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STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

PENSACOLA STATE COLLEGE



Sherrill F. Norman, CPA
Auditor General

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^a Vice Chair position was vacant 1-1-17, through 1-23-17.

Note: One Trustee position remained vacant during the period.

The team leader was Debbie S. Jabaley, CPA, and the audit was supervised by Kenneth C. Danley, CPA.

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

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PENSACOLA STATE COLLEGE

SUMMARY

This operational audit of Pensacola State College (College) focused on selected College processes and administrative activities and included a follow-up on findings noted in our report No. 2016-061. Our operational audit disclosed the following:

Finding 1: College personnel did not document, prior to payment, a comparison of construction management entity (CME) pay requests for the Charles W. Lamar Studio (Studio) Project to the CME guaranteed maximum price contract totaling \$2.8 million or to applicable subcontractor contracts and invoices. Subcontractor service contracts with the Studio Project CME totaled \$2.1 million.

Finding 2: College construction monitoring procedures for the Studio Project did not require College personnel to attend, and College personnel did not document attendance at, subcontractor bid openings nor did College personnel obtain copies of applicable subcontractor bids or contracts to verify subcontractors were competitively selected and that the selected bid and contract amounts agreed.

Finding 3: The College needs to establish policies and procedures for negotiating, monitoring, and documenting the reasonableness of CME general conditions costs.

Finding 4: College textbook and instructional materials affordability procedures need improvement.

Finding 5: Controls over cosmetology service fees could be enhanced.

Finding 6: College rules and records supporting College property, facilities, and personal services used by College direct-support organizations could be improved.

Finding 7: Some unnecessary information technology (IT) user access privileges existed that increased the risk that unauthorized disclosure of sensitive student personal information may occur.

Finding 8: The College did not timely remove the IT user access privileges of certain former College employees. A similar finding was noted in our report No. 2016-061.

Finding 9: The College had not implemented a comprehensive IT security awareness training program for all users of College IT resources.

BACKGROUND

Pensacola 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 Milton, Pensacola, and Warrington. Additionally, credit and noncredit classes are offered in public schools and other locations throughout Escambia and Santa Rosa Counties.

FINDINGS AND RECOMMENDATIONS

Finding 1: Monitoring Construction Pay Requests

Under the construction management entity (CME) process, contractor profit and overhead are contractually agreed upon, and the CME is responsible for all scheduling and coordination in both the design and construction phases and is generally responsible for the successful, timely, and economical completion of the construction project. The CME may be required to offer a guaranteed maximum price (GMP), which allows for the difference between the actual cost of the project and the GMP amount, or the net cost savings, to be returned to the College. To ensure potential savings in material and labor costs and prevent cost overruns or other impediments to successful completion of GMP contracts, it is important that College personnel verify that CME pay requests agree with supporting documentation such as subcontractor contracts and invoices.

The College entered into a GMP contract with a CME for construction of the Charles W. Lamar Studio (Studio) Project totaling \$2.8 million, and subcontractor service contracts with the Studio Project CME totaled \$2.1 million. In July 2016, the College contracted with a construction consultant to assist the College with construction project management. Such assistance included the consultant's evaluation of pay requests from the CME. During the 2017 calendar year, the College incurred construction expenses for the Studio Project totaling \$1.5 million.

To evaluate College monitoring controls over CME pay requests for the Studio Project, we inquired of College personnel and examined College records supporting a selected CME pay request for \$271,548, that included subcontractor services totaling \$247,084. In response to our inquiries, College personnel provided an e-mail from the consultant to the CME regarding the selected CME pay request indicating that the consultant had reviewed the CME pay request before payment was made. However, although we requested, College records were not provided that documented a comparison of each line on the schedule of values for the CME pay request to applicable supporting documentation including the GMP contract and applicable subcontractor contracts and invoices. Additionally, as further discussed in Finding 3, College personnel did not document comparisons of general conditions costs billed in the CME pay requests to appropriate supporting documentation.

We requested, and in September 2018 the College obtained from the CME, the selected subcontractor contracts and invoices to support the selected payment to the CME for the Studio Project. While we found that the selected CME pay request schedule of values was consistent with the GMP contract and subcontractor contracts and invoices, our procedures cannot substitute for the College's responsibility to properly monitor CME pay requests. Absent a documented comparison of each line item on the schedule of values for the CME pay request to applicable supporting documentation, there is an increased risk that the College may overpay for services and not realize maximum cost savings under GMP contracts.

Recommendation: The College should enhance procedures for monitoring CME pay requests to include a documented comparison of the cost items in the CME pay requests to GMP contracts and subcontractor contracts and invoices before payment is made to the CME.

Finding 2: Subcontractor Selection

The CME construction contract for the Studio Project required the CME to solicit bids and award subcontracts, as necessary. Good business practice dictates that College personnel monitor the subcontractor selection process to ensure services are obtained at the lowest cost consistent with acceptable quality and to realize maximum cost savings under the GMP contract.

College personnel indicated that they attended subcontractor bid openings to monitor the subcontractor selection process and that the former Purchasing Director may have compared the CME-selected subcontractor bids to the subcontractor contracts to verify that the subcontractor bids and contracts agreed. However, the College had not established procedures to require and ensure that College personnel documented attendance at the bid openings and documented these comparisons. Although we requested, College records were not provided to evidence College personnel attendance at the bid openings or their bid and contract comparisons.

From the population of 28 subcontractors who were contracted for services totaling \$2.1 million for the Studio Project, we requested, and in September 2018 College personnel obtained from the CME, subcontractor contracts totaling \$1.9 million for 20 selected subcontractors. We compared the low bids listed on the bid tabulation sheets and the subcontractor contracts and confirmed that the subcontractors were competitively selected and that the selected bid amounts agreed to the contract amounts. However, our procedures cannot substitute for the College's responsibility to verify that subcontractor contracts are awarded by the CME using a competitive selection process and that the bid awards and contract amounts agree. Without documented comparisons of subcontractor bid awards and contracts, the risk increases that subcontractor services may not be obtained at the lowest cost consistent with acceptable quality, and the College may not realize maximum cost savings under a GMP contract.

Recommendation: The College should establish procedures that require and ensure College personnel to document their attendance at subcontractor bid openings; verify that CMEs select, and contract with, the subcontractor with the lowest bid consistent with acceptable quality; and confirm that selected subcontractor bid amounts agree with subcontractor contract amounts.

Finding 3: General Conditions Costs

GMP contracts typically include provisions for general conditions costs that are not directly associated with a particular activity and may include costs relating to labor supervision, temporary offices and utilities, travel expenses, clean-up, permits, and testing. Established policies and procedures that provide appropriate guidance for effectively negotiating, monitoring, and documenting the reasonableness of general conditions costs are essential to ensure that potential cost savings are realized under GMP contracts. For contracts that include general conditions costs, appropriate policies and procedures include required actions, for example:

- Comparing proposed general conditions costs to those of similar projects, including similar projects at other colleges.
- Negotiating with the CME to determine a reasonable amount for total budgeted general conditions costs.

- Verifying that the general conditions costs are supported by detailed documentation, such as CME payroll records and CME-paid invoices.
- Confirming that the general conditions costs comply with the GMP contract.

The CME GMP contract for the Studio Project included provisions for general conditions costs totaling \$213,727, and CME pay requests billed these costs as they were incurred. College personnel indicated that they negotiated general conditions costs with the CME, obtained support for the general conditions costs billed, and reviewed the pay requests before payment. However, the College had not established policies or procedures for effectively negotiating, monitoring, and documenting the reasonableness of general conditions costs. Additionally, College records did not evidence the methodology used and factors considered during the negotiation process to establish the reasonableness of the general conditions costs, and detailed documentation, such as CME payroll records or copies of CME-paid invoices, was not retained by the College to support the propriety of the general conditions costs billed by the CME and paid by the College.

We requested, and in September 2018 the College obtained from the CME, documentation to support \$16,067 in general conditions costs included in one selected CME pay request for the Studio Project. While we found that the documentation supported the selected general conditions costs paid, our procedures cannot substitute for the College's responsibility to properly monitor general conditions costs paid. Absent appropriate policies and procedures, the College may be limited in its ability to monitor the reasonableness of general conditions costs, determine the propriety of CME pay requests for general conditions costs, and realize cost savings associated with general conditions costs in GMP contracts.

Recommendation: The College should establish policies and procedures for negotiating, monitoring, and documenting the reasonableness of general conditions costs. Such policies and procedures should require documentation of the methodology used and factors considered when negotiating general conditions costs and the receipt and review of sufficiently detailed documentation supporting the general conditions costs billed in CME pay requests.

Finding 4: Textbook Affordability

State law¹ requires each college to post prominently in the course registration system and on its Web site, as early as is feasible, but not less than 45 days before the first day of class for each term, a hyperlink to lists of required and recommended textbooks and instructional materials for at least 95 percent of all courses and course sections offered at the institution during the upcoming term. During the Fall 2017 Semester, the College adopted 794 textbooks and instructional materials.

According to College personnel, students may access the College registration system that links to the College Bookstore's list of required and recommended textbooks and instructional materials for each course and course section. Students may also access the College Web site that provides an online course search tool that links to course syllabi, and course syllabi list the required and recommended textbooks and instructional materials for each course and course section. College personnel indicated that lists of required and recommended textbooks and instructional materials for Fall 2017 Semester courses and course sections were made available to students in Spring 2017, which was more than

¹ Section 1004.085(6), Florida Statutes.

45 days before the Fall 2017 Semester. However, although we requested, College records were not provided to demonstrate the dates that the required and recommended textbooks and instructional materials for each course and course section were posted in the online course search tool or on the College Bookstore Web site. In response to our inquiries, College personnel indicated that they will discuss ways to demonstrate compliance with State law in the future.

The timely posting of a hyperlink to lists of required and recommended textbooks and instructional materials is necessary for students to understand course requirements, have sufficient time to consider purchase options, and potentially limit their costs. Also, without evidence of the timely postings for at least 95 percent of all courses and course sections offered at the College during the upcoming term, the College cannot demonstrate compliance with State law.

Recommendation: The College should maintain College records to demonstrate that a hyperlink to lists of required and recommended textbooks and instructional materials for at least 95 percent of all courses and course sections offered at the College during the upcoming term is prominently posted in the course registration system and on its Web site, as early as feasible, but at least 45 days before the first day of class for each term.

Finding 5: Cosmetology Department Fee Collections

The College Cosmetology Department (Department) provides cosmetology services to customers as part of student training and, in February 2015, the Board approved the fee schedule for these services. During the 2017 calendar year, the College recorded \$69,015 in fee collections for these services provided at the Pensacola Campus.

To appropriately account for and safeguard fee collections, it is important that the College establish effective controls over the fee collection process. Effective controls over such collections include procedures requiring that:

- The ability to assess, record, reduce, and void fees be appropriately separated from fee collection duties. If, because of the limited number of staff, the separation of incompatible duties is not practical, compensating controls, such as supervisor-documented comparisons of historical and current cash collections, periodic observations of the cash collection process, and evaluations of the reasonableness of collections based on the comparisons and observations, are necessary.
- Properly controlled receipts be used to document and account for fee collections.
- Custodial responsibility for fee collections be established and the collections properly secured.

Department daily cash procedures, developed in consultation with Bursar Office personnel, required the use of computer-generated, consecutively numbered service sheets to document the services provided to customers and serve as a receipt for fee collections. The procedures required instructors to sign each service sheet to acknowledge the services provided and to separately sign to approve any change made to a service sheet or any fee assessment that differs from the Board-approved fee schedule. Transfer sheets were also required to be signed by each cashier to establish custodial responsibility for collections transferred between cashiers. Notwithstanding these procedures, the Board-approved fee schedule did not authorize fees that differed from the schedule and College records did not demonstrate that the Board or Board-delegated authority had approved the procedures or delegated to instructors the authority to revise fee assessments and reduce or waive fee collections.

To obtain an understanding of College controls over fee collections and evaluate the adequacy and sufficiency of these controls, we inquired of College personnel and reviewed College procedures and records associated with the Cosmetology Department at the Pensacola Campus. We found that:

- An inappropriate separation of duties existed as cashiers had the ability to assess, record, reduce, and void fees in addition to collecting fees from customers. Without adequately separating incompatible duties or establishing adequate compensating controls, errors or fraud, should they occur, may not be timely detected and resolved.
- College personnel, independent of the fee collection process, did not verify the continuity of the consecutively numbered service sheets or that the amounts listed on the service sheets agreed with the amounts deposited. Independent, documented verifications of the consecutively numbered service sheets and the amounts listed on service sheets and deposited would strengthen fee collection controls.
- Fee collections were not properly secured as fee collections were kept in a cash drawer during the day and a safe during the night, both of which were accessible to several employees including two cashiers and an instructor. In addition, College personnel did not use transfer sheets to establish custodial responsibility for collections transferred between cashiers, contrary to Department procedures. Without established responsibility for cash custody, the College may be limited in its ability to effectively fix responsibility should a loss of collections occur.

Our audit procedures also included examining Department records supporting 30 provided services with related fee assessments totaling \$809 to determine whether fees were properly assessed and collected.

We noted that:

- The Department collected \$592 for the 30 provided services.
- The instructor signed three service sheets to document approval of fee reductions totaling \$178. One service sheet indicated the services were “comped,” and the other two service sheets waived fees for a senior project and for students at a detention center.
- One service sheet supporting services totaling \$39 was manually changed to indicate that there was no charge for the services “per the instructor.” However, the instructor did not separately sign to approve the change on the service sheet.

We expanded our audit procedures to include an examination of Department records supporting additional provided services with fee assessments totaling \$18,166. We noted that the Department collected \$16,549 for the services due to 41 instructor-approved fee reductions totaling \$918 and 43 instances in which fees totaling \$699 were reduced or waived without evidence of instructor approval on the service sheets. In response to our inquiries, College personnel indicated that, due to changes in personnel, established fee collection procedures were not always followed.

Without appropriate approval of Cosmetology Department fee collection procedures, including fee assessment reductions and waivers, the College has limited assurance that fees are being properly assessed and collected in accordance with Board intentions.

Recommendation: The Board or a Board-delegated authority should adopt effective procedures for Cosmetology Department fee collections. Such procedures should require and ensure that:

- **Incompatible duties are appropriately separated or, if the Department does not have a sufficient number of staff to appropriately separate duties, compensating controls exist.**

- **The independent, documented verification of the continuity of consecutively numbered service sheets and the amounts collected and listed on service sheets are deposited.**
- **Custodial responsibility for fee collections is established and collections are properly secured.**
- **Fees are properly assessed, reduced, or waived pursuant to Board or Board-delegated authority directives. Any fee reductions or waivers should be documented as approved by individuals specifically designated that responsibility.**

Finding 6: Direct-Support Organizations

To promote accountability over College property, facility, and personal services use, it is important that public records document the conditions for such use, document appropriate approval before the use occurs, and demonstrate appropriate use. Such records help document authorization for the use, demonstrate the reasonableness of the value associated with that use, and enhance government transparency.

State law² provides that a direct-support organization (DSO) is organized and operated exclusively to receive, hold, invest, and administer property and to make expenses to, or for the benefit of, the Florida College System institution. Additionally, State law³ authorizes the Board to permit the use of College property, facilities, and personal services by a DSO, and to prescribe by rule any condition with which a DSO must comply for such use. The Board approved the Pensacola State College Foundation, Inc. (PSC Foundation) and the WSRE-TV Foundation, Inc. (TV Foundation) as DSOs, and the Foundations routinely receive and use charitable contributions for the benefit of the College. While the Board approved the Foundations as DSOs, the Board had not prescribed by rule the conditions with which the Foundations must comply in order to use College property, facilities, and personal services.

According to College personnel and the Foundations' Federal Internal Revenue Service Return of Organization Exempt from Income Tax Form 990s (IRS Form 990s) submitted to the Board, the College provided personal services and related costs totaling \$543,249 to the PSC Foundation during the 2017 calendar year and \$393,651 to the TV Foundation during the 2016-17 fiscal year. College personnel indicated that these costs were based on the services of College employees who provided 100 percent of their work effort for the Foundations. Based on the employee job descriptions, the services provided included various general and administrative responsibilities for the Foundations. College personnel also indicated that the College provided property and facilities for the use of College employees working for the Foundations. The PSC Foundation IRS Form 990 indicated that the value of the College facilities, equipment, and other assets used during the 2017 calendar year totaled \$44,569. The TV Foundation audited financial statements for the 2016-17 fiscal year indicated that certain salaries and expenses of the Foundation, totaling approximately \$394,000, were provided by the College.

Notwithstanding the information provided by College personnel, College records associated with the Foundations' use of College resources could be improved by prescribing in Board-approved rule or policy

² Section 1004.70(1)(a), Florida Statutes.

³ Section 1004.70(3), Florida Statutes.

any conditions with which the Foundations must comply in order to use College resources. Among other things, such conditions could:

- Restrict Foundation use of College resources to Board-approved public purposes consistent with the mission, vision, and values of the College.
- Require Foundation management to certify, before use, that College resources will only be used for Board-approved purposes and to affirm, after use, that the resources were only used for those purposes.

College records could also be enhanced by obtaining Board approval of the anticipated use of College resources by the Foundations and the value of such use before the use occurs and documenting when the Foundations used College resources and the purpose for and value of such use. Such records would document authorization, demonstrate the reasonableness of the value, and enhance transparency for the College resources provided for the Foundations' use.

Recommendation: We recommend that:

- **The Board prescribe by rule or policy any conditions with which the Foundations must comply in order to use College property, facilities, and personal services and the College monitor and document Foundation compliance with such conditions.**
- **The College document Board consideration and approval of the Foundations' anticipated use of College resources, at least annually, before the use occurs. To enhance transparency, Board approval documentation should identify the positions of employees who will provide personal services, the square footage of the buildings and property that will be used by the Foundations, and the estimated value of the College resources provided.**
- **The College require and ensure that Foundation personnel affirm, after use of College resources, that the College resources were used properly.**

Finding 7: Information Technology User Access Privileges

The Legislature has recognized in State law⁴ that social security numbers (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 the confidential status of such information. Effective controls restrict individuals from accessing information unnecessary for their assigned job responsibilities and provide for documented, periodic evaluations of IT user access privileges to help prevent individuals from accessing sensitive personal information inconsistent with their responsibilities. Access to student SSNs should allow employees to perform administrative, supervisory, or instructional responsibilities that serve a legitimate educational purpose in accordance with applicable Florida Statutes, State Board of Education rules, and Federal laws.

According to College personnel and records, the College established a unique identifier, other than the SSN, to identify each student and maintained student SSNs in the College information technology (IT) system. The College collects and uses student SSNs pursuant to State law for various purposes, such

⁴ Section 119.071(5)(a), Florida Statutes.

as to register newly enrolled students and to comply with Federal and State requirements related to financial and academic assistance. Student SSNs are also maintained so the College can provide student transcripts to other colleges, universities, and potential employers based on student-authorized requests. The College indefinitely maintains sensitive personal information, including the SSNs, of former students who transferred, graduated, or withdrew and for individuals who apply for entrance into the College but do not enroll. However, College records did not demonstrate the public purpose served for maintaining SSNs indefinitely for individuals who had not enrolled in the College.

College personnel indicated that the College IT system had the ability to mask sensitive personal student information that was displayed on IT screens along with other student information; however, the function was not always used to limit access privileges. Also, College IT standard operating procedures require that appropriate deans, vice presidents, department heads, or other designees approve access privileges and provide for the periodic evaluation of the privileges to ensure that access is limited to that required for users to perform their job duties. However, District personnel indicated that, as of September 2018, periodic evaluations of IT user access privileges to the sensitive personal information of students had not been performed to help monitor the necessity for the access privileges.

As of September 2018, the College student records system contained sensitive personal information for approximately 490,000 students, including current, former, and prospective students, and a total of 229 employees and contract workers had IT user access privileges to that information. College personnel indicated that the College IT system did not differentiate access to current, former, and prospective student personal information, although individuals did not always need access to information for all three types of students.

As part of our audit, we examined College records as of September 2018 for 30 employees and contract workers⁵ with IT user access privileges to student SSNs. Our examination and subsequent discussions with College personnel indicated that the 30 employees did not need continuous access to student SSNs to perform their job responsibilities. In response to our inquiries, College personnel indicated that the unnecessary access privileges to student SSNs would be eliminated.

The existence of unnecessary access privileges increases the risk of unauthorized disclosure of sensitive student personal information and the possibility that such information may be used to commit a fraud against College students or others.

Recommendation: To ensure access to sensitive student personal information, including SSNs, is properly safeguarded, the College should:

- **Document the public purpose served for maintaining such information for individuals who do not enroll in the College. Absent a documented public purpose, the College should discontinue the practice of indefinitely maintaining such information.**
- **Ensure documented, periodic evaluations of assigned IT user access privileges to determine whether such privileges are necessary and timely remove any inappropriate or unnecessary access privileges detected. Such removal may be achieved by masking the information from individuals who do not need it to perform their assigned duties.**

⁵ For example, the employees included a Vice President, Department Head, Comptroller, and Associate Professor and the contract workers included temporary administrative assistants.

- **Document the necessity for College personnel who have continuous access privileges to have these privileges. If an individual only requires occasional access, access privileges should be granted only for the time needed.**
- **Upgrade the College IT system to include a mechanism to differentiate current, former, and prospective student information.**

Finding 8: Timely Deactivation of Information Technology User Access Privileges

Effective management of IT user access privileges includes the timely deactivation of employee IT access privileges when an employee is reassigned to another College department or separates from employment. As certain critical systems and confidential or sensitive information stored in the systems are accessible through the College's IT network, prompt deactivation of IT user access is necessary to ensure that a former employee's IT user access privileges are not misused by the former employee or others to compromise College data or IT resources.

Once an employee is reassigned to another College department or separates from College employment, the employee's immediate supervisor is responsible for promptly notifying the IT Department that the employee's IT user access privileges should be deactivated. In addition, the Human Resources Department provides the IT Department with a biweekly list of employees who separate from College employment.

Our evaluation of IT user access privileges for 24 of the 104 employees who separated from College employment during the 2017 calendar year disclosed that IT user access privileges to either the finance or student records systems for 16 of the 24 former employees remained active 9 to 79 days, or an average of 21 days, after the employees' respective employment separation dates. Additionally, although 1 former temporary employee with IT user access privileges to the finance system separated from College employment in May 2016, the access privileges were not deactivated until subsequent to our inquiry 842 days after employment separation. In response to our inquiries, College personnel indicated that the delays primarily occurred because the employee's immediate supervisor did not promptly notify the IT Department that the employee's IT user access privileges should be deactivated.

Although the IT user access privileges were eventually deactivated for these 17 former employees, and our procedures did not identify any errors or fraud as a result of the untimely deactivations, when IT user access privileges are not promptly deactivated, there is an increased risk that the privileges may be misused by the former employees or others. A similar finding was noted in our report No. 2016-061.

Recommendation: The College should continue efforts to ensure that IT user access privileges are promptly deactivated when employees separate from College employment.

Finding 9: Information Technology Security Awareness Training Program

A comprehensive IT security awareness training program appraises new employees of, and reemphasizes to existing employees, the importance of preserving the confidentiality, integrity, and availability of data and IT resources entrusted to them. Significant nonpublic records (e.g., student record information and other records that contain sensitive and confidential information) are included in the data maintained by the College IT system.

Each new College employee is required to read and acknowledge that they will comply with College IT resources acceptable use standard guidelines that outline the employee's general responsibilities to ensure the confidentiality, integrity, and availability of College information. College personnel also indicated that voluntary security awareness training is periodically offered to all College employees. However, the College had not implemented a comprehensive IT security awareness training program that requires ongoing training for all users of IT resources regarding security responsibilities, including password protection and usage, copyright issues, malicious software and virus threats, workstation and personal mobile device controls, and handling of sensitive and confidential information.

The absence of a comprehensive IT security awareness training program for all users of IT resources increases the risk that users may not be aware of the importance of the information being handled and their responsibilities for maintaining the confidentiality, integrity, and availability of College data and IT resources.

Recommendation: The College should implement a comprehensive IT security awareness training program for all users of College IT resources.

PRIOR AUDIT FOLLOW-UP

The College had taken corrective actions for findings included in our report No. 2016-061, except that Finding 8 was also noted in our report No. 2016-061 as Finding 4.

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 2018 through September 2018 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. 2016-061.

- 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 transactions, as well as events and conditions, occurring during the audit period of January 2017 through December 2017 and selected College actions taken prior and subsequent thereto. Unless otherwise indicated in this report, these records and transactions were not selected with the intent of statistically projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

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

In conducting our audit, we:

- Reviewed College information technology (IT) policies and procedures to determine whether the policies and procedures addressed certain important IT control functions, such as security, systems development and maintenance, and disaster recovery.
- Evaluated College procedures for maintaining and reviewing employee access to IT data and resources. Specifically, we examined College records supporting the IT user access privileges for the 27 employees with access to selected critical functions within the College finance and human resource applications to evaluate the appropriateness and necessity of the access based on the employees' job duties and user account functions and whether the access privileges adequately prevented the performance of incompatible duties.
- Evaluated College procedures that prohibit former employees' access to College IT data and resources. We examined the access privileges for 24 former employees selected from the population of 104 employees who separated from College employment during the audit period to determine whether their access privileges had been timely deactivated.

- Evaluated College procedures for protecting student social security numbers (SSNs). We examined College records supporting the access privileges granted to 30 employees and contract workers selected from the population of 229 employees and contract workers who had access to student SSNs during the audit period to determine the appropriateness and necessity of the access privileges based on the individuals' assigned job responsibilities.
- Evaluated the appropriateness of the College comprehensive IT disaster recovery plan effective during the audit period and determined whether it had been recently tested.
- Reviewed network and application security settings to determine whether authentication controls were configured and enforced in accordance with IT best practices.
- Determined whether a comprehensive IT security awareness training program was in place for the audit period.
- Examined Board and committee meeting minutes 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 for the audit period to determine whether the College informed students and employees at orientation and on its Web site of the existence of the Florida Department of Law Enforcement sexual predator and sexual offender registry Web site and the toll-free telephone number that gives access to sexual predator and sexual offender public information as required by Section 1006.695, Florida Statutes.
- Examined College records to determine whether the Board had prescribed by rule, pursuant to Section 1004.70(3)(b), Florida Statutes, the conditions with which its direct-support organizations (DSOs) must comply in order to use College property, facilities, and personal services and whether the Board documented consideration and approval of anticipated College property, facilities, and personal services used by the DSOs and the related costs.
- From the population of 11 decentralized locations with collections totaling \$251,367, selected one location with collections totaling \$69,015 during the audit period and examined College records supporting services totaling \$18,975 and related collections totaling \$17,141 to determine the effectiveness of College collection procedures.
- From the population of seven contracts for auxiliary operations, which generated revenue totaling \$501,751 for the audit period, examined College records supporting four selected contracts, which generated revenue totaling \$468,492, to determine whether the College properly monitored compliance with the contract terms for fees, insurance, and other provisions.
- Examined College records supporting textbook adoptions for the Fall 2017 Semester to determine whether the College textbook affordability procedures complied with Section 1004.085, Florida Statutes.
- From the population of compensation payments totaling \$30.5 million made to 1,397 employees during the audit period, selected payments totaling \$36,284 made to 30 employees and examined College records to determine the accuracy of the rate of pay, whether performance evaluations were conducted, and whether supervisory personnel reviewed and approved employee reports of time worked.
- Evaluated Board policies and College 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 Board policies. Specifically, from the population of 105 employees who separated from College employment during the audit period and were paid \$586,423 for terminal leave, we selected 4 employees with terminal payments totaling \$263,632 and examined the supporting records to determine compliance with Sections 110.122 and 1012.865, Florida Statutes, and Board policies.

- Examined severance pay provisions in the President's contract to determine whether the provisions complied with Section 215.425(4)(a), Florida Statutes.
- Examined College records supporting compensation totaling \$5.2 million paid to 82 administrative employees (including the President) during the audit period to determine whether the amounts paid did not exceed the limits established in Sections 1012.885 and 1012.886, Florida Statutes.
- Evaluated Board policies and College procedures to ensure health and life insurance was provided only to eligible employees, retirees, and dependents and that such insurance was timely canceled upon an employee's separation from College employment. Also, we determined whether the College had adequate procedures for reconciling health insurance costs to employee, retiree, and Board-approved contributions.
- Examined College records to determine whether selected expenses were reasonable, correctly recorded, and adequately documented; for a valid College purpose; properly authorized and approved; and in compliance with applicable laws, contract terms, and Board policies. Specifically, from the population of expenses totaling \$49.2 million for the audit period, we examined College records supporting:
 - 30 selected payments for general expenses totaling \$349,491.
 - 27 selected payments for contractual services totaling \$189,814.
- From the population of 3,700 purchasing card (P-card) transactions totaling \$758,657 during the audit period, examined College records supporting 30 selected P-card transactions totaling \$4,674 to determine whether the P-card program was administered in accordance with Board policies and College procedures and transactions were not of a personal nature.
- From the population of 46 payments totaling \$27,100 during the audit period to employees for other than travel and compensation, examined College records supporting 4 selected payments totaling \$7,350 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(3), Florida Statutes.
- For the one major construction project with expenses totaling \$1.2 million and in progress during the audit period, selected one payment totaling \$271,548 and examined College records to determine whether the payment was made in accordance with contract terms and conditions, Board policies and College procedures, and provisions of applicable State laws and rules.
- Reviewed College records related to the one major construction project to determine whether the College properly selected the construction management entity; adequately monitored the selection process of subcontractors; verified subcontractor licenses; and negotiated, monitored, and documented the reasonableness of general conditions costs.
- From the population of 856 adult general education instructional students reported for 119,435 contact hours during the Spring 2017 Semester, examined College records supporting 1,445 reported contact hours for 30 selected students to determine whether the College reported the instructional contact hours in accordance with the Florida Department of Education requirements.
- From the population of 294 industry certifications reported for performance funding that were attained by students during the 2016-17 fiscal year, examined 30 industry certifications to determine whether the College maintained documentation for student attainment of the industry certifications.
- Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.

- Prepared and submitted for management response the findings and recommendations that are included in this report and which describe the matters requiring corrective actions. Management's response is included in this report under the heading **MANAGEMENT'S RESPONSE**.

AUTHORITY

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



Sherrill F. Norman, CPA
Auditor General



Office of the President

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Pensacola State College
is a member of the
Florida College System

PENSACOLA STATE COLLEGE

December 17, 2018

Ms. Sherrill F. Norman, CPA
Claude Denson Pepper Building, Suite G74
111 West Madison Street
Tallahassee, FL 32399-1450

Dear Ms. Norman:

In response to your letter dated November 20, 2018 containing the preliminary and tentative audit findings and recommendations, I offer the following:

Finding No. 1: Monitoring Construction Pay Requests

The College did review all pay requests, but we will improve our documentation procedures so that the review can be verified.

Finding No. 2: Subcontractor Selection

The College has updated its procedures and personnel now attend the subcontractor bid opening. The attendance will be documented in the purchasing records.

Finding No. 3: General Conditions Cost

The College did negotiate and monitor the reasonableness of the costs. We will improve our documentation procedures so that the review can be verified.

Finding No. 4: Textbook Affordability

The College will continue to improve its procedures to make sure that we are following the affordability rules.

Finding No.5: Cosmetology Department Fee Collections

The College has procedures that were not being followed due to employee turnover in that area. We will ensure all employees are properly trained.

Finding No. 6: Direct-Support Organizations

The College will document, at least annually, the anticipated use of college property, facility and personal services by the Direct-Support Organizations. The Direct-Support Organizations will verify the actual use as part of the annual financial report to the Board of Trustees.

Finding No. 7 Information Technology User Access Privileges

The College will continue efforts to ensure that only employees with a demonstrated need to access college records have such access.

Ms. Sherrill F. Norman, CPA
December 17, 2018
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Finding No. 8 Timely Deactivation of Information Technology User Access Privileges

The College will continue efforts to ensure that employees who have terminated their service will be promptly deactivated.

Finding No. 9 Information Technology Security Awareness Training Program

The College agrees that security awareness is critically important in our environment. We will develop a mandatory training program for all users of College IT resources.

Please accept my sincere appreciation for another positive audit process.

Sincerely,



Edward Meadows
President