personnel and Payroll

Finding No. 3: President’s Compensation

Pursuant to Section 1001.64(18), Florida Statutes, the Board has the authority to establish the College President’s compensation, including benefits. On June 19, 2012, the Board approved an employment contract with the President for the period July 1, 2012, through March 31, 2014. The President’s employment contract requires the College to pay ten percent of the President’s base salary into a 457 Deferred Compensation Plan each year. The President’s base salary for the 2012-13 fiscal year was \$164,046.

Pursuant to Section 121.021(22)(c), Florida Statutes, any public funds paid by an employer into an employee’s salary reduction, deferred compensation, or tax-sheltered annuity program on or after July 1, 1990, shall be considered a fringe benefit and shall not be treated as compensation for retirement purposes. Contrary to this provision, the \$16,405 paid into the President’s 457 Deferred Compensation Plan during the 2012-13 fiscal year was included as compensation for purposes of calculating the 2012-13 fiscal year Florida Retirement System (FRS) contributions for the President. As a result, the College contributed \$1,033 more to the FRS than allowed pursuant to Florida Statutes. In response to our inquiry, College personnel indicated they were unaware of this statutory provision.

Subsequent to our inquiry, College personnel contacted the Division of Retirement, Bureau of Calculations regarding this overpayment and, in August 2013, corrected the reporting of the President’s compensation to the FRS.

Recommendation: The College should ensure compliance with Florida Statutes in determining the President’s compensation for the purpose of reporting to the FRS.

Finding No. 4: Background Checks and Fingerprinting

Although not specific to Colleges, Florida Statutes provide for criminal history checks, including fingerprinting, for employees in positions of special trust or of a sensitive nature. For example, Section 409.175, Florida Statutes, requires owners, operators, employees, and volunteers working in summer camps providing care for children to undergo Level 2 screenings. Section 110.1127, Florida Statutes, requires that persons occupying certain State employment positions, because of special trust or responsibility or sensitive location of those positions, be subject to a security background check, including fingerprinting, as a condition of employment. Section 1012.32(2)(a), Florida Statutes, requires personnel hired to fill positions requiring direct contact with students in any district school system or university lab school to undergo a Level 2 background screening, as required by Section 1012.465, Florida Statutes or Section 1012.56, Florida Statutes. Section 435.04, Florida Statutes, describes Level 2 screening standards, which include fingerprinting for statewide criminal history records checks through the Florida Department of Law Enforcement, and national criminal history records checks through the Federal Bureau of Investigation.

The College’s Background Screening Policy No. 4.011 provides that all current employees working in select/sensitive positions and all newly hired employees (full-time, part-time, and adjuncts), volunteers, and interns, shall submit to background checks, which may include, but are not limited to, criminal history, credit history, driver’s license history,

previous employment, and references. Although Policy No. 4.011 provides that various background checks may be conducted it does not specifically require criminal background checks for any employees, nor does it require level 2 screenings as described in Sections 435.04, 1012.465 and 1012.56, Florida Statutes.

According to College personnel, positions in the Business Office, Human Resources, and Information Systems Department are considered sensitive positions and it is College procedure to perform level 2 background checks including fingerprinting and criminal history checks for employees in these departments. College procedures did not generally provide for fingerprinting and criminal history checks of employees in other positions, including those who may have direct contact with minors, including pool lifeguards, instructors for dual enrolled courses, and children’s summer camp employees. When employees who have direct contact with minors are not required to have criminal background screenings there is an increased risk that employees with unsuitable backgrounds may have access to children.

Recommendation: The College should require criminal background checks, including fingerprinting, for all employees in positions of special trust or responsibility, or of a sensitive nature, including employees who have direct contact with children.

Information Technology

Finding No. 5: Risk Assessment

Management of information technology (IT) related risks are a key part of enterprise IT governance. Incorporating an enterprise perspective into day-to-day governance actions helps an entity understand its greatest security risk exposures and determine whether planned controls are appropriate and adequate to secure IT resources from unauthorized disclosure, modification, or destruction. IT risk assessment, including the identification of risks and the evaluation of the likelihood of threats and the severity of threat impact, helps support management’s decisions in establishing cost effective measures to mitigate risk and, where appropriate, formally accept residual risk.

Although the College had informally considered external and internal risks and identified security controls to mitigate these risks, it had not developed a written, comprehensive IT risk assessment. The absence of a written, comprehensive IT risk assessment may limit the College’s assurance that all likely threats and vulnerabilities have been identified, the most significant risks have been addressed, and appropriate decisions have been made regarding which risks to accept and which risks to mitigate through security controls. A similar finding was noted in our report No. 2012-018.

Recommendation: The College should develop a written, comprehensive IT risk assessment to provide a documented basis for managing IT-related risks.

PRIOR AUDIT FOLLOW-UP

The College had taken corrective actions for findings included in our report No. 2012-018, except that finding No. 5 was also noted in prior audit report No. 2012-018, as finding No. 9.

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 2013 to August 2013 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of this operational audit were to:

- Evaluate management's performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse, and in administering assigned responsibilities in accordance with applicable laws, rules, regulations, contracts, grant agreements, and other guidelines.
- Examine internal controls designed and placed in operation to promote and encourage the achievement of management's control objectives in the categories of compliance, economic and efficient operations, reliability of records and reports, safeguarding of assets, and identifying weaknesses in those controls.
- Determine whether management had taken corrective actions for findings included in our report No. 2012-018.
- Identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

This audit was designed to identify, for those programs, activities, or functions included within the scope of the audit, deficiencies in management's internal controls; instances of noncompliance with applicable laws, rules, regulations, contracts, grant agreements, and other guidelines; and instances of inefficient or ineffective operational policies, procedures, or practices. The focus of this audit was to identify problems so that they may be corrected in such a way as to improve government accountability and efficiency and the stewardship of management. Professional judgment has been used in determining significance and audit risk and in selecting the particular transactions, legal compliance matters, records, and controls considered.

For those programs, activities, and functions included within the scope of our audit, our audit work included, but was not limited to, communicating to management and those charged with governance the scope, objectives, timing, overall methodology, and reporting of our audit; obtaining an understanding of the program, activity, or function; exercising professional judgment in considering significance and audit risk in the design and execution of the research, interviews, tests, analyses, and other procedures included in the audit methodology; obtaining reasonable assurance of the overall sufficiency and appropriateness of the evidence gathered in support of our audit findings and conclusions; and reporting on the results of the audit as required by governing laws and auditing standards.

The scope and methodology of this operational audit are described in Exhibit A. Our audit included the selection and examination of records and transactions occurring during the 2012-13 fiscal year. Unless otherwise indicated in this report, these records and transactions were not selected with the intent of projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

An audit by its nature does not include a review of all records and actions of agency management, staff, and vendors, and as a consequence, cannot be relied upon to identify all instances of noncompliance, fraud, waste, abuse, or inefficiency.

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
Information technology (IT) access privileges and separation of duties.	Tested selected access privileges over the finance and human resources applications to determine the appropriateness and necessity based on employees' job duties and user account functions and adequacy with regard to preventing the performance of incompatible duties. Tested administrator account access privileges granted and procedures for oversight of administrator accounts for the network to determine whether these accounts had been appropriately assigned and managed.
IT disaster recovery plan.	Determined whether a comprehensive IT disaster recovery plan was in place and had been recently tested.
IT user authentication controls.	Reviewed selected network and mainframe security settings to determine whether authentication controls were configured and enforced in accordance with IT best practices.
IT risk management and assessment.	Determined whether a written, comprehensive IT risk assessment had been developed to document the College's risk management and assessment processes and security controls intended to protect the confidentiality, integrity, and availability of data and IT resources.
Board and committee meetings.	Reviewed Board and committee minutes to determine whether Board approval was obtained for policies and procedures in effect during the audit period and for evidence of compliance with Sunshine law requirements (i.e., proper notice of meetings, ready access to public, and maintenance of minutes).
Identity theft prevention program (Red Flags Rule).	Reviewed the College's policies and procedures related to its identity theft prevention program for compliance with the Federal Trade Commission's Red Flags Rule.
Textbook affordability.	Examined supporting documentation to determine whether the College's policies and procedures regarding textbook affordability were in accordance with Section 1004.085, Florida Statutes.
Investments.	Determined whether the Board established investment policies and procedures as required by Section 218.415, Florida Statutes, and whether investments during the fiscal year were in accordance with those policies and procedures.
Student receivables.	Determined whether student receivables were properly authorized, adequately documented, and properly recorded. Determined adequacy of collection efforts and whether uncollectible accounts written-off were properly approved. Determined whether restrictions on student records and holds on transcripts and diplomas were adequate and enforced for delinquent accounts.
Annual physical inventory of property.	Reviewed rules and procedures related to performing annual inventory counts of property. Examined supporting documentation of the College's annual physical inventory of property.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Land acquisitions.	Determined whether written appraisals were obtained for land purchases greater than \$100,000.
Florida residency determination and tuition.	Tested student registrations to determine whether the College documented Florida residency and correctly assessed tuition in compliance with Sections 1009.21 and 1009.22, Florida Statutes, and State Board of Education Rule 6A-10.044, Florida Administrative Code.
Decentralized collections.	Obtained an understanding of procedures at various decentralized collection points to determine whether proper internal controls were in place. Tested daily cash collections for selected decentralized collection points.
Laboratory and other user fees.	Reviewed the College's procedures and determined whether they were approved by the Board of Trustees. Tested laboratory and other user fees and examined supporting documentation to determine whether the College properly calculated these fees.
Athletic camps and showcases.	Determined whether athletic camps and showcases conducted on the College campus were properly approved, authorized, and in compliance with Board policy.
Background screenings.	Determined whether employees in sensitive positions, such as positions in direct contact with minors, had undergone the appropriate background screenings.
Overtime payments.	Reviewed College policies, procedures, and supporting documentation evidencing the approval of, and necessity for, overtime payments. Performed a test of overtime payments.
Bonuses.	Determined whether employee bonuses were paid in accordance with Section 215.425(3), Florida Statutes.
Terminal pay.	Reviewed the College's policies and procedures for terminal pay to ensure consistency with Florida law. Tested former employees to determine appropriateness of terminal pay.
Administrative employees' compensation.	Reviewed administrative employees' compensation to determine whether compensation did not exceed limits provided in Florida law.
Presidents' compensation.	Determined whether the President's compensation was in accordance with Florida law, rules, and Board policies.
Purchasing card transactions.	Tested transactions to determine whether purchasing cards were administered in accordance with College policies and procedures. Also, tested former employees to determine whether purchasing cards were timely cancelled upon termination of employment.
Electronic funds transfers and payments.	Reviewed College policies and procedures related to electronic funds transfers and payments. Tested supporting documentation to determine whether selected electronic funds transfers and payments were properly authorized and supported.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Construction administration.	For selected major construction projects, tested payments and supporting documentation to determine compliance with College policies and procedures and provisions of laws and rules. Also, for construction management contracts, determined whether the College monitored the selection process of architects and engineers, construction managers, and subcontractors by the construction manager.
Travel expenses.	Tested travel expenses to determine whether the travel expenses were reasonable, adequately supported, for valid College purposes, and limited to amounts allowed by Florida law.
Contractual agreements.	Determined whether contractual services were supported by Board-approved contracts. Also, examined and tested the aforementioned contracts to ensure that they were properly awarded and executed, that contract terms were adequately supported, and that vendors carried adequate insurance.
Purchasing Agreements/State Contracts.	Determined whether the Board adopted policies to ensure compliance with Section 1001.64, Florida Statutes, requiring the use of purchasing agreements and State term contracts pursuant to Section 287.056, Florida Statutes, or entered into consortia and cooperative agreements to maximize purchasing power for goods and services.
Earmarked capital project resources.	Determined, on a test basis, whether Public Education Capital Outlay and other restricted capital outlay expenditures, were expended in compliance with the restrictions imposed on the use of these resources.
Insuring architects and engineers.	Determined whether the Board had adopted a policy establishing minimum insurance coverage requirements for design professionals, such as architects and engineers. Examined recent construction projects to determine whether architects and engineers provided evidence of the required insurance.
Purchase of software applications.	Determined whether the College evaluated the effectiveness and suitability of the software application prior to purchase and whether the purchase was performed through the competitive vendor selection process. Also, determined whether the deliverables met the terms and conditions of the contract.
Direct-support organization – conflicts of interest.	Determined whether the College had established policies and procedures to avoid potential conflicts of interest with vendors who were doing business with the College and made donations to the College’s direct-support organization.

EXHIBIT B
MANAGEMENT'S RESPONSE



CHIPOLA COLLEGE

A Higher Degree of Success

Office of the President

3094 Indian Circle Marianna, Florida 32446-2053 850-718-2375
www.chipola.edu

October 25, 2013

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

Dear Mr. Martin:

In response to your letter dated October 3, 2013, and in accordance with the provisions of Section 11.45(4)(d), Florida Statutes, I submit the following statement of explanation concerning your list of preliminary and tentative audit findings and recommendations. Included below is the actual or proposed corrective action, which may be included in your operational audit report of Chipola College.

Electronic Funds Transfers

The College plans to enhance its current policy as recommended.

Collections for Swimming Pool Operations

The College plans to strengthen procedures for swimming pool collections as appropriate while considering benefits versus costs, risks and overall materiality.

President's Compensation

The College will ensure compliance with Florida Statutes in determining the President's compensation for the purpose of reporting to the FRS.

Background Checks and Fingerprinting

As stated in your findings, Florida Statutes are not specific to Colleges in regard to requiring criminal history checks and fingerprinting for employees. As also noted the College has established a background screening policy and performs background checks and fingerprinting for positions deemed sensitive. We will continue our efforts to provide a safe environment by seeking legal counsel and revising our procedures as appropriate.

OFFICE OF THE PRESIDENT
PHONE (850) 718-2201...FAX (850) 718-2388

**EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE**

Mr. David Martin
October 25, 2011
Page Two

Risk Assessment

College IT staff continually assess external and internal risks and have put in place significant processes to mitigate IT risks. The College plans to employ a consultant to conduct a risk assessment before the end of the 2013-14 fiscal year.

Should you have any questions regarding this response or need additional information please contact me.

Sincerely,



Gene Prough, Ed.D.
President