

STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

Report No. 2019-139
March 2019

INDIAN RIVER STATE COLLEGE



Sherrill F. Norman, CPA
Auditor General

Board of Trustees and President

During the period January 2017 through December 2017, Dr. Edwin R. Massey served as President of Indian River State College and the following individuals served as Members of the Board of Trustees:

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The team leader was Mark D. Kenny, CPA, and the audit was supervised by Tim L. Tucker, 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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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. 2016-055. Our operational audit disclosed the following:

Finding 1: For the Spring 2017 Semester, the College did not maintain appropriate records to support a total of 10,984 instructional contact hours for adult general education online classes reported to the Florida Department of Education.

Finding 2: College direct-support organization (DSO) policies and records supporting College property, facilities, and personal services used by the DSO could be improved.

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. Additionally, credit and noncredit classes are offered in public schools and other locations throughout Indian River, Martin, Okeechobee, and St. Lucie Counties.

FINDINGS AND RECOMMENDATIONS

Finding 1: Adult General Education Online Classes

State law¹ defines adult general education, in part, as comprehensive instructional programs designed to improve the employability of the State's workforce. The College received State funding for adult general education, and General Appropriations Act² proviso language requires each college to report enrollment for adult general education programs in accordance with Florida Department of Education (FDOE) instructional hours reporting procedures.³

FDOE procedures provide that, prior to the Fall 2017 Semester, fundable instructional contact hours are those scheduled hours that occur between the date of enrollment in a class and the withdrawal date or end-of-class date, whichever is sooner. For classes that occur exclusively online, FDOE procedures

¹ Section 1004.02(3), Florida Statutes.

² Chapter 2016-066, Laws of Florida, General Appropriations Act, Specific Appropriation 126 for the 2016-17 fiscal year and Chapter 2017-70, Laws of Florida, General Appropriations Act, Specific Appropriation 126 for the 2017-18 fiscal year.

³ FDOE Memorandum No. 06-14, dated May 15, 2006, *Reporting Procedures for Adult General Education Enrollments*.

require that student participation be documented through proxy measures such as assignments, tests, or other types of records. There is also a minimum enrollment threshold of 12 hours of attendance for each program that must be met before a student can be counted for funding purposes.

For the Spring, Summer, and Fall 2017 Semesters, the College reported a total of 805,354 contact hours for 3,823 students enrolled in 1,681 adult general education classes. As part of our audit, we requested for examination College records for 1,083 reported contact hours for 30 students enrolled in 23 general education classes for the Spring 2017 Semester, including 1 student enrolled in 2 general education online classes for 40 reported contact hours. However, College records were not provided to support the student enrolled in the online classes. According to College personnel, the College did not retain sufficient proxy records, such as student course work or testing during the semester, to comply with the FDOE mandate for online classes.

College personnel also indicated that, to document student participation in online classes, the College usually relied on software that recorded the date and time that students log in and out of the classes. However, the software provider purged the Spring 2017 Semester records for student online classes, including participation logs, student course work, and other records. According to College personnel, the College did not retain the student participation records supporting 10,944 additional contact hours for 91 other students enrolled in 20 online classes for the Spring 2017 Semester. Subsequent to the Spring 2017 Semester, the College began retaining participation records for online classes.

While the College retains certain records for the students in online classes, such as placement scores and class registrations and payments, these records did not sufficiently demonstrate the extent that students participated in an online environment for contact hour reporting as prescribed by FDOE. As College records were not available to document student participation in online classes, we could not determine if the College accurately reported the 10,984 contact hours to the FDOE. Since future funding may be based, in part, on enrollment data submitted to the FDOE, it is important that the College report accurate and complete data.

Recommendation: The College should continue efforts to ensure instructional contact hours for adult general education online classes are supported by required student participation records and accurately reported to the FDOE.

Finding 2: Direct–Support Organization

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 the use, and enhance government transparency.

State law⁴ provides that a direct-support organization (DSO) is organized and operated exclusively to receive, hold, invest, and administer property and make expenses to, or for the benefit of, the institution. Additionally, State law⁵ authorizes the Board to permit the use of College property, facilities, and personal

⁴ Section 1004.70(1)(a), Florida Statutes.

⁵ Section 1004.70(3), Florida Statutes.

services by a DSO and to prescribe by rule any conditions with which a DSO must comply for such use. The Board approved the Indian River State College Foundation, Inc. (Foundation) as a DSO, and the Foundation routinely receives and uses charitable contributions for the benefit of the College.

Our review of College records for the 2017 calendar year disclosed that the College contributed personal services in the amount of \$632,734 to the Foundation. The services were provided by six employees whose job descriptions included various general and administrative responsibilities for the Foundation. The College paid 100 percent of the personal services costs related to the six employees and the Foundation reimbursed \$136,396 to the College for a portion of the personal services costs, however, although we requested, Board-approved agreements were not provided to evidence the basis for the Foundation reimbursement.

Additionally, College personnel indicated that the College provided facilities to the Foundation. However, although we requested, College records were not provided to evidence that the Board approved the personal services or facilities use, and the value of such use.

In response to our inquiries, College personnel provided us with a 2011 College agreement with the Foundation that authorized the College to provide the staff and facilities that the College deemed appropriate for Foundation operations. In addition, Board policies authorize the Foundation to “use College property, facilities and personal services.” Notwithstanding this response, we found that College records could be enhanced by documenting Board approval of the estimated value of the use before the use occurs, the actual purpose for and value of such use, and Foundation management affirmation that College resources were used only for Board-approved purposes. Such records would demonstrate authorization, support the reasonableness of the value, and enhance transparency of the College resources provided for Foundation use. Subsequent to our inquiries, College personnel indicated that they plan to provide an agreement, during the budget process, to the Board, depicting the value of personal service and facilities provided to the Foundation.

Recommendation: We recommend that the College:

- **Document Board approval, at least on an annual basis, of the estimated value of College resources that will be used by the Foundation before the use occurs. To enhance transparency, Board approval documentation should identify the buildings and related square footage of the office space provided for use by the Foundation and the value of such use.**
- **Obtain certifications from Foundation management to affirm that College resources were used in accordance with the conditions for such use.**
- **The Board enter into an agreement with the Foundation to establish the basis for any Foundation reimbursements.**

PRIOR AUDIT FOLLOW-UP

The College had taken corrective actions for the finding included in our report No. 2016-055.

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 November 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 the finding included in our report No. 2016-055.
- 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 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.
- Reviewed College procedures for maintaining and reviewing employee access to IT data and resources. Specifically, we examined College records for 40 employees with access privileges to the database and finance and human resources applications during the audit period to determine the appropriateness and necessity of the access privileges based on the employees' job duties and user account functions and the adequacy with regard to preventing the performance of incompatible duties.
- Evaluated College procedures for protecting student social security numbers (SSNs). We examined College records supporting the access privileges of 22 employees selected from the population of 64 employees who had access to student SSNs during the audit period to determine the appropriateness and necessity of the access privileges based on the employees' assigned job responsibilities.
- Examined Board meeting minutes and other records to determine whether Board approval was obtained for Board policies and College procedures in effect during the audit period 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 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 College had developed an anti-fraud policy for the audit period to provide guidance to employees for communicating known or suspected fraud to appropriate individuals. Also, we examined College records to determine whether the College had implemented appropriate and sufficient procedures to comply with its anti-fraud policy.
- From the population of 48 payments and transfers totaling \$1 million made during the audit period from the College to its direct-support organization (DSO), examined College records supporting 25 payments and transfers totaling \$908,959, to determine whether the transactions were authorized as described in Section 1004.70(1)(a)2., (3)(a), and (4)(a), 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 the DSO must comply in order to use College property, facilities, and personal services provided to the DSO and related costs.

- From the population of 2,277 student accounts receivable totaling \$1.4 million and recorded as of June 2018, we examined documentation relating to 30 selected student accounts receivable totaling \$46,848 and determined whether College collection efforts were adequate and 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 14,989 students enrolled as Florida residents during the Fall 2017 Semester, examined College records for 30 selected students to determine whether the College documented Florida residency and correctly assessed tuition in compliance with Section 1009.21, Florida Statutes, and State Board of Education (SBE) Rule 6A-10.044, Florida Administrative Code (FAC).
- From the population of 25 students receiving fee deferments totaling \$15,953 as of June 2018, we examined documentation related to 16 fee deferments totaling \$9,919 to determine compliance with Section 1009.27, Florida Statutes, and SBE Rule 6A-14.054(7)-(10), FAC.
- From the population of 1,255 distance learning courses with fee revenue totaling \$489,955 during the audit period, examined College records supporting 30 selected distance learning courses with fee revenue totaling \$11,670 to determine whether distance learning fees were assessed, collected, and separately accounted for in accordance with Section 1009.23(16)(a) and (b), Florida Statutes.
- From the population of 37 cash collection locations with collections totaling \$34.4 million, selected two locations with collections totaling \$1.6 million during the audit period and examined College records supporting collections totaling \$155,568 to determine the effectiveness of College collection procedures.
- From the population of 1,088 course sections offered during the audit period, examined College records supporting textbook adoptions to determine whether the College textbook affordability procedures complied with Section 1004.085, Florida Statutes.
- From the population of compensation payments totaling \$85.1 million made to 2,315 employees during the audit period, selected payments totaling \$76,960 made to 30 employees and examined College records to determine the accuracy of the rate of pay, whether supervisory personnel reviewed and approved employee reports of time worked, the validity of employment contracts, whether the employees met the required qualifications, whether performance evaluations were completed, and the accuracy of leave records.
- 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 90 employees who separated from College employment during the audit period and received terminal leave payouts totaling \$1 million, we selected 25 employees with terminal leave payouts totaling \$688,936 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 all 12 applicable employee contracts (including the President's) for the period ended December 2017 to determine whether the provisions complied with Section 215.425(4)(a), Florida Statutes.
- Examined College records for the President who received compensation totaling \$374,040 during the 2017-18 fiscal year to determine whether the amounts paid did not exceed limits established in Section 1012.885, Florida Statutes.
- Reviewed Board policies and College procedures to ensure health insurance was provided only to eligible employees, retirees, and dependents and that such insurance was timely canceled upon employee termination. Also, we determined whether the College had 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 \$73.2 million for the audit period, we examined College records supporting:
 - 30 selected payments for general expenses totaling \$3.5 million.
 - 25 selected payments for contractual services totaling \$1.9 million.
- Reviewed Board policies and College procedures related to identifying potential conflicts of interest. We also reviewed Department of State, Division of Corporations, records; statements of financial interest; and College records for 12 selected College personnel to identify any potential relationships that represented a conflict of interest with vendors used by the College.
- From the two major construction projects with budgets totaling \$24.4 million and in progress during the audit period, selected one major construction project with a budget amount totaling \$23.3 million and examined College records to determine whether payments were made in accordance with contract terms and conditions, Board policies and College procedures, and provisions of applicable State laws and rules.
- Reviewed documentation related to one major construction project with total construction costs of \$238,000 during the audit period to determine whether the College process for selecting design professionals and construction managers was in accordance with State law and the College adequately monitored the selection of subcontractors; the Board had adopted a policy establishing minimum insurance coverage requirements for design professionals; and design professionals provided evidence of required insurance.
- From the population of Public Education Capital Outlay (PECO) and other restricted capital outlay expenses totaling \$2.8 million during the audit period, examined records supporting 30 selected expenses totaling \$2.4 million to determine whether these funds were expended in compliance with the restrictions imposed on the use of these resources.
- From the population of 805,354 contact hours reported for 1,681 adult general education classes provided to 3,823 students for the Spring, Summer, and Fall 2017 Semesters, examined College records supporting 1,083 reported contact hours for 30 selected students in 23 general education classes for the Spring 2017 Semester to determine whether the College reported the instructional contact hours in accordance with the Florida Department of Education requirements.
- From the population of 811 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.
- From the population of 12 payments totaling \$1.8 million during the audit period for new software applications, examined documentation supporting 10 selected payments totaling \$1.5 million to determine whether deliverables met the contract terms and conditions.
- 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.

A handwritten signature in blue ink that reads "Sherrill F. Norman". The signature is fluid and cursive, with a large initial 'S' and 'N'.

Sherrill F. Norman, CPA
Auditor General

MANAGEMENT'S RESPONSE



INDIAN RIVER STATE COLLEGE Office of the President

March 4, 2019

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

Dear Ms. Norman:

The following is our response to the two (2) preliminary and tentative findings on the 2017 Operational Audit of Indian River State College administered by the State of Florida.

Finding 1: Adult General Education Online Classes – Auditor's General's Recommendation: The College should continue efforts to ensure instructional contact hours for adult general education online classes are supported by required student participation records and accurately reported to the FLDOE.

Indian River State College Response: IRSC acknowledges and accepts the Auditor General's recommendation. The College will continue to retain and document required participation records such as assignments, tests and other types of records for Adult General Education online classes. In addition, the College will continue to ensure instructional contact hours for adult general education online classes are accurately reported to the FLDOE.

Finding 2: Direct-Support Organization – Auditor's General's Recommendation: The College should document Board approval at least on an annual basis of the estimated value of College resources that will be used by the Foundation before the use occurs. To enhance transparency, such Board approval documentation should identify the buildings and related square footage of the office space provided for use by the Foundation and the value of such use. The College should obtain certifications from the Foundation management to affirm that College resources were used in accordance with the conditions for such use. The College's Board should enter into an agreement with the Foundation to establish the basis for any Foundation reimbursements.

Indian River State College Response: IRSC acknowledges and accepts the Auditor General's recommendations. The College will enter into a written agreement with the Foundation to identify any reimbursements to be made to the College, specify facilities usage by the direct support organization and include the related square footage and estimated value of College resources before the use occurs. In addition, the College will obtain certifications from the Foundation management to affirm the College resources were used in accordance with the conditions for such use. The agreement will be presented to the Board for their approval on an annual basis and will be implemented for the College's Fiscal Year 2019-20.

Sincerely,

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

Edwin R. Massey, Ph.D.
President

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