

STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

Report No. 2024-006
August 2023

NORTHWEST FLORIDA STATE COLLEGE



Sherrill F. Norman, CPA
Auditor General

Board of Trustees and President

During the period January through December 2022, Dr. Devin Stephenson served as President of Northwest Florida State College and the following individuals served as Members of the Board of Trustees:

	<u>County</u>
Lori Kelley, Chair	Okaloosa
Major General (Ret.) Thomas "Rudy" Wright, Vice Chair from 7-1-22	Okaloosa
Shane Abbott, Vice Chair through 5-18-22 ^a	Walton
Charlotte Flynt	Walton
Graham Fountain	Okaloosa
Reynolds Henderson through 5-20-22 ^b	Walton
Major General (Ret.) Don Litke	Okaloosa
Jack "Tanner" Peacock from 8-5-22	Walton
Dr. Jon Ward from 8-5-22	Walton

^a Trustee position vacant 5-19-22, through 8-4-22. Vice Chair position vacant 5-19-22, through 6-30-22.

^b Trustee position vacant 5-21-22, through 8-4-22.

Note: One Trustee position was vacant for the entire period.

The team leader was Helena Chappo, 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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NORTHWEST FLORIDA STATE COLLEGE

SUMMARY

This operational audit of Northwest Florida State College focused on selected College processes and administrative activities and included a follow-up on findings noted in our report No. 2021-068. Our operational audit disclosed the following:

Finding 1: College records supporting the assessment of distance learning and facilities and equipment user fees did not always demonstrate compliance with State law. A similar finding was noted in our report No. 2021-068.

Finding 2: College tangible personal property costs totaled \$11.3 million at December 2022; however, a complete physical inventory of the property had not been conducted since 2016, increasing the risk of loss or theft without timely detection and investigation.

BACKGROUND

Northwest Florida 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 eight 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 Fort Walton Beach and Niceville. Additionally, credit and noncredit classes are offered in public schools and other locations throughout Okaloosa and Walton Counties.

FINDINGS AND RECOMMENDATIONS

Finding 1: Distance Learning and Facilities and Equipment User Fees

State law¹ authorizes the Board to establish a distance learning course user fee, which may not exceed the additional costs of the services attributable to the development and delivery of the course. By September 1 of each year, the Board must report to the Florida Department of Education, Division of Florida Colleges, the total amount of revenue generated by the fee for the prior fiscal year and how the revenue was expended. State law² also authorizes the Board to establish other user fees for facilities and equipment use that do not exceed the cost of the services provided and are only charged to persons receiving the service.

The Board reported to the Division of Florida Colleges in August 2022 that the distance learning course user fees generated for the 2021-22 fiscal year were totally expended for personnel, contracted services,

¹ Section 1009.23(16), Florida Statutes.

² Section 1009.23(12)(a), Florida Statutes.

computer software, materials and supplies, and computers. Table 1 summarizes the distance learning course user fee per-credit-hour, total revenue, and direct costs.

Table 1
Distance Learning Course User Fee
Revenue and Direct Costs
2021-22 Fiscal Year

User Fee	Amount
Fee Revenue:	
Per-Credit-Hour	\$ 15
Total Revenue	<u>\$758,280</u>
Direct Costs:	
Learning Technologies Cost Center	\$267,337
Instructional Computing Cost Center	210,396
Allocated from Student Success Navigation Cost Center	236,396
Allocated Information Technology Costs ^a	44,151
Total Costs	<u>\$758,280</u>

^a The amount allocated includes costs such as software and software subscriptions and a Web conferencing platform.

Source: College records.

As part of our audit, we requested for examination College records supporting selected costs totaling \$342,450 from the Learning Technologies and Instructional Computing Cost Centers costs totaling \$477,733. We found that the selected costs appropriately supported the distance learning course user fee.³

According to College personnel, the Student Success Navigation Cost Center (Navigation Cost Center) costs totaling \$236,396 represented 20 percent of student admission, registration, and academic advising services. In response to our inquiries, College personnel indicated that the Navigation Cost Center is critical to the development of distance learning courses as staff for the Navigation Cost Center spend more time assisting distance learning students than other students. College personnel also indicated that, while students are not required to use Navigation Cost Center services, the *Accounting Manual for Florida’s College System* provides that the costs of shared services, such as Collegewide information technology support and student support, can be allocated to distance learning courses to provide a clear picture of the true additional costs to deliver distance learning. However, it was not readily apparent how Navigation Cost Center costs were for additional costs of services attributable to the development and delivery of distance learning courses. In addition, College records did not include guidance from the Florida Department of Education or another authoritative source specifying that costs for admission, registration, and academic advising services could support the distance learning course user fee.

We also found that the College assessed a \$7.50 per-credit-hour hybrid learning user fee for courses that combined traditional College courses with online activities and collected \$47,775 for that fee during

³ Costs of the Learning Technologies Cost Center were primarily for distance learning personnel salary and benefits and the Instructional Computing Cost Center were primarily for distance learning software licensing and maintenance services.

the 2022 calendar year. In response to our inquiries, College personnel indicated that the hybrid learning user fees were assessed to pay for the required support of the online components of these courses and were considered a facilities and equipment user fee. However, College procedures had not been established to document costs associated with the hybrid learning user fee and, although we requested, College records were not initially provided to support these costs.

Subsequently, College personnel identified Instructional Computing Cost Center and Library e-resource costs totaling \$89,700 that they believed supported the fee assessment. To evaluate those costs, we examined records supporting selected costs totaling \$67,242 and found that, instead of costs for facilities and equipment use by students in hybrid learning courses, the costs were for software subscriptions and applications; various Library e-resources, such as electronic books; subscriptions to journals; and a content management platform. In addition, we found that \$53,377 of these costs were fully recovered by distance learning course user fees, previously reported to the Division of Florida Colleges, and included in the Table 1 Instructional Computing Cost Center costs totaling \$210,396. Accordingly, College records did not always demonstrate compliance with the statutory requirement limiting facilities and equipment user fees to the costs of services provided to persons receiving those services.

Finding 7 in our report No. 2021-068, disclosed similar instances in which College records supporting the assessment of user fees did not always demonstrate compliance with State law.

Recommendation: The College should enhance procedures to ensure that student user fees are assessed and used in accordance with State law. Specifically, the College should maintain records demonstrating that:

- Distance learning course user fees do not exceed the additional costs of the development and delivery of the course.
- Facilities and equipment user fees are limited to the costs of the services provided.
- Costs used in the assessment of a user fee are not also used to justify other user fee assessments.

In addition, we recommend that the College seek guidance from the Florida Department of Education, Division of Florida Colleges, to determine whether costs of student admission, registration, and academic advising services can be attributable to the development and delivery of distance learning courses and support user fees for those courses.

Follow-Up to Management's Response

Management's response states that without clear standards regarding what may be allowable expenses to be funded with distance learning fees, the College disagrees that there is sufficient evidence for this finding. The College further states discussion was not provided during the audit to justify why the use of student admission, registration, and academic advising services would not be attributable to the development and delivery of distance learning courses. Notwithstanding, the plain language of State law requires that distance learning fees be limited to an amount representing the additional costs of the development and delivery of a distance learning course. Although we requested, the College provided no documentation or explanation evidencing a nexus between the operation of the Navigation Cost Center and the development and delivery of distance learning courses. Therefore, it is not apparent how the Navigation Cost Center expenses could be used to support the assessment of a distance learning fee. Consequently, the finding stands as presented.

Finding 2: Tangible Personal Property

An important element of an effective internal control system over property management is a complete annual physical inventory of tangible personal property (TPP), such as furniture, machinery, and equipment, and a comparison of the inventory results to the property and accounting records. Any differences should be researched and resolved, and any items determined stolen should be promptly reported to law enforcement.

According to College property records as of December 31, 2022, the College had 578 TPP items with costs of \$5,000 or more and recorded values totaling \$11.3 million. Board policies⁴ state that College property shall be properly accounted for through inventory procedures as specified in several enumerated Florida Statutes and State Board of Education (SBE) rules; however, the Florida Statutes, SBE rules, Board policies, and College procedures do not require the College to complete a physical inventory of all TPP items annually. As of March 2023, College personnel indicated that the last complete physical inventory of TPP items was in 2016 and the lack of annual inventories since that year was due, in part, to staffing issues.

As part of our audit, we selected from the College property records 34 TPP items with recorded values totaling \$1 million and physically located the items on College premises. However, our procedures cannot substitute for the College's responsibility to annually account for all TPP items.

Absent effective annual physical inventory procedures, control over College TPP items is diminished, and there is an increased risk that any loss or theft of College TPP items will not be timely detected and investigated, correctly reflected in College property and accounting records, and reported, as necessary, to the appropriate law enforcement agency.

Recommendation: The College should enhance procedures to ensure proper accountability over College TPP items. Such enhancements should include revisions to Board policies and College procedures to require and ensure that a complete and documented physical inventory is conducted annually of all TPP items with a thorough investigation of items not located and that items deemed stolen are promptly reported to the appropriate law enforcement agency.

PRIOR AUDIT FOLLOW-UP

Regarding the 11 findings in our report No. 2021-068, the College had:

- Corrected 5 findings (Findings 1, 6, 8, 10, and 11).
- No occasion to correct 5 findings (Findings 2 through 5 and Finding 9).
- Not corrected Finding 7, which was also noted in this report as Finding 1.

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

⁴ Board policy BS 8 – *Property Control (Inventory)*.

information for use in promoting government accountability and stewardship and improving government operations.

We conducted this operational audit from March 2023 through May 2023 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. 2021-068.
- 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 2022 through December 2022 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 of Trustees (Board) policies and College procedures, and other guidelines, and interviewed College personnel to obtain an understanding of applicable processes and administrative activities and the related requirements.
- Evaluated College procedures for maintaining and reviewing employee access to information technology (IT) data and resources. We examined College records for the 24 employees with IT access privileges to selected critical functions within the College finance and human resources systems to determine the appropriateness and necessity of the access based on the employees' job duties and user account functions and the adequacy for preventing the performance of incompatible duties.
- Reviewed College procedures and examined College records to determine compliance with Sunshine Law requirements (i.e., proper notice of meetings, meetings readily accessible to the public, and properly maintaining minutes).
- Examined College records for the period January 2020 through December 2022 to determine whether the College made budget amendments for transfers from the current unrestricted funds to other funds and whether those amendments were submitted to and reviewed by the Florida Department of Education Chancellor of the Florida College System in accordance with State Board of Education Rule 6A 14.0716(3), Florida Administrative Code.
- Since the College at June 30, 2022, had less than 15,000 full-time equivalent students and retained a State operating carryforward balance in excess of 5 percent, determined whether the College complied with Section 1013.841(2)(b), Florida Statutes, by timely preparing and submitting the required spending plan to the Board.
- Examined College records for 3 of the 12 months during the audit period to determine whether cash and cash equivalent account reconciliations were timely prepared and reviewed by appropriate College personnel.
- Evaluated College tangible personal property inventory controls to determine whether a complete annual physical inventory was conducted and, if so, inventory results were reconciled to the property and accounting records, and appropriate follow-up was made for any missing items.
- Reviewed the College's 3-year capital improvement plan for the 2023-24 through 2025-26 fiscal years, including the current status of funded and budgeted projects for the 2022-23 fiscal year, to determine whether the College properly reported the capital outlay project funding sources in accordance with Division of Florida Colleges instructions for consideration in the Florida Department of Education annual legislative budget request for Public Education and Capital Outlay funding submitted to the Legislature.
- From the population of user fees totaling \$1.9 million collected during the 2021-22 fiscal year examined College records supporting distance learning course user fees totaling \$758,280 and from the population of user fees totaling \$2 million collected during the 2022 calendar year examined College records supporting facilities and equipment user fees totaling \$47,775 to determine whether the fees were authorized by and in compliance with the provisions of Section 1009.23, Florida Statutes.

- From the population of 215 full-time College employees during the 2021-22 academic year, required to have an annual performance evaluation, examined College records for 30 employees to determine whether College personnel completed annual employee performance evaluations in compliance with Board policies.
- From the population of compensation payments totaling \$20.9 million made to 976 employees during the audit period, selected payments totaling \$118,410 made to 35 employees and examined College records supporting the payments to determine whether the payments were accurately calculated and properly charged to correct account codes and expense functions.
- From the population of expenses, excluding compensation, totaling \$39.7 million during the audit period, selected expenses totaling \$2.2 million and examined College records supporting the expenses to determine whether the expenses were correctly recorded and adequately documented; properly authorized and approved; and in compliance with applicable laws, contract terms, and Board policies.
- From the population of contracted services expenses not related to construction totaling \$5.1 million during the audit period, examined College records supporting selected contracted services expenses totaling \$1.5 million to determine whether contracts or purchase orders were executed before services were received and whether services were received before payments were made.
- From the population of Public Education Capital Outlay (PECO) and other restricted capital outlay expenses totaling \$1.5 million during the audit period, examined records supporting 13 selected expenses totaling \$1.1 million to determine whether these funds were expended in compliance with the restrictions imposed on the use of these resources. Additionally, to determine if Finding 6 in our report No. 2021-068 was fully corrected, we examined College records to evaluate whether the College had allowable expenses totaling \$346,763 that could have been funded from PECO resources during the 2019 calendar year.
- From the population of 247 industry certifications reported for performance funding that were attained by students during the 2020-21 fiscal year, examined 27 industry certifications to determine whether the College maintained documentation for student attainment of the industry certifications.
- Inquired whether the College had any expenses or entered into any contracts under the authority granted by a state of emergency, declared or renewed during the audit period.
- Examined College records and made inquiry with College personnel to determine whether during the period December 2020 through April 2023 the College entered into any new guaranteed maximum price contracts with construction management entities and approved any construction project change orders.
- 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 the first name being the most prominent.

Sherrill F. Norman, CPA
Auditor General

MANAGEMENT'S RESPONSE

Northwest Florida State College

Operational Audit: Administration Responses to Findings

Finding 1: Distance Learning and Facilities and Equipment User Fees

Due to a change in administration in January 2023 following the retirement of former Vice President of Business Operations and Finance / Chief Financial Officer, reasoning and documentation supporting the expenses attributable to the development and delivery of online distance-learning courses could not easily be located by the College's new finance and accounting administrative team. Questions from the team of auditors to College administration regarding how those expenses were accounted for by the past administration could only be answered with reasonable deduction that the prior staff accounted for expenses attributable to the online distance-learning courses as directly and closely related as possible under broad statutory language, because the current finance administration was not responsible for those decisions at the time the accounting decisions in question were made.

In an effort to ensure the College is appropriately accounting for expenses related to the development and delivery of online courses going forward, College administration contacted the Florida Auditor General's Office on Monday July 24, 2023, to discuss what types of expenses the auditor's office would consider appropriate and eligible in relation to Distance Learning Fee revenue collected. The Florida Auditor General's Office stated they did not have the authority on the front end to tell the College what expenses would be considered appropriate but are only authorized to issue a formal finding during the audit itself on the back end should they determine at that time that the expenses used by the College are inapplicable to the development and delivery of online courses. Additionally, the Florida Auditor General's Office encouraged the College to contact the Florida Department of Education, Division of Florida Colleges (FLDOE) as FLDOE would be the organization who would determine what expenses would be deemed eligible and appropriate on the front end.

Following the Florida Auditor General's recommendation, College administration contacted the Florida Department of Education on Tuesday July 25, 2023, for guidance on what expenses would be considered applicable to the development and delivery of online courses but were told that the department had no intention of issuing formal guidance regarding Distance Learning Fees and specific appropriate corresponding expenses.

Due to the lack of rulemaking or formal guidance defining what expenditures appropriately relate to the development and delivery of distance learning courses, the College disagrees with the finding that the College has not allocated expenditures properly. Without clear standards regarding what may be attributable, the College disagrees that there is sufficient evidence for this finding, and discussion was not provided during the audit to justify why the use of student admission, registration, and academic advising services would not be attributable to the development and delivery of distance learning courses.

Finding 2: Tangible Personal Property

The College agrees that tangible personal property (TPP) has not adequately been reviewed since 2016. To remedy this deficiency, the College will review its fixed asset inventory policy for appropriateness and will implement an annual review process in which all TPP is inventoried and audited.



Tanner McKnight
Vice President for Business Operations and Finance / Chief Financial Officer
July 27, 2023