STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

Report No. 2027-017
August 2026

NORTHWEST FLORIDA STATE COLLEGE

Sherrill F. Norman, CPA
Auditor General

Board of Trustees and President

During the 2025 calendar year, Mel Ponder served as President from January 2, 2025, Dr. Cristie Kedroski served as Interim President of Northwest Florida State College before that date, and the following individuals served as Members of the Board of Trustees:

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[a] Vice Chair position vacant 6-13-25, through 6-30-25.

The Auditor General conducts 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.

The team leader was Jim Beaumont, 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 (College) focused on selected College processes and administrative activities and included a follow-up on findings noted in our report No. 2024-006. Our operational audit disclosed the following:

Finding 1: College controls over information technology service contracts did not consistently ensure that contract terms were clearly defined or that monitoring was performed to document verification that invoiced services and charges aligned with the contract terms.

Finding 2: College terminal leave calculations and related payments for accumulated sick leave did not always comply with Board policies, resulting in overpayments totaling $83,362 to four retiring employees.

Finding 3: Tangible personal property inventory controls continue to be deficient.

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: Contracted Services

Effective controls over contracted services should ensure that contract terms are clearly defined and that monitoring is performed to document verification that invoiced services and charges align with those terms. During the 2025 calendar year, the College expended $28.1 million on contracted services.

As part of our audit, we examined College records supporting 25 selected expenses totaling $1.7 million. One expense of $412,324, paid in September 2025, was for information technology (IT) services for the 2025-26 fiscal year. The IT services contract, effective August 2022 through June 2027, identified perpetual software costs totaling $335,083 for the 2025-26 fiscal year and required the IT service provider to submit invoices with sufficient detail for audit review. The contract also required the College to notify the provider if additional details were needed to process payments.

According to July 2025 College records, College personnel sought clarification from the IT service provider regarding why the 2025-26 fiscal year invoice totaling $412,324 did not match the contract terms.

The provider responded by citing contract provisions obligating the College to pay software support service fees unless the College had terminated the fees 90 days before the June 30, 2023, termination date. However, neither the contract nor the invoice identified the amount of the software support service fees. Although we requested, the College did not provide records reconciling the contract provisions to the invoiced services and related costs.

Further examination disclosed that, through June 2026, the College paid the provider a total of $220,856 without documentation demonstrating how the IT services and associated costs aligned with the contract. College personnel indicated that IT staff turnover contributed to these inconsistencies. Without effective controls over contracted IT services, the College risks incurring unauthorized or excessive contracted service costs.

Recommendation: The College should strengthen controls over contracted IT services. These controls should include establishing contract provisions that clearly define expected services and costs and maintaining sufficient records to demonstrate how invoiced services and related charges align with those provisions.

Finding 2: Terminal Sick Leave Pay

State law[1] permits colleges to provide for terminal pay for accumulated unused sick leave to be paid to full-time instructional and educational support employees up to 100 percent based upon the employee's years of service. In accordance with State law, the College established Board policies[2] providing that qualified full-time employees are to be paid for accumulated unused sick leave upon retirement or death, not to exceed the daily rate of pay multiplied by 50 percent times the number of days of accumulated unused sick leave.

During the 2025 calendar year, the College made payments totaling $261,480 to 11 former or retiring employees for accumulated unused sick leave. To evaluate the propriety of these payments, we examined College records supporting sick leave payments totaling $218,477 to 6 selected employees. We found that the College overpaid 4 former or retiring employees by a total of $83,362. The overpayments occurred primarily because College personnel did not apply the 50-percent limit specified in Board policies and there was no documented independent verification to confirm the accuracy of the payments.

In response to our inquiries, College personnel indicated that Board-approved retirement incentive programs had authorized terminal sick leave payments at the maximum percentages permitted by State law. However, those programs ended in the 2020 calendar year, and the College inadvertently continued calculating payments using the higher percentages. Without effective procedures to ensure that terminal sick leave payments comply with Board policies, there is an increased risk that overpayments may occur and remain undetected.

[1] Section 1012.865(2)(d) and (e), Florida Statutes.

[2] Board Policy HR 18, *Sick Leave*.

Recommendation: The College should establish effective procedures to document and verify that accumulated sick leave payments comply with Board policies. The College should also recalculate other terminal sick leave payments and take appropriate action to recover any overpayments, including the $83,362 identified by our audit.

Finding 3: Tangible Personal Property

An effective internal control system for property management includes conducting a complete annual physical inventory of tangible personal property (TPP), such as furniture, machinery, equipment, and works of art, and comparing the results to the property and accounting records. Any discrepancies should be researched and resolved, and items determined to be stolen should be promptly reported to law enforcement. Board policies[3] state that College property must be properly accounted for through inventory procedures specified in various Florida Statutes;[4] however, those statutes, Board policies, and College procedures did not require the College to complete a physical inventory of all TPP items, nor did they address procedures for investigating items not located during an inventory.

As of May 1, 2025, College TPP records identified 1,074 TPP items with recorded costs totaling $17 million, and College personnel indicated that a physical inventory of TPP items was conducted in May 2025. To evaluate controls over College TPP, we examined College records supporting the College's physical inventory and found that:

- 398 TPP items, costing $3.5 million, were not included in the inventory count procedures.
- Of the 676 TPP items included in the inventory counts, 91 items costing $1.4 million were not located, and follow-up procedures to investigate the status of many of these items were not documented.

We cited similar deficiencies in our report No. 2024-006, including the lack of effective TPP physical inventory procedures from 2016 through 2022. In response, in July 2023 College personnel indicated that an annual review process would be implemented to inventory and audit all TPP. Notwithstanding these planned actions, TPP deficiencies continued to exist through the 2025 calendar year. The deficiencies continued, in part, because the College had not implemented the fixed asset management module of the College enterprise resource system, continued reliance on manually prepared records, and experienced several staffing vacancies. According to College personnel, a comprehensive inventory plan was developed during the 2026 calendar year to address the proper control and accountability of College TPP.

Absent the establishment and implementation of effective physical inventory procedures, controls over College TPP are weakened, increasing the risk that items may be lost, stolen, or misused and College TPP records may be inaccurate.

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[3] Board Policy BS 8 – *Property Control (Inventory)*.

[4] Sections 274.05, 274.06, 1001.64, and 1013.28, Florida Statutes.

Recommendation: The College should continue efforts to ensure appropriate accountability over TPP. Such action should include revising Board policies and College procedures to require and ensure a complete annual physical inventory of all TPP, implementing effective processes to reconcile inventory results to TPP and accounting records, and conducting thorough investigations with appropriate resolutions for all discrepancies.

PRIOR AUDIT FOLLOW-UP

The College had taken corrective actions for findings included in our report No. 2024-006, except for Finding 3, which was also reported as Finding 2 in report No. 2024-006.

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 2026 through May 2026 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. 2024-006.
- 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 2025 through December 2025 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, College policies and procedures, and other guidelines, and interviewed College personnel to obtain an understanding of applicable processes and administrative activities and the related requirements.
- Reviewed College information technology (IT) procedures to determine whether the procedures addressed certain important IT control functions, such as security, authentication, and incident response.
- Evaluated College procedures for maintaining and reviewing IT user access to IT data and resources. We examined College records for the 49 IT users with IT access privileges to selected critical functions within the College finance and human resources applications to determine the appropriateness and necessity of the access based on the user's responsibilities and account functions, and the adequacy with regard to preventing the performance of incompatible duties.
- Evaluated College procedures that prohibit former employees' access to College IT data and resources. We examined College records for the 3 employees with IT access privileges to selected critical functions within the College finance and human resources applications who separated from College employment during the audit period to determine whether the access privileges had been promptly deactivated.
- Evaluated the appropriateness of the College comprehensive IT disaster recovery plan in place during the audit period and determined whether it had been recently tested.
- Determined whether the College had established a comprehensive IT risk assessment for the audit period to document the College risk management and assessment processes and security controls intended to protect the confidentiality, integrity, and availability of data and IT resources.

- From the population of 916 College employees during the audit period, examined College training records for 40 selected employees to determine whether the employees had completed annual IT security awareness training required by the College.
- Examined College records to determine whether the College had developed an anti-fraud policy to provide guidance to employees for reporting and investigating suspected fraud.
- From the population of 93 public records requests received during the audit period, examined College records supporting 23 selected public records requests to determine whether the College had established effective controls and prepared related records to demonstrate compliance with Sections 119.01 and 119.07, Florida Statutes.
- Inquired and examined College records to determine 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.
- Evaluated College tangible personal property (TPP) inventory controls to determine whether a complete annual physical inventory of the 1,074 TPP items with recorded costs totaling $17 million in May 2025 was conducted and, if so, whether the inventory results were reconciled to the property and accounting records, and appropriate follow-up was made for any missing items.
- From the population of student fees totaling $4.2 million collected during the audit period, examined College records supporting selected distance learning and user fees totaling $2.3 million to determine whether the fees were authorized by and properly assessed in compliance with the provisions of Section 1009.23, Florida Statutes.
- Examined College records supporting selected terminal annual and sick leave payments to evaluate College compliance with Sections 110.122 and 1012.865, Florida Statutes, and Board policies. Specifically, from the population of 53 employees who received terminal annual leave pay totaling $292,136, we examined records supporting 6 selected employees who received leave pay totaling $91,105. Additionally, from the population of 11 employees who received terminal sick leave pay totaling $261,480, we examined records supporting 6 selected employees who received leave pay totaling $218,477.
- From the population of contracted services expenses totaling $28.1 million during the audit period, examined College records for 25 expenses totaling $1.7 million to determine whether College controls over those services and related expenses were designed properly and operating effectively.
- Evaluated College policies and procedures to determine whether the College had appropriate controls in place to ensure that vendor and employee information changes, such as address and bank account information changes, were properly authorized, documented, and verified.
- From the population of 3,378 purchasing card (P-card) transactions totaling $1.1 million during the audit period, examined College records supporting 30 selected P-card transactions totaling $135,928 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.
- Examined P-card records for the 10 cardholders who separated from College employment during the audit period to determine whether the College timely canceled the cardholders' P-cards.
- From the population of 523 industry certifications reported for performance funding that were attained by students during the 2024-25 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

Sherrill F. Norman, CPA
Auditor General

NORTHWEST FLORIDA
STATE COLLEGE

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August 18, 2026

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Ms. Sherrill Norman,

Pursuant to Section 11.45(4)(d), Florida Statutes, Northwest Florida State College submits the following response to the three preliminary and tentative findings identified in the operational audit of the College covering the 2025 calendar year. The College's response to each finding includes the corrective actions that have been implemented or are planned to address the recommendations and strengthen related internal controls.

Finding 1: College controls over information technology service contracts did not consistently ensure the contract terms were clearly defined or that monitoring was performed to document verification that invoiced service and charges aligned with the contract terms.

Corrective Action: The contract identified in this finding is among the oldest and most complex agreements maintained by the College and contains legacy provisions from the vendor that lack sufficient clarity regarding the services provided and the related costs. The College has, over the past several years, strengthened its contract review process to ensure new contracts, renewals, and amendments receive Legal, Purchasing, Risk Management, Finance, and Information Technology review prior to execution.

The College's accounts payable process requires approval from the responsible department prior to payment. In this instance, turnover within the Information Technology department, combined with the complexity and lack of clarity in the agreement, limited each department's ability to fully validate that invoiced services and costs aligned with the contract terms.

The College led by IT, with the collaboration of Legal, Purchasing, Finance, and Risk Management, has begun a comprehensive review of the Ellucian Master Services Agreement and future amendments to ensure services, pricing, payment, renewal, and termination provisions are clearly defined and consistent with current College contracting standards. Additionally, the College is working with the vendor to decrease the existing contract value to reflect removal of unused services and is reviewing options for backward-looking recovery.

Finding 2: College terminal leave calculations and related payments for accumulated sick leave did not always comply with Board policies, resulting in overpayments totaling $83,362 to four retiring employees.

Corrective Action: The overpayments in relation to Board policy limits identified in this finding resulted from the continued use of a terminal sick leave calculation methodology that had been authorized under prior Board-approved retirement incentive programs but remained in use after those programs expired. The College upon becoming aware of this issue immediately reverted to policy compliance and has since revised its operating procedures to ensure all departments that participate in calculating, confirming, or paying future terminal sick leave payments are doing so in accordance with existing Board Policy.

Effective March 2026, the College implemented revised procedures requiring verification of leave balances by Human Resources, preparation of the payout calculation using a standardized spreadsheet, and an independent review and verification of the calculation by the Payroll Specialist prior to payment. The calculation worksheet will be retained in the employee's personnel file to document compliance with Board Policy. This procedure was codified in Human Resource's procedure manual effective July 2026.

The College will review its terminal sick leave payments in the relevant period to ensure its records of payment for each are complete. The College will review any reasonable available avenues for recovery of overpaid amounts and, if it determines any options are available, will present those to the Board of Trustees for consideration.

Finding 3: Tangible personal property inventory controls continue to be deficient.

Corrective Action: Effective July 1, 2026, the College implemented the Banner Fixed Asset module for all newly acquired tangible personal property (TPP). The module automates the recording and tracking of capital assets, including the assignment of the physical location of each asset at the time of acquisition. Existing TPP records will be converted into the Banner Fixed Asset module throughout calendar year 2026 and 2027, creating a comprehensive inventory record to support annual physical inventory procedures.

In addition, the College will revise administrative procedures to require a complete annual physical inventory of all tangible personal property, reconciliation of inventory results to property records, and appropriate investigation and reporting of assets that cannot be located, including notification to the Northwest Florida State College Police Department when warranted.

Sincerely,

Mel Ponder

Mel Ponder
President