

STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

Report No. 2016-055
December 2015

INDIAN RIVER STATE COLLEGE



Sherrill F. Norman, CPA
Auditor General

Board of Trustees and President

During the 2014-15 fiscal year, Dr. Edwin R. Massey served as College President and the following individuals served as members of the Board of Trustees:

	<u>County</u>
Phoebe Raulerson, Chair from 8-26-14, Vice Chair to 8-25-14 ^a	Okeechobee
Jose L. Conrado, Vice Chair from 8-26-14 ^b	Indian River
Susan R. Caron ^b	St. Lucie
Vicki H. Davis	Martin
Mark A. Feurer	Indian River
Anthony D. George, Jr. ^b	Martin
Sandra J. Krischke	St. Lucie
Christa Luna	Okeechobee
J. Brantley Schirard, Jr.	St. Lucie

Notes: ^a Chair position remained vacant from July 1, 2014 through August 25, 2014.

^b Board member served beyond the end of term, May 31, 2015.

The team leader was Tim L. Tucker, CPA.

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

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INDIAN RIVER STATE COLLEGE

SUMMARY

This operational audit of Indian River State College (College) focused on selected College processes and administrative activities and included a follow-up on the finding noted in our report No. 2013-015. Our operational audit disclosed the following:

Finding 1: College procurement procedures could be enhanced to provide for the Purchasing Department's routine review and consideration of required statements of financial interests.

BACKGROUND

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

The College has campuses in Ft. Pierce, Okeechobee, Port St. Lucie, Stuart, and Vero Beach, Florida. Additionally, credit and noncredit classes are offered in public schools and other locations throughout Indian River, Martin, Okeechobee, and St. Lucie Counties. The College reported enrollment of 13,309 full-time equivalent students for the 2014-15 fiscal year.

This operational audit focused on selected College processes and administrative activities and included a follow-up on the finding noted in our report No. 2013-015. The results of our financial audit of the College for the fiscal year ended June 30, 2015, 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, 2015, will be presented in a separate report.

FINDING AND RECOMMENDATION

Finding 1: Purchasing Procedures – Conflicts of Interest

Board policies¹ prohibit conflicts of interest and the College had certain procedures to reduce the risk of contractual relationships that cause conflicts of interest. For example, written administrative procedures prohibit full-time College employees from submitting procurement proposals to the College or influencing College purchasing decisions related to products or services in which they have a personal or private

¹ Board Policy 6.21 "Conflict of Interest", and Administrative Procedure 2.21 "Purchasing, Receiving, Contracting, and Disbursement Procedures".

interest. In addition, State law² requires the College President, Board members, Vice-President of Financial Services/Chief Financial Officer and all employees with purchasing authority greater than \$20,000 to file statements of financial interests with the appropriate agency, such as the Commission on Ethics.

Our audit procedures found that, while the statements of financial interests were filed as required, the Purchasing Department did not review the statements to identify potential conflicts of interest. College procedures provide some assurance of detecting conflicts of interest; however, the Purchasing Department's routine review and consideration of required statements of financial interests would enhance the College's procurement practices and reduce the risk of conflicts of interest related to procurements and contractual obligations.

Recommendation: The College should enhance procurement procedures to provide for the Purchasing Department's routine review and consideration of required statements of financial interests.

PRIOR AUDIT FOLLOW-UP

The College had taken corrective actions for the finding included in our report No. 2013-015.

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 April 2015 to September 2015 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of this operational audit were to:

- Evaluate management's performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse, and in administering assigned responsibilities in accordance with applicable laws, rules, regulations, contracts, grant agreements, and other guidelines.
- Examine internal controls designed and placed in operation to promote and encourage the achievement of management's control objectives in the categories of compliance, economic and efficient operations, reliability of records and reports, and safeguarding of assets, and identify weaknesses in those controls.
- Determine whether management had taken corrective actions for findings included in our report No. 2013-015.

² Section 112.3145, Florida Statutes.

- Identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

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

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

Our audit included the selection and examination of records and transactions. Unless otherwise indicated in this report, these records and transactions were not selected with the intent of statistically projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

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

In conducting our audit we:

- Reviewed College procedures for maintaining and reviewing employees' access granted to College information technology (IT) resources to determine the appropriateness and necessity of the access based on the employees job duties and user account functions and whether the access prevented the performance of incompatible duties. We also examined access privileges for all 50 employees who had access to the database and finance, payroll, and human resources applications to determine the appropriateness of the access privileges.
- Examined Board, committee, and advisory board minutes to determine whether Board approval was obtained for policies and procedures in effect during the 2014-15 fiscal year and for evidence of compliance with Sunshine law requirements (i.e., proper notice of meetings, meetings readily accessible to the public, and properly maintained meeting minutes).
- Examined College records 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 to determine whether the College had developed an anti-fraud policy and procedures to provide guidance to employees for communicating known or suspected fraud to appropriate individuals. Also, we determined whether the College had implemented appropriate and sufficient procedures to comply with its anti-fraud policy.
- Analyzed the unencumbered balance in the unrestricted current fund of the College Board of Trustees' approved operating budget to determine whether the balance was below 5 percent of the total available fund balances at June 30, 2015. We also performed analytical procedures to determine whether financial transactions in other funds required resources from unrestricted funds that would cause a significant reduction in available unrestricted current or auxiliary funds.
- Evaluated College policies and procedures regarding textbook affordability for compliance with Section 1004.085, Florida Statutes. From a population of 427 courses with instructor assigned textbooks, selected 30 courses with instructor assigned textbooks and examined documentation to determine whether the textbooks were timely listed on the College's Web site during the 2014-15 fiscal year.
- From the population of 362 total electronic funds transfers and payments totaling \$69,779,148 that were made during the 2014-15 fiscal year, selected and examined 30 total transfers and payments totaling \$8,970,311 to verify whether the transfers and payments were adequately supported and properly authorized.
- Determined whether the Board established investment policies and procedures as required by Section 218.415, Florida Statutes, and whether investments during the 2014-15 fiscal year were in accordance with those policies and procedures.
- Examined College accounting records and documentation to determine whether student receivables were properly authorized, adequately documented, properly recorded, and complied with Section 1010.03, Florida Statutes, and Board policies. From the population of 1,818 student receivables totaling \$859,160 at June 30, 2015, we selected and examined documentation relating to 20 student receivables totaling \$24,854 for approval of the receivable, adequacy of collection efforts, restrictions on student records, and holds on transcripts and diplomas.
- From the population of 33 payments and transfers totaling \$191,247 made by the College to its direct-support organization during the 2014-15 fiscal year, examined all payments and transfers to determine if they were authorized by Section 1004.70(1)(a)2 and (3), Florida Statutes.
- From the population of 20 students receiving fee deferrals totaling \$20,577 during the 2014-15 fiscal year, we selected and examined documentation related to 14 fee deferrals totaling \$16,111 to determine compliance with Section 1009.27, Florida Statutes, and State Board of Education Rule 6A-14.054(8), Florida Administrative Code.
- From the population of 746 accounts written-off totaling \$403,674, evaluated 34 accounts written-off totaling \$52,484 for proper approval.
- Examined College records to determine whether controls were adequate to ensure that students who had not paid fees in an approved manner were not considered in calculating full-time equivalent (FTE) enrollments for State funding purposes pursuant to Sections 1009.22(11) and 1009.23(9), Florida Statutes. From the population of 2,866 students who were dropped for non-payment, we selected and examined College records for 30 students to ensure the classes dropped by the student were properly excluded from the FTE calculations.
- From the population of \$25.3 million student fees assessed during the 2014-15 fiscal year, selected and examined College records for 30 students who were assessed fees totaling \$27,243 to determine whether the College documented Florida residency and correctly assessed tuition in compliance with Sections 1009.21, 1009.22, 1009.23, Florida Statutes, and State Board of Education Rules 6A-10.044 and 6A-14.054, Florida Administrative Code.

- From the population of 865 distance learning courses that had a total of 21,257 students enrolled with fee revenue totaling \$398,525 for the 2014-15 fiscal year, selected and examined 60 courses with fee revenue totaling \$52,900 to determine whether distance learning fees were assessed and collected as provided by Section 1009.23(16)(b), Florida Statutes. We also determined if the 60 courses were posted on the distance learning Internet-based catalog as required by Section 1009.23(16)(a), Florida Statutes.
- Examined the College's four auxiliary operations contracts totaling \$103,769 for the 2014-15 fiscal year to determine whether the College properly monitored vendor compliance with the contract terms for fees, insurance, and other provisions. Additionally, we determined whether the College properly monitored auxiliary operations to verify that the operations were self-supporting. Also, we performed analytical procedures to determine whether the College's auxiliary services were self-supporting.
- Reviewed the College records for supervisory approval of time worked and leave used by exempt employees to evaluate whether compensation payments were appropriate and leave balances are accurate.
- Reviewed the College's policies and procedures for payments of accumulated annual and sick leave (terminal leave pay) to determine whether the policies and procedures promoted compliance with State law and College policies. From the population of 62 former employees paid \$643,598 for terminal leave during the 2014-15 fiscal year, we selected and examined terminal leave payments totaling \$446,741 made to 22 former employees and evaluated the payments for compliance with Sections 110.122 and 1012.865, Florida Statutes, and College policies.
- Reviewed the severance pay provisions in employee contracts (including the President's) to determine whether the severance pay provisions were in compliance with Section 215.425(4), Florida Statutes.
- Examined College rules, policies, and procedures for obtaining personnel background screenings and determined whether employees in positions of special trust and responsibility, such as positions in direct contact with minors, had undergone the appropriate background screenings.
- Determined whether purchasing card (P-card) expenditures were reasonable, correctly recorded, adequately documented, for a valid College purpose, properly authorized and approved, and in compliance with applicable laws, rules, contract terms, and Board policies. From the population of 7,532 P-card transactions totaling \$1,850,552 made during the 2014-15 fiscal year, we selected and examined documentation relating to 30 transactions totaling \$82,990 to determine whether the P-card program was administered in accordance with College policies and procedures.
- From the population of 182 purchasing cardholders, we selected and examined documentation for 30 individual cardholders to determine whether the cardholder agreements were signed by the cardholder and approved by the P-card administrator.
- From the population of 182 purchasing cardholders, performed analytical procedures to determine whether the P-card credit limits for each individual purchase and monthly maximum was appropriate and periodically reviewed by the P-card administrator.
- Examined P-card records for the six former employees who had been issued a P-Card and separated from College employment during the 2014-15 fiscal year to determine whether the P-cards were timely canceled upon the cardholder's separation from College employment.
- From the population of 64 contractual service providers (other than capital outlay providers) paid a total of \$764,125 during the 2014-15 fiscal year, selected and examined 5 agreements with contractual services payments totaling \$294,154 to determine whether the contractor was competitively selected, work was adequately documented, payments were in accordance with written contract terms, and the contractor was not a College employee.

- From the population of payments totaling \$472,589 made to employees for other than travel and compensation during the 2014-15 fiscal year, selected and examined documentation for 30 payments totaling \$46,619 to determine whether such payments were reasonable, adequately supported, for valid College purposes, and whether such payments were related to employees doing business with the College, contrary to Section 112.313, Florida Statutes.
- Evaluated College rules, policies, and procedures related to identifying potential conflicts of interest. Reviewed Department of State, Division of Corporation, records; statements of financial interests; and College records to identify any potential relationships that represent a conflict of interest with vendors used by the College.
- From the population of Public Education Capital Outlay (PECO) and other restricted capital outlay payments totaling \$3,758,797, selected and examined records supporting 30 payments totaling \$2,353,387 to determine whether the funds were expended in compliance with the restrictions imposed on the use of these resources.
- Scanned College records to determine whether PECO funds were properly encumbered by the required reversion date or returned as required by Section 216.301(2)(a) and (c), Florida Statutes.
- Evaluated the effectiveness and suitability of the enterprise resource program (ERP) finance and human resource software applications with total costs of \$1,943,570, plus implementation service costs of \$4,073,600, and determined whether the College used a competitive vendor selection process prior to purchasing the ERP. Also, we determined whether the deliverables met the terms and conditions of the contract.
- Selected and examined supporting documentation for 8,170 of the 871,859 total adult general education (AGE) instructional and contact hours reported by the College to the Florida Department of Education (FDOE) to determine whether the hours were reported in accordance with FDOE requirements.
- Examined College records to determine whether the Board approved the AGE block tuition fee rates consistent with Section 1009.22, Florida Statutes. From a population of 3,188 students enrolled in AGE, we selected and examined block tuition fee charges for 30 students to determine whether the appropriate fee was charged and collected.
- From the population of 624 students who received industry certifications for performance funding during the 2014-15 fiscal year, selected and examined certifications for 30 students 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 finding and recommendation that is included in this report and which describe the matter requiring corrective action. Management's response is included in this report under the heading **MANAGEMENT'S RESPONSE**.

AUTHORITY

Section 11.45, Florida Statutes, requires that the Auditor General conduct an operational audit of each College on a periodic basis. Pursuant to the provisions of Section 11.45, Florida Statutes, I have directed that this report be prepared to present the results of our operational audit.



Sherrill F. Norman, CPA
Auditor General



INDIAN RIVER STATE COLLEGE

Office of the President

December 7, 2015

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

Dear Ms. Norman:

The following is our response to the one (1) preliminary and tentative finding on the Operational Audit of Indian River State College administered by the State of Florida for the fiscal year ended June 30, 2015.

Finding for Purchasing Procedures – Conflicts of Interest – Auditor General’s Recommendation:
The College should enhance procurement procedures to provide for the Purchasing Department’s routine review and consideration of required statements of financial interests.

Indian River State College Response: IRSC accepts the Auditor General’s recommendation. The College will enhance procurement procedures to include the Purchasing Department’s routine review and consideration of required statements of financial interest.

Sincerely,

A handwritten signature in black ink that reads "Edwin R. Massey".

Edwin R. Massey, Ph.D.
President

Cc: Sheryl Vittitoe, Vice President of Financial Services