

# STATE OF FLORIDA AUDITOR GENERAL

## Operational Audit

Report No. 2023-035  
October 2022

### VALENCIA COLLEGE



Sherrill F. Norman, CPA  
Auditor General

## Board of Trustees and President

During the 2021 calendar year, Dr. Kathleen A. Plinske served as President of Valencia College during the period July 1, 2021, through December 31, 2021, and, before that period, Dr. Sanford C. Shugart served as President. The following individuals served as Members of the Board of Trustees:

|  | <u>County</u> |
|--|---------------|
| Daisy Lopez-Cid, Chair from 7-29-21,<br>Vice Chair through 7-28-21 | Osceola       |
| Beth Smith, Vice Chair from 7-29-21                                | Orange        |
| Tracey Stockwell, Chair through 7-28-21                            | Orange        |
| Dr. Bruce A. Carlson through 7-22-21                               | Osceola       |
| John F. Davis  | Orange        |
| Angel de la Portilla from 1-27-21 <sup>a</sup>                     | Orange        |
| Maria C. Grulich through 7-22-21 <sup>b</sup>                      | Osceola       |
| Guillermo Hansen   | Osceola       |
| John Martinez from 7-23-21   | Orange        |
| Michael A. Sasso   | <sup>c</sup>  |

<sup>a</sup> Trustee position vacant 1-1-21, through 1-26-21.

<sup>b</sup> Trustee position vacant 7-23-21, through 12-31-21.

<sup>c</sup> Confidential pursuant to Section 119.071(4), Florida Statutes.

The team leader was Nicholas J. DeCandia, CPA, and the audit was supervised by Jeffrey M. Brizendine CPA.

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

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# VALENCIA COLLEGE

## SUMMARY

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This operational audit of Valencia College (College) focused on selected College processes and administrative activities and included a follow-up on findings noted in our report No. 2020-036. Our operational audit disclosed the following:

**Finding 1:** Although Board policies did not include mutual funds as an authorized investment or authorize investments below the minimum quality rating of A-rated securities, as of October 31, 2021, the College invested \$15.2 million in mutual funds, including \$2.3 million in fixed income securities rated below A and \$1.9 million in investments that were either not rated or not classified.

## BACKGROUND

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Valencia 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 Orlando, Kissimmee, and Winter Park, Florida. Additionally, credit and noncredit classes are offered in public schools and other locations throughout Orange and Osceola Counties.

## FINDING AND RECOMMENDATION

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### Finding 1: Investments

As of October 31, 2021,<sup>1</sup> the College had \$57 million recorded as cash equivalents in internally managed investments held by in an intergovernmental investment pool<sup>2</sup> and \$15.2 million recorded as mutual fund investments held by an external investment manager contracted by the College. The mutual fund investments were supported by underlying holdings including \$11 million of fixed income securities with a quality rating of A or better, \$2.3 million of fixed income securities with a quality rating below A, and \$1.9 million of investments either not rated or not classified.

Board policies<sup>3</sup> require the investment of surplus funds in accordance with State law<sup>4</sup> and set forth the scope and objectives of, and performance measures for, College investments. Pursuant to State law,<sup>5</sup>

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<sup>1</sup> As part of our audit, we arbitrarily selected the October 31, 2021, date to evaluate College procedures for monitoring College investments.

<sup>2</sup> Florida PRIME administered by the State Board of Administration.

<sup>3</sup> Board Policy 6Hx28:6-02, *Investment of Funds*.

<sup>4</sup> Sections 218.415 and 1001.64(5), Florida Statutes.

<sup>5</sup> Section 218.415(1), Florida Statutes.

the Board-adopted investment policies apply to any public funds under the control of the College in excess of those required to meet current expenses, except for pension funds and funds related to the issuance of debt. The policies place the highest priority in making investments on the safety of principal and liquidity of College funds and identify authorized<sup>6</sup> and prohibited<sup>7</sup> investments. In addition, the policies require the College to maintain a total quality rating for all investments and require securities to have a minimum A-rated quality rating. According to College personnel, securities below that rating are unauthorized.

While Board policies authorize investments in intergovernmental investment pools, the policies did not include mutual funds as a Board-authorized investment. Additionally, as of October 31, 2021, contrary to Board policies, mutual fund investments totaled \$2.3 million in fixed income securities with quality ratings below A and \$1.9 million in investments that were either not rated or not classified.

In response to our inquiry regarding the authority for the College mutual fund investments, College personnel indicated that State law and the Board investment policy requirements only applied to State-funded investments and, because the \$15.2 million invested in the externally managed mutual funds was entirely from local auxiliary and endowment funds, the requirements did not apply to those investments. In addition, College personnel believed that due to the significance of the investments in the intergovernmental investment pool, which has a high quality rating, the total quality rating for all investments, including the externally managed mutual fund investments, would comply with Board policies. College personnel also indicated that a summary of investment results, including results for the mutual funds, was provided to the Board at each meeting for its review.

Notwithstanding, State law and Board policies do not differentiate College investments based on the source of the investments and the mutual funds included investments totaling \$4.2 million that did not meet the minimum A-rated quality rating set by Board policies. Additionally, although we requested, College personnel did not explain why auxiliary and endowment funds would not be considered surplus funds subject to State law and Board policies or why a detailed review of the underlying investments in the mutual funds was not required to determine compliance with Board policies.

Absent effective procedures for monitoring compliance with Board policies, there is an increased risk College investments will be subjected to more risk than the investments authorized by the Board.

**Recommendation: The College should enhance procedures to ensure that investments are maintained in accordance with Board policies. Such enhancements should include periodic evaluations of underlying investments to ensure that all investments are consistent with Board intent. In addition, if the Board decides to differentiate College investments based on the source of the investments or authorize mutual fund investments, Board policies should be revised accordingly.**

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<sup>6</sup> College-authorized investments included fixed income securities selected from U.S. Treasury obligations, government sponsored enterprises, mortgage-backed securities guaranteed by the Federal government, certificates of deposit, asset-backed securities, money market instruments, corporate notes, money market funds, intergovernmental investment pools, and investment funds regulated or advised by a registered investment advisor under the Investment Company Act of 1940, Rule 3C7 and the investment funds must state that the fund will seek to maintain \$1 per share net asset value.

<sup>7</sup> College-prohibited investments included reverse repurchase agreements, floating rate securities with rates not tied to an index, collateralized mortgage obligations, and derivatives.

## ***PRIOR AUDIT FOLLOW-UP***

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The College had taken corrective actions for findings included in our report No. 2020-036.

## ***OBJECTIVES, SCOPE, AND METHODOLOGY***

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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 2022 through June 2022 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.

This operational audit focused on selected College processes and administrative activities. For those areas, our audit objectives 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. 2020-036.
- 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 areas included within the scope of the audit, weaknesses in management's internal controls significant to our audit objectives; 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; identifying and evaluating internal controls significant to our audit objectives; 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 transactions and records, as well as events and conditions, occurring during the audit period of January 2021 through December 2021 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 applicable laws, rules, Board policies, College procedures, and other guidelines, and interviewed College personnel to obtain an understanding of applicable processes and administrative activities.
- Reviewed and evaluated Board policies and College procedures related to identifying potential conflicts of interest.
- Evaluated College procedures for protecting sensitive personal information of students, including social security numbers. We reviewed College records supporting the periodic analysis of access privileges as of June 2021 for 104 employees who had access to sensitive personal information in the College's student records system and 422 employees who had access to the College's scanned image document storage system to determine the appropriateness and necessity of the access privileges based on the employees' assigned job responsibilities.
- 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.
- Inquired whether the College had any expenditures or entered into any contracts under the authority granted by a state of emergency, declared or renewed during the audit period, to evaluate the reasonableness of College actions.
- Examined College records to determine whether a College spending plan was prepared for the College excess carryforward balance pursuant to Section 1013.841, Florida Statutes.
- Examined College records supporting investment practices to evaluate College compliance with Board policies and Sections 218.415 and 1001.64(5), Florida Statutes.
- Examined College records supporting the only real property acquisition during the audit period to evaluate compliance with Section 1013.14, Florida Statutes.
- Examined College records supporting decentralized bookstore collections for a 2-week period to evaluate the effectiveness of College procedures.
- Evaluated the effectiveness of College controls during the audit period to ensure that students who had not paid fees in an approved manner were not considered in calculating full-time

equivalent enrollments for State funding purposes pursuant to Sections 1009.22(11) and 1009.23(9), Florida Statutes.

- Examined College records to determine whether a total of \$20.6 million in user fees, including financial aid fees, activity and service fees, capital improvement fees, and technology fees were correctly assessed, calculated, and recorded.
- From the population of student activity and service fee expenses totaling \$5.6 million, examined College records supporting 15 selected expenses totaling \$232,646 to evaluate College compliance with the restrictions imposed by Section 1009.23(7), Florida Statutes.
- From the population of technology fee expenses totaling \$3 million, examined College records supporting 15 selected expenses totaling \$1 million to evaluate College compliance with the restrictions imposed by Section 1009.23(10), Florida Statutes.
- From the population of 9,555 distance learning courses with fee revenue totaling \$5.2 million during the audit period, examined College records and performed analytical procedures to determine whether the fees were assessed, collected, and separately accounted for and did not exceed the additional costs of services provided to deliver the distance learning courses in accordance with Section 1009.23(16)(a) and (b), Florida Statutes.
- Examined College records supporting student fee waivers during the audit period to determine whether the College properly authorized, approved, assessed, and separately accounted for waivers as required by Section 1009.26, Florida Statutes.
- Examined College records supporting awards totaling \$76,500 that were paid to 36 employees for College degrees earned during employment to evaluate compliance with Board policies and Section 215.425(3), Florida Statutes.
- Examined severance pay provisions in the employment contracts for the two presidents who served during the audit period to determine whether the provisions complied with Section 215.425(4)(a), Florida Statutes.
- 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 274 payments for employees who separated from College employment during the audit period and were paid \$883,441 for terminal leave, we selected 25 employees with terminal payments totaling \$614,443 and examined the supporting records to evaluate compliance with Sections 110.122 and 1012.865, Florida Statutes, and Board policies.
- Evaluated Board policies and College procedures for obtaining personnel background screenings to determine compliance with Section 1012.8551, Florida Statutes.
- For the major construction project completed in June 2020 with construction costs totaling \$14.4 million, examined College records supporting three selected payments totaling \$1.9 million 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 State Board of Education rules.
- From the population of contracted service expenses totaling \$10.5 million for the audit period, examined College records supporting 30 selected expenses totaling \$2 million to determine whether expenses were reasonable; correctly recorded; adequately documented; for a valid College purpose; properly authorized and approved; and in accordance with applicable laws, rules, contract terms, and University policies; and whether applicable vendors were properly selected.
- From the population of 584 industry certifications reported for performance funding that were attained by students during the 2020-21 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***

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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 written in a cursive style with a large initial "S".

Sherrill F. Norman, CPA  
Auditor General



# MANAGEMENT'S RESPONSE

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October 7, 2022

Ms. Sherrill F. Norman, C.P.A.  
Florida Auditor General  
111 West Madison Street  
Tallahassee, FL 32399-1450

Dear Ms. Norman:

Re: Valencia College Operational Audit 2022

Please accept this document as our action response for the preliminary and tentative audit finding made in the Valencia College Operational Audit report received via email on September 6, 2022. We welcome any discussion or questions you may have relative to our response.

Please feel free to contact myself or Loren Bender, Vice President – Business Operations and Chief Financial Officer at 407-582-3408 or at [lbender2@valenciacollege.edu](mailto:lbender2@valenciacollege.edu).

Sincerely,

A handwritten signature in black ink that reads "Kathleen Plinske". The signature is written in a cursive, flowing style.

Dr. Kathleen Plinske  
President

Enclosure  
C: Ms. Daisy Lopez-Cid

**2020-2021 Operational Audit Finding Response****Finding 1**

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**Footnotes:**

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<sup>7</sup> College-prohibited investments included reverse repurchase agreements, floating rate securities with rates not tied to an index, collateralized mortgage obligations, and derivatives.

**Recommendation**

The College should enhance procedures to ensure that investments are maintained in accordance with Board policies. Such enhancements should include periodic evaluations of underlying investment to ensure that all investments are consistent with board intent. In addition, if the Board decides to differentiate College investments based the source of the investment or authorized mutual fund investments, Board policies should be revised accordingly.

**Valencia College Response**

The College's investment committee will meet on a quarterly basis to evaluate the investment portfolio details, including evaluations of underlying investments to ensure they are consistent with Board policies and procedures. In addition, Valencia will provide a comprehensive quality score covering all managed funds. The quality ratings will be added to the investment report provided to the Valencia College Board of Trustees and all investment assets, no matter the source, will be reviewed in a holistic manner.

The Valencia College Board of Trustees is provided a high-level summary of investment performance in the Board financial reports. The report provides an overview of financial performance, displaying overall income and the annual rates of return, investment mix and the cash holdings for the College. Details of the two mutual funds in question, a limited duration bond fund and the ultra-short duration bond fund, were not reviewed with the Board as management of the College is responsible for detail investment activity.

SEI, Valencia College's external fund manager, is a registered investment advisor under the Investment Company Act of 1940, which targets publicly traded retail investment products. This legislation defines the responsibilities of investment companies and the requirements for any publicly traded investment product offerings, such as open-end and closed-end mutual funds. The college will expand the investment procedures to clarify the authorization responsibilities of the external fund manager.