

VALENCIA COLLEGE

# Board of Trustees Audit update

April 25, 2018

- Reviewed annually to report on Financial Statements
  - **Management** – Preparation and Fair Presentation in accordance with Accounting Principals
  - **Auditors** – Express Opinion on Financial Statements
- Current financial statements represented fairly
- Economic Factors that will Affect the Future
  - “The College’s current financial and capital plans indicate that the infusion of additional financial resources from an increase in tuition rates will be necessary to maintain its present level of service”

# Operational Audit

- Audited Periodically (2018 / 2016 / 2015 / 2013)
- Audit Goal: Provide the legislature, Florida Citizens, public entity management and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.
- Current audit work February 2017 – June 2017
- Audit issued April 2018 – 11 audit points

# Operational Audit

## Construction

- Enhance procedures for monitoring CME pay requests (document comparison of costs items, compare to source documents)
- Document attendance at subcontractor bid openings/ validate subcontractor bids.
- Validate/ document viewing of sub-contractor licenses
- Establish procedures for negotiating and documenting the reasonableness of general condition costs.

# Operational audit

## Textbook Affordability/Several pay/time recording

- Enhance procedures and document notification of textbook prices 45 days prior to the semester.
- Enhance procedures to ensure severance and accumulated sick leave pay does not exceed the limits established in State law
  - Continue to agree to disagree on the issue.
  - Phased out starting in 2015.
- Document exempt employees work time

# Operational Audit

## District Office Lease

- Building : 57K square feet (\$7.91 per sq. ft.)
- Term : 60 Years
- Rent: \$456,461 per year = 6.75% Cap Rate
- Foundation responsible for structural and infrastructure improvements
- College responsible for operational costs and internal alterations.
- College may purchase outright after 7 years at initial cost and rights of first refusal with College

# Operational Audit

## District Office Lease

- 30 Year Bond 4.98%
  - Payments of \$430,000 per year
  - Total payments of \$12.9M after 30 years
- 60 year lease at 6.75%
  - Payments of \$456K per year
  - Total payments of \$27.4M + purchase of building of \$6.6M at end of lease = \$34M
- Savings of \$21.1M
- Continue to present periodically to Board of Trustees as prescribed.

# Operational Audit

## Direct Support Organization

- Board prescribe any conditions which the foundation must comply in order to use
  - College property
  - College facilities
  - College personnel
  
- The College document anticipated uses annually
  
- Document division of work personnel
  
- Ensure that IRS form 990 is properly completed.

# Operational Audit

## Information Technology Access

- Continue efforts to ensure that network access privileges are promptly deactivated when users separate from College employment.
- Access to student information
  - Document the purpose served for maintaining prospective student SSN's.
  - Upgrade system to differentiate former and prospective students
  - Perform periodic reviews of access.





Sherrill F. Norman, CPA  
Auditor General

# AUDITOR GENERAL STATE OF FLORIDA

Claude Denson Pepper Building, Suite G74  
111 West Madison Street  
Tallahassee, Florida 32399-1450



Phone: (850) 412-2722  
Fax: (850) 488-6975

March 2, 2018

Dr. Sanford C. Shugart, President  
Valencia College  
Park Place at MetroWest  
1768 Park Center Drive  
Orlando, Florida 32835

Dear President Shugart:

Enclosed is a list of preliminary and tentative audit findings and recommendations that may be included in a report to be prepared on our operational audit of Valencia College.

Pursuant to Section 11.45(4)(d), Florida Statutes, you are required to submit within thirty (30) days after receipt of the list of findings a written statement of explanation concerning all of the findings, including therein your actual or proposed corrective actions. If within the 30-day period you have questions or desire further discussion on any of the preliminary and tentative audit findings and recommendations, please contact this Office.

Your written explanation should be submitted electronically in source format (e.g., Word) and include your signature. For quality reproduction purposes, if you are not submitting your response in source format, please convert your response to PDF and not scan to PDF. If technical issues make an electronic response not possible, a hard copy (paper) response will be acceptable.

Please e-mail this Office at [flaudgen\\_audrpt\\_cc\\_univ@aud.state.fl.us](mailto:flaudgen_audrpt_cc_univ@aud.state.fl.us) to indicate receipt of the list of preliminary and tentative audit findings and recommendations. Absent such receipt, delivery of the enclosed list is presumed, by law, to be made when it is delivered to your Office.

The preliminary and tentative audit findings are intended solely for information and use of management and those charged with governance, and is not intended to be, and should not be, used by anyone other than those specified parties.

Sincerely,

A handwritten signature in blue ink that reads "Sherrill F. Norman".

Sherrill F. Norman

SFN/jbk  
Enclosure  
c: Board Members

**PRELIMINARY AND TENTATIVE AUDIT FINDINGS  
NOT AN AUDIT REPORT**

## **SUMMARY**

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This operational report of Valencia College (College) focused on selected College processes and administrative activities and included a follow-up on findings noted in our report Nos. 2015-057 and 2016-052. Our operational audit disclosed the following:

**Finding 1:** College personnel did not compare construction management entity (CME) pay requests to subcontractor bids and contracts prior to payment.

**Finding 2:** College construction administration monitoring procedures did not include comparisons of the subcontractor bid awards to subcontractor contract documents to verify that the CME used a competitive selection process to select subcontractors and that the bid award and contract amounts agreed.

**Finding 3:** The College did not document that subcontractors were appropriately licensed before work commenced on College facilities.

**Finding 4:** The College needs to enhance controls over negotiating, monitoring, and documenting the reasonableness of CME general condition costs.

**Finding 5:** College textbook affordability policies and procedures need improvement to demonstrate compliance with State law and College policies.

**Finding 6:** The College paid 80 employees retirement incentive program benefits totaling \$5.3 million that exceeded the limits in State law for severance pay. Additionally, the College paid 60 of the 80 employees and 3 other employees a total of \$568,232 for accumulated unused sick leave that exceeded the limits in State law.

**Finding 7:** The College did not have a mechanism for exempt employees to report time worked or procedures requiring supervisors to document review and approval of exempt employees time worked.

**Finding 8:** The College leased a facility from the College's direct-support organization (DSO) without documenting whether the lease was the most cost-effective or beneficial option for obtaining office space.

**Finding 9:** College rules and records could be improved to document the College DSO's use of College property, facilities, and personal services.

**Finding 10:** The College did not timely remove the information technology (IT) access privileges of certain former College employees.

**Finding 11:** Some unnecessary IT user access privileges existed that increased the risk that unauthorized disclosure of student social security numbers may occur.

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## **FINDINGS AND RECOMMENDATIONS**

### **Finding 1: Monitoring Construction Project Pay Requests**

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

During the period January 2016 through December 2016, the College had active contracts for the Poinciana Building 1 Project totaling \$21.5 million and for the East Campus Projects totaling \$12.2 million. Also, for that period, the College had construction expenses totaling \$13.5 million for the Poinciana Building 1 Project (\$7.2 million), the East Campus Building 9 Project (\$3.6 million), and the East Campus Maintenance Building 100 Project (\$2.7 million). To evaluate College monitoring controls over CME pay requests, we inquired of College personnel and examined College records supporting selected expenditures totaling \$4.2 million, including \$3.3 million paid to the Poinciana Building 1 Project CME for services relating to 6 subcontractors.

In response to our inquiries, College personnel indicated that, upon receipt of a pay request from the CME, College personnel compared cost lines on the schedule of values to subcontractor invoices, verified the mathematical accuracy of the request, and also verified that prior payments were properly accumulated. College personnel also indicated that the schedule of values in the pay request was compared to the GMP contract; however, the comparison was not documented and College personnel did not compare the pay requests to the subcontractor bids and contracts. According to College personnel, the comparisons were not made because subcontractor bid documentation and contract documents were not obtained from the CME. Additionally, as discussed in Finding 4, College personnel did not compare general conditions costs billed in the CME pay requests to appropriate supporting documentation.

We requested, and in February 2018 the College obtained from the CME, the applicable subcontractor bid documentation and contract documents to support the payments to the CME for the Poinciana Building 1 Project. Our review of the documentation provided disclosed that the selected CME pay requests were consistent with the GMP contract and subcontractor bids and contracts; however, our procedures cannot substitute for the College's responsibility to properly monitor CME pay requests. Absent a documented comparison of each line on the schedule of values for each CME pay request to

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applicable supporting documentation, there is an increased risk that the College may overpay for services and may not realize maximum cost savings under GMP contracts.

**Recommendation:** The College should enhance procedures for monitoring CME pay requests to include a documented comparison of the cost items in the CME pay requests to supporting documentation, including, as applicable, GMP contracts and subcontractor bids and contracts, before payment is made to the CME.

**Finding 2: Subcontractor Selections**

The CME construction contract for the Poinciana Building 1 Project required the CME to solicit bids and award subcontracts, as necessary. Good business practice dictates that College personnel monitor the subcontractor selection process to ensure services are obtained at the lowest cost consistent with acceptable quality and to realize maximum cost savings under the GMP contract.

In response to our inquiries, College personnel indicated that they had attended the subcontractor bid openings; however, they did not sign the bid tabulation sheets or provide other evidence of attendance. Additionally, according to College personnel, they did not compare subcontractor bid awards listed on the bid tabulation sheets to the CME subcontractor contracts to verify that the subcontractor bid award and contract amounts agreed. Instead, College personnel relied on the CME to ensure that the amounts in the subcontractor contracts agreed with the amounts awarded.

From the population of 40 subcontractors that were contracted for services totaling \$17.9 million for the Poinciana Building 1 Project, we requested, and in February 2018 College personnel obtained from the CME, subcontractor contracts totaling \$13.7 million for 7 selected subcontractors. We compared the bid award amounts listed on the bid tabulation sheets with the amounts in the subcontractor contracts and confirmed that the subcontractors were competitively selected and that the bid award amounts, plus any added scope, agreed to the contract amounts. However, our procedures cannot substitute for the College's responsibility to verify that subcontractor contracts are awarded by the CME using a competitive selection process and that the bid award and contract amounts agree. Without documented comparisons of bid awards and subcontractor contracts, the risk increases that subcontractor services may not be obtained at the lowest cost consistent with acceptable quality and the College may not realize maximum cost savings under a GMP contract.

**Recommendation:** The College should require College personnel to document their attendance at all subcontractor bid openings. Additionally, the College should enhance procedures to include a documented comparison of subcontractor bid awards to subcontractor contracts to verify that the CMEs used a competitive selection process to select subcontractors and that the bid award and contract amounts agree.

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**Finding 3: Subcontractor Licenses**

State law<sup>1</sup> provides that a CME must consist of, or contract with, licensed or registered professionals for the specific fields or areas of construction to be performed. State law<sup>2</sup> also establishes certain certification requirements for persons engaged in construction contracting, including licensing requirements for specialty contractors such as electrical, air conditioning, plumbing, and roofing contractors.

Our examination of College records supporting the administration of the Poinciana Building 1 Project disclosed that College personnel had not obtained and retained documentation to verify that the Project subcontractors were appropriately licensed. The College Facilities Planning Office (CFP Office) is responsible for construction administration and, according to CFP Office personnel, the CME verified that the subcontractor was properly licensed when the CME awarded the subcontractor a contract. We requested, and in April 2017, the College obtained from the CME, license documentation related to 5 of the 40 subcontractors for the Project and confirmed that each subcontractor was properly licensed. However, our procedures cannot substitute for the College's responsibility to establish adequate internal controls over the verification of subcontractor licenses.

Timely documented verification that subcontractors are appropriately licensed provides the College additional assurance that the subcontractors who will be working on College facilities meet the qualifications to perform the work for which they are engaged.

**Recommendation: The College should enhance procedures to require and document verification of subcontractor licenses before the subcontractors commence work on College facilities.**

**Finding 4: General Conditions Costs**

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

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

<sup>1</sup> Section 1013.45(1)(c), Florida Statutes.

<sup>2</sup> Chapter 489, Florida Statutes.

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

The CME GMP contract for the Poinciana Building 1 Project included provisions for general conditions costs totaling \$1.2 million, and CME pay requests referenced these costs as they were incurred. However, based on our discussion with College personnel, the College had not established policies or procedures for effectively negotiating, monitoring, and documenting the reasonableness of general conditions costs. Additionally, College records did not evidence the methodology used and factors considered during the negotiation process to establish the reasonableness of the Poinciana Building 1 Project's general conditions costs and detailed documentation, such as CME payroll records or copies of CME-paid invoices, was not obtained by the College to support the propriety of the general conditions costs billed and paid.

As part of our audit, we requested for examination College records supporting payments to the CME for the Poinciana Building 1 Project's general conditions costs. In response to our request, College personnel indicated that general conditions costs were billed as a percentage of completion and documentation of actual costs was not provided.

Absent appropriate policies and procedures, the College may be limited in its ability to monitor the reasonableness of general conditions costs, determine the propriety of CME pay requests for general conditions costs, and realize cost savings associated with general conditions costs in GMP contracts.

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

**Finding 5: Textbook Affordability**

State law<sup>3</sup> requires the College to post prominently in the course registration system and on its Web site, as early as feasible, but at least 45 days before the first day of class for each term, a hyperlink to lists of required and recommended textbooks and instructional materials for at least 95 percent of all courses and course sections offered at the College during the upcoming term. In addition, College policies<sup>4</sup> require the College to post on its Web site, as early as is feasible, but not less than 45 days prior to the first day of class for each term, a list of each textbook required for each course offered at the College during the upcoming term.

During the Fall 2016 Semester, the College adopted 872 textbooks and instructional materials and managed and operated a bookstore. However, although we requested, College records were not

<sup>3</sup> Section 1004.085(6), Florida Statutes.

<sup>4</sup> College Policy: 6H x 28: 4-09.

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provided to demonstrate the date that the lists of required and recommended textbooks and instructional materials were posted in the course registration system or on the College Web site. In response to our inquiries, College personnel indicated that all textbook information was posted on the College Web site 30 days prior to the first day of classes. Notwithstanding this response, documentation was not provided to support the posting dates and College policies require that all textbooks be posted at least 45 days before the first day of classes. In addition, neither College policies nor procedures require timely posting of textbooks and instructional materials information in the course registration system.

The timely posting of required textbook information in the course registration system and on the College Web site is necessary for students to understand course requirements, have sufficient time to consider purchase options, and limit their costs. Additionally, without evidence of the timely posting of textbook information in the course registration system and on the College Web site, the College cannot demonstrate compliance with State law and College policies.

**Recommendation:** The College should enhance procedures to ensure that a hyperlink to lists of required and recommended textbooks and instructional materials for all courses and course sections offered at the College is prominently posted on its Web site, as early as feasible, but at least 45 days before the first day of class for each term in accordance with College policies. To demonstrate compliance with College policies and State law, the procedures should require that the posting dates be documented. In addition, College policies should be revised to require the timely posting of textbooks and instructional materials in the course registration system.

**Finding 6: Severance and Accumulated Sick Leave Pay**

State law<sup>5</sup> defines severance pay as compensation for employment services yet to be rendered that are provided to an employee who has recently been or is about to be terminated, limits such pay from exceeding 20 weeks of compensation, and prohibits the pay in instances of misconduct. State law<sup>6</sup> also permits colleges to pay, upon termination, full-time instructional staff and educational support employees up to 100 percent of accumulated sick leave balances based on the number of years of service. For other than instructional staff or educational support employees, State law<sup>7</sup> permits colleges to pay, for unused sick leave accumulated on or after July 1, 2001, an amount equal to one-fourth of the employee's unused sick leave or 60 days of the employee's pay, whichever amount is less.

In addition to severance and accumulated sick leave pay, since 1988 College policies,<sup>8</sup> as authorized by State law,<sup>9</sup> have provided for a retirement incentive program for eligible employees. To receive program benefits, employees must terminate employment with the College and retire no later than

<sup>5</sup> Section 215.425(4), Florida Statutes.

<sup>6</sup> Section 1012.865(2)(d), Florida Statutes.

<sup>7</sup> Section 1012.865(2)(e), Florida Statutes.

<sup>8</sup> Policy 6Hx28:3C-12, Retirement Incentive Program.

<sup>9</sup> Section 1001.64, Florida Statutes.

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48 months after becoming eligible for normal retirement. The program provides retirement incentives for employees, such as additional compensation based on 75 days of salary, multiplied by 1.5 (which equates to more than 22 weeks of pay); health insurance costs; and accumulated sick leave balances. However, the College had not modified the program to recognize the limitations imposed upon severance payments by State law.<sup>10</sup>

The College paid \$7.8 million in program benefits to 84 employees who retired during the 2016 calendar year, and \$7.2 million of these benefits constituted additional compensation based on 75 days of the employees' salaries, multiplied by 1.5, and health insurance costs. As similarly noted in our report No. 2016-052, these additional compensation benefits appear to be severance pay as the payments were made because the employees agreed to terminate their employment. As such, payments totaling \$5.3 million made to 80 of the 84 retirees exceeded the statutory limit for severance pay.

Additionally, the College paid the \$639,008 balance of the program benefits to 66 of the 84 retiring employees for program benefits attributed to accumulated sick leave. However, these payments, when combined with non-program accumulated sick leave payments, resulted in payments totaling \$568,232 to 63 of these employees<sup>11</sup> in excess of the accumulated sick leave payment limits set forth in State law. College personnel indicated that program benefits for accumulated sick leave is an element of the retirement incentive program and is not part of the terminal pay for accumulated sick leave provided for in State law. However, interpreting the payments in this manner effectively circumvents the statutory limit on accumulated sick leave pay.

According to College personnel, in September 2015, the Board voted to close the program in stages with final closure on June 30, 2019, but did not modify the program to recognize the statutory limits on severance and accumulated sick leave pay.

**Recommendation: The College should enhance procedures to ensure that severance and accumulated sick leave pay do not exceed the limits established in State law.**

**Finding 7: Payroll Processing – Time Records**

Effective internal controls require that time records document the time worked and leave used by employees and also require supervisory approval of such time to ensure that compensation payments are appropriate and leave balances are accurate. The College pays exempt employees (faculty and technical, executive, and administrative employees) on a payroll-by-exception basis whereby employees are paid a fixed authorized gross amount for each payroll cycle unless the amount is altered. A payroll-by-exception methodology assumes, absent any payroll actions to the contrary, that an employee worked or used available accumulated leave for the required number of hours in the pay period.

<sup>10</sup> Chapter 2011-143, Laws of Florida.

<sup>11</sup> 60 of the employees are also included in the 80 employees who received severance pay in excess of statutory limits.

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During the period January 2016 through December 2016, the College reported salary costs of \$83.7 million for exempt employees (excluding the President). Our examination of College records disclosed that, although the College maintained records of leave used by employees, records were not maintained of time worked by exempt employees and the College did not have procedures requiring supervisory personnel to review and approve exempt employees' work time. In response to our inquiries, College personnel indicated that exempt employees document leave hours in the College system that requires supervisory approval and that one of the primary requirements for an exemption under the Fair Labor Standards Act is that the employee be compensated on a salary basis rather than an hourly basis. According to College personnel, since these employees are paid the same amount regardless of how many hours they work, the College did not require that they report hours worked in the same manner as hourly employees.

Notwithstanding this response, without documenting time worked by exempt employees and supervisory review and approval of such time, there is limited assurance that exempt employee services were provided consistent with Board expectations. In addition, without records documenting exempt employee time worked and supervisory review and approval of the records, there is an increased risk that employees may be incorrectly compensated, employee leave balances may not be accurate, and College records may not be sufficiently detailed in the event of a salary or leave dispute. A similar finding was noted in our report No. 2015-057.

**Recommendation: The College should establish a mechanism for exempt employees to report time worked and implement procedures requiring supervisors to document the review and approval of such time.**

**Finding 8: Facility Lease Agreement**

State law<sup>12</sup> provides that a direct-support organization (DSO) is organized and operated exclusively to receive, hold, invest, and administer property and make expenditures to, and for the benefit of, a Florida College System institution. The College approved the Valencia College Foundation, Inc. (Foundation) as a DSO and the Foundation routinely receives and uses charitable contributions for the College.

As noted in our report No. 2016-052, in calendar year 2014 the Board entered into an amended agreement to lease from the Foundation a 57,680-square foot facility for administrative office space. The lease agreement requires the College to pay \$456,461 annually for 60 years, or a total of \$27,387,660, and allows the College to terminate the agreement with a 2-year prior notice. The lease agreement also provides that the College may purchase the facility during the period January 1, 2020, through the end of the lease for the Foundation's cost basis. At March 31, 2017, the cost basis was \$6,615,433. In our report No. 2016-052, we recommended that the Board document consideration of the lease arrangement with the Foundation and other lease or purchase options to evidence whether

<sup>12</sup> Section 1004.70(1)(a)2., Florida Statutes.

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the Board selected the most cost-effective and beneficial option for administrative office space. College personnel indicated that the Board had approved the agreement based on its beneficial options as well as its cost effectiveness relating to market competitiveness of the location and the lease rate received. However, although we requested, College records were not provided to evidence the beneficial options or cost effectiveness, or that other lease or purchase options or the option to renegotiate the terms of the current lease had been presented to the Board for consideration.

**Recommendation:** We continue to recommend that the Board document consideration of the lease arrangement with the Foundation and other lease or purchase options to evidence whether the Board selected the most cost-effective and beneficial option. To demonstrate that the terms of the lease continue to be in the best interests of the College, we also recommend that the Board document periodic consideration of the option to renegotiate the lease terms.

**Finding 9: Direct-Support Organization**

To promote accountability over College property, facility, and personal service 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.

As mentioned in Finding 8, the Board approved the Foundation as a DSO, and the Foundation routinely receives and uses charitable contributions for the benefit of the College. State law<sup>13</sup> authorizes the Board to permit the use of College property, facilities, and personal services by a DSO, and to prescribe by rule any conditions with which a DSO must comply for such use. However, while the Board approved the Foundation as a DSO and permitted the use of College property, facilities, and personal services, the Board had not prescribed by rule any conditions with which the Foundation must comply in order to use the College resources.

As part of our audit, we interviewed College personnel and requested for examination College records related to the Foundation. In response to our inquiries, the College provided the lease agreement for the administrative office space leased from the Foundation. In addition, College personnel indicated that, during the period April 1, 2016, through March 31, 2017, 16 College employees provided personal services totaling \$1,052,654 to the Foundation, including 15 College employees who spent 100 percent of their time and effort on Foundation activities and 1 College employee who spent 50 percent of time worked on Foundation activities. Based on the employee job descriptions, the services provided included various general and administrative responsibilities for the Foundation. However, the College did not require or maintain records for the employee who divided work effort between the College and Foundation to document the employee's actual time and effort to support the purpose for the personal services provided to the Foundation or the related costs. College records indicated that the Foundation reimbursed \$357,071 to the College for a portion of the personal services costs; however, although we

<sup>13</sup> Section 1004.70(3), Florida Statutes.

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requested, Board-approved agreements or other College records were not provided to evidence the basis for the DSO reimbursements. Without such, there is an increased risk for misunderstandings between the Board and the Foundation and for over or under reimbursements to occur.

In October 2017, the Board approved the Foundation's Federal Internal Revenue Service Return of Organization Exempt from Income Tax Form 990 (IRS Form 990) for the fiscal year ended March 31, 2017. However, according to College personnel, the IRS Form 990 inadvertently excluded information regarding the Foundation's use of personal services by College employees.

In response to our inquiries, College personnel indicated that the College's operating budget and the Foundation's audited financial statements are presented to the Board each year and that the financial statements for the fiscal year ended March 31, 2017, disclosed contributed services totaling \$695,583 based on College personal services totaling \$1,052,654 minus the Foundation reimbursement to the College. Notwithstanding this response, the College's operating budget did not specify the amount of services to be provided to the Foundation and the audited financial statements are presented to the College after services are rendered. In addition, we found that College records associated with Foundation use of College resources could be improved by prescribing in Board-approved rule any conditions with which the Foundation must comply in order to use College resources. Such rule could prescribe, for example, conditions to:

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

College records could also be enhanced by obtaining Board approval of anticipated Foundation use of College resources and the value of such use before the use occurs; documenting when the Foundation used College resources and the purpose for and value of such use; and documenting College employee actual time and effort provided to the Foundation to support the purpose for and value of the personal services. Such records would document authorization, demonstrate the reasonableness of the value, and enhance transparency for the College resources provided for Foundation use.

**Recommendation: We recommend that:**

- **The Board prescribe by rule any conditions with which the Foundation must comply in order to use College property, facilities, and personal services.**
- **The College document Board consideration and approval of the Foundation's anticipated use of College resources, at least annually, before the use occurs.**
- **For employees who divide work effort between the College and Foundation, the College document College employee actual time and effort provided to the Foundation.**
- **The Board ensure that the value of the Foundation's use of College resources is properly included on the Foundation's IRS Form 990.**

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**Finding 10: Timely Deactivation of User Access Privileges**

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

Once an employee or the employee's department notified the Human Resources (HR) Department of the employee's separation from College employment, the HR Department requested a checkout form and performed an audit of the employee's leave balances. After the employee was paid for time worked and any accumulated unused leave balances, the IT Department deactivated the employee's network access privileges.

Our review of the network access privileges for the 226 employees who had access privileges to certain critical applications, such as the finance and HR applications, and separated from College employment during the period January 2016 through December 2016 disclosed that the user access privileges for 147 of these former employees remained active 7 through 221 days, or an average of 42 days, after the users' respective employment separation dates. In response to our inquiry, College personnel indicated that the access privileges could not be removed until after the employee's last paycheck and that none of the 147 employees had accessed or logged into the system after their employment separation dates. College personnel further indicated that the delays were generally due to untimely notifications from the employees' departments to the HR or IT Departments. In response to our inquiries, College personnel indicated that, in April 2017 procedures were implemented to require the supervisor of the employee separating from College employment to input the employee's last work day into the network system so that the HR and IT Departments are timely notified and the employee's access privileges are deactivated.

Although application access was eventually deactivated for these 147 individuals, and our procedures did not identify any errors or fraud as a result of the untimely deactivations, when access privileges are not promptly deactivated, there is an increased risk that access privileges may be misused by the former employees or others. A similar finding was noted in our report No. 2015-057.

**Recommendation: The College should continue efforts to ensure that network access privileges are promptly deactivated when users separate from College employment.**

**Finding 11: Information Technology User Access Privileges**

The Legislature has recognized in State law<sup>14</sup> that social security numbers (SSNs) can be used to acquire sensitive personal information, the release of which could result in fraud against individuals, or

<sup>14</sup> Section 119.071(5)(a), Florida Statutes.

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cause other financial or personal harm. Therefore, public entities are required to provide extra care in maintaining the confidential status of such information. Effective controls restrict employees from accessing information unnecessary for their assigned job responsibilities and provide for documented, periodic reviews of employee access privileges to help prevent personnel from accessing sensitive personal information inconsistent with their responsibilities.

According to College personnel and records, the College established a unique identifier, other than the SSN, to identify each student and maintained student SSNs in the College IT system. The College collects and uses student SSNs pursuant to State law for various purposes, such as to register newly enrolled students and to comply with Federal and State requirements related to financial and academic assistance. Student SSNs are also maintained so the College can provide student transcripts to other colleges, universities, and potential employers based on student-authorized requests. Access to student SSNs allows employees to perform administrative, supervisory, or instructional responsibilities that serve a legitimate educational purpose in accordance with applicable Florida Statutes, State Board of Education rules, and Federal laws.

To protect student information from unauthorized disclosure, modification, or destruction, applicable supervisors and security administrators are responsible for approving employee access to sensitive data. The College financial information security use policy requires each office or department handling financial data, including SSNs, to take steps to identify information that could result in the unauthorized access, disclosure, misuse, alteration, destruction, or other compromise of such information. However, while the College performs a periodic review of employee access privileges, as of November 2017, the review did not extend to the database that contains student SSNs. As of that date, the IT system contained SSNs for 156,336 current, 887,951 former, and 118,501 prospective students, and 502 employees had access to the student SSNs.

As part of our audit, we reviewed College records supporting 21 selected employees' access privileges to student SSNs. We found that 5 of the 21 employees had unnecessary access to this information because, although the employees previously held College positions that required access to student records, the employees current position no longer needed the access. In response to our inquiry, College personnel indicated that these 5 employees' access privileges would be removed.

Additionally, College records did not evidence that 15 of the other 16 employees needed continuous access to former and prospective student SSNs to perform their job duties. According to College personnel, the College IT system did not have a mechanism to differentiate employee access to current student SSNs from access to former or prospective student SSNs. In addition, College personnel indicated that the College maintained prospective student SSNs to prevent duplicate identification numbers from being issued if the prospective students subsequently submitted a new application. College personnel asserted that, if the College deleted prospective student-submitted documents, such as transcripts or records containing SAT scores, and the prospective student reapplied, the student would incur additional costs to resubmit the documents. Notwithstanding these responses, the existence of unnecessary access privileges and the lack of documented, periodic reviews of IT access

**PRELIMINARY AND TENTATIVE AUDIT FINDINGS  
NOT AN AUDIT REPORT**

privileges to student SSNs increase the risk of unauthorized disclosure of student SSNs and the possibility that sensitive personal information may be used to commit a fraud against College students or others.

**Recommendation: To ensure access to confidential student information is properly safeguarded, the College should:**

- Document the public purpose served for indefinitely maintaining prospective student SSNs. Absent such documentation, the College should discontinue the practice of indefinitely maintaining this information.
- Upgrade the College IT system to include a mechanism to differentiate user access privileges to current student information from access privileges to former and prospective student information.
- Incorporate user access privileges to student SSNs into the periodic reviews of IT user access privileges and remove any unnecessary privileges detected.

**PRIOR AUDIT FOLLOW-UP**

The College had taken corrective actions for findings included in our report Nos. 2015-057 and 2016-052, except as shown in Table 1.

**Table 1  
Findings Also Noted in Previous Audit Reports**

Finding	Operational Audit Report No. 2016-052, Finding	Operational Audit Report No. 2015-057, Finding	Operational Audit Report No. 2013-035, Finding
6	2	Not Applicable	Not Applicable
7	Not Applicable	2	Not Applicable
8	1	Not Applicable	Not Applicable
10	Not Applicable	3	6

**End of Preliminary and Tentative Findings.**

# VALENCIA COLLEGE

April 3, 2018

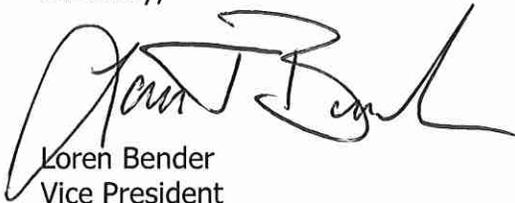
Ms. Sherrill F. Norman  
Auditor General State of Florida  
901 North Lake Destiny Drive  
Maitland, FL 32751

Dear Ms. Norman:

Enclosed is Valencia College's response to the audit findings included in the 2017 Operational Audit administered by the State of Florida.

If you have any questions or require additional information, please contact me at (407) 582-3408.

Sincerely,



Loren Bender  
Vice President  
Business Operations and Finance

Enclosure

c: Sanford Shugart  
Amy Bosley  
Oscar Cristancho  
Jose Fernandez  
Geraldine Gallagher  
Michelle Matis  
Bill Mallowney  
Cynthia Santiago  
John Slot

Valencia College  
Responses to Preliminary and Tentative Findings of the 2016 Operational Audit  
Conducted by the Auditor General's Office

**Finding 1: Monitoring Construction Project Pay Requests**

Recommendation: The College should enhance procedures for monitoring CME pay requests to include a documented comparison of the cost items in the CME pay requests to supporting documentation, including, as applicable, GMP contracts and subcontractor bids and contracts, before payment is made to the CME.

Management's Response: The College will ensure that CME pay requests are based on competitive subcontracts and that the total aligns with the payment application. The College believes that creating an additional process to correlate subcontractor contracts and bids with schedule of payments would mitigate little to no risk. We would request that the auditors provide us with an assessment of risk and reward gained by adding this suggested process to the Colleges existing effective protocols.

**Finding 2: Subcontractor Selections**

Recommendation: The College should require College personnel to document their attendance at all subcontractor bid openings. Additionally, the College should enhance procedures to include a documented comparison of subcontractor bid awards to subcontractor contracts to verify that the CMEs used a competitive selection process to select subcontractors and that the bid and contract amounts agree.

Management's Response: The College will ensure that the College personnel document attendance at subcontractor bid openings. Additionally, the College will review subcontract bid awards to verify that the CME used a competitive process to select subcontractors and verify the subcontract amount is in alignment with the bid amount.

**Finding 3: Subcontractor Licenses**

Recommendation: The College should enhance procedures to require and document verification of subcontractor licenses before the subcontractors commence work on College facilities.

Management's Response: The College recognizes that the General Contractor and/or CME have the contractual responsibility to ensure their subcontractors are licensed and qualified to do the work for which they have been engaged. Because there is no contractual privity between the College and the subcontractor, it would be inappropriate to expose the College to the risks associated with relieving the General Contractor of its contractual obligation in this regard.

**Finding 4: General Conditions Costs**

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

Management's Response: The College will require the CME to furnish documentation to support General Condition expenses.

**Finding 5: Textbook Affordability**

Recommendation: The College should enhance procedures to ensure that a hyperlink to lists of required and recommended textbooks and instructional materials for all courses and course sections offered at the College is prominently posted on its Web site, as early as feasible, but at least 45 days before the first day of class for each term in accordance with College policies. To demonstrate compliance with College policies and State law, the procedures should require that the posting dates be documented. In addition, College policies should be revised to require the timely posting of textbooks and instructional materials in the course registration system.

Management's Response: The College will continue to work to ensure it is compliant with applicable Florida Statutes and State Board of Education rules, as amended from time to time. This includes implementing a standard best practice, giving us the capability to extract measureable adoption data detail as recommended by the auditors. This information will be recorded as a standard best practice at each semester interval based on the time requirements set forth by the state and stored electronically for auditing purposes.

**Finding 6: Severance and Accumulated Sick Leave Pay**

Recommendation: The College should enhance procedures to ensure that severance and accumulated sick leave pay do not exceed the limits established in State law.

Management's Response: This pertains to Valencia College's Policy 6Hx28: 3C-12, Retirement Incentive Program ("Program"). At the outset, it is important to note that on September 23, 2015, for business reasons unrelated to this audit, Valencia's District Board of Trustees formally voted to repeal the Program, adopting a transition period schedule that will close the Program to employees in stages with full repeal occurring at the conclusion of the 2018-19 fiscal year. Nonetheless, payments made to date by the College in accordance with the Valencia Program under discussion in the Preliminary and Tentative Audit Finding ("Finding") are not prohibited severance pay, as they do not fall within the statutory definition of "severance pay" as contained in applicable Florida law.

With respect to payments made to retiring College employees in accordance with the Program's provisions, the Finding opines that "...it appears that the above payments are

severance pay as the payments are only made to employees who agree to terminate their employment.” The Finding correctly cites Section 215.425(4), F.S. as the basis for definition of severance pay to be applied here, “...the actual or constructive compensation, including salary, benefits, or perquisites, for employment services yet to be rendered which is provided to an employee who has recently been or is about to be terminated...” but fails to recognize or give meaning to the clause, “for employment services yet to be rendered” in reaching its conclusion. This disregard of the impact of the inclusion of “for employment services yet to be rendered” is critical given that the legislature chose for its own reasons to narrow the meaning of “severance pay” in this law by expressly limiting the application of its prohibition to include only compensation for employment services yet to be rendered. In the present case, no Program payments made by the College to its employees were made in consideration of employment services yet to be rendered, and in fact all such payments have been calculated and based upon services already rendered to the College. Therefore, the Program payments do not and cannot meet the express statutory definition of severance pay.

The Program is an established College compensation package earned over time by eligible employees – in calculating the value of Program benefits in each case, the policy uses a backward looking calculation, drawing upon past service of the employee (and clearly not attributable for services yet to be rendered) and based in part on the balances of various types of accrued leave, among other components, as mere measuring sticks to determine the amount of the benefit that might be applicable. However, Program payouts based on leave balances are not actually payouts of sick leave or any other type of leave, as evidenced in part by the fact that the employees’ actual leave balances (always separately paid out in accordance with the law as part of a separate terminal pay policy) were never affected by Program payouts.

So in effect, Valencia’s Program is compliant with Florida law, and terminal pay for sick leave is paid in accordance with Florida law.

### **Finding 7: Payroll Processing – Time Records**

Recommendation: The College should establish a mechanism for exempt employees to report time worked and implement procedures requiring supervisors to document the review and approval of such time.

Management’s Response: The College has implemented a number of internal controls to ensure proper payments are made to employees. This includes requiring exempt employees to properly document leave (paid and unpaid) through our electronic certificates of absence (which require supervisory approval). While we do agree with the assertion that compensation and leave balances should be accurate and that internal controls are important to ensure such, we disagree that exempt employees should record time and are confident that our current practices meet all legal requirements and are consistent with best practices in Human Resources.

## **Finding 8: Facility Lease Agreement**

Recommendation: We continue to recommend that the Board document consideration of the lease arrangement with the Foundation and other lease or purchase options to evidence whether the Board selected the most cost-effective and beneficial option. To demonstrate that the terms of the lease continue to be in the best interests of the College, we also recommend that the Board document periodic considerations of the option to renegotiate the lease terms.

Management's Response: On July 16, 2013, Valencia's District Board of Trustees was presented with key lease information, including details on unique lease provisions beneficial to the College (i.e. annual lease payment, cost per square foot, terms of renovation, College purchase rights and the right of first refusal options) for what is now the District Office building for Valencia College. Additionally, prior to the Board meeting the lease agreement was distributed for their review. At the meeting on July 23, 2013, our Board approved the agreement based on its beneficial options as well as its cost effectiveness relating to market competitiveness of the location and the rate received.

Additionally, the lease terms were again reviewed with the Board of Trustees on December 9, 2015. The details of the lease were provided with the same facts provided during the original lease and also provided with the savings calculations provided by the Auditor General in their audit report. The Board again reviewed the information and concurred with the College's decision regarding the lease.

There are also a number of other factors that need to be considered in this decision. First, at the time of purchase the College was following direction from the state by not incurring any long term bond obligations as recommended by the General Auditor. Second, the lease rate paid is far under market rates and is fixed for the duration of the lease which is considered an additional savings when balanced against inflation over time. Third, the property's alignment with the adjacent property owned by the College provides for an even higher valuation of the building of which the College has a fixed purchase price over the next 60 years. We will continue to review significant lease opportunities and decisions that the College might consider with the District Board of Trustees.

We will review the lease periodically with the District Board of Trustees for options to renegotiate the lease. However at this time, the highly favorable lease terms the College receives would indicate that re-negotiating would result in higher operational costs and reduced flexibility to the College.

## **Finding 9: Direct-Support Organizations**

Recommendation: We recommend that: -The Board prescribe by rule any condition with which the Foundation must comply in order to use College property, facilities, and personal services; -The College document Board consideration and approval of the Foundation's anticipated use of College resources, at least annually, before the use occurs; -For employees who divide work effort between the College and Foundation, the College document employee actual time and effort provided to the Foundation; -The

Board ensure that the value of the Foundation's use of College resources is properly included in the Foundation's IRS Form 990.

Management's Response: During the annual budget process and presentations made to the Board, a summary of anticipated uses of property, facilities and personal services will be completed and presented for approval. The Board will be asked to acknowledge and approve those uses. The employee whose work was divided will be absorbed into the College effective June 30, 2018, and those resources previously provided to the Foundation eliminated. Finally, the Valencia Foundation will ensure its Form 990 is properly completed acknowledging the value of the Colleges resources provided to the Foundation as authorized by Florida law.

**Finding 10: Timely Deactivation of Use Access Privileges**

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

Management's Response: The College will continue efforts to ensure that network access privileges are promptly deactivated when user separate from the College.

**Finding 11: Information technology User Access Privileges**

Recommendation: To ensure access to confidential student information is properly safeguarded, the College should: - Document the public purpose served for indefinitely maintaining prospective student SSNs. Absent such documentation, the College should discontinue the practice of indefinitely maintaining this information; - Upgrade the College IT system to include a mechanism to differentiate user access privileges to current student information from access privileges to former and prospective student information; - Incorporate user access privileges to student SSNs into the periodic reviews of IT user access privileges and remove any unnecessary privileges detected.

Management's Response: The College will document the need to continue the practice of storing prospect student SSNs indefinitely. Furthermore, the College will ensure that only employees whose jobs involve reviewing education records are provided proper and secure access to the system.