



# AUDITOR GENERAL

## WILLIAM O. MONROE, CPA



### INDIAN RIVER COMMUNITY COLLEGE

#### Operational Audit

#### SUMMARY

**Our operational audit for the fiscal year ended June 30, 2006, disclosed the following:**

**Finding No. 1:** The College needs to enhance its records and procedures relating to the bookstore inventory.

**Finding No. 2:** Full-time instructional faculty were not always available during posted office hours to demonstrate compliance with Board of Trustees Policy number 6Hx11-6.62.

**Finding No. 3:** Controls over the College's purchasing card program needed enhancement.

**Finding No. 4:** The College had not fully tested its information technology disaster recovery plan.

#### BACKGROUND

The College is under the general direction and control of the Florida Department of Education, Division of Community Colleges, and is governed by State law and State Board of Education rules. A district board of trustees governs and operates the College. The Board constitutes a corporation and is composed of nine members appointed by the Governor and confirmed by the Senate. The Board members who served during the audit period are listed in Appendix A of this report.

Indian River Community College has campuses in Ft. Pierce, Okeechobee, Port St. Lucie, Stuart, and Vero Beach, and has centers in Ft. Pierce, Port St. Lucie, and Stuart, Florida. Additionally, credit and noncredit

classes are offered in public schools and other locations throughout Indian River, Martin, Okeechobee, and St. Lucie counties. The College reported enrollment of 11,968 full-time equivalent students for the 2005-06 fiscal year.

The President of the College during the audit period was Dr. Edwin R. Massey.

The results of our financial audit of the College for the fiscal year ended June 30, 2006, will be presented in a separate report.

An examination of expenditures of Federal awards administered by the College under contract and grant agreements to finance specific programs and projects is included in our Statewide audit of Federal awards administered by the State of Florida. The results of that audit, for the fiscal year ended June 30, 2006, will be presented in a separate report.

#### FINDINGS AND RECOMMENDATIONS

##### **Finding No. 1: Bookstore Inventory**

The College's bookstore used a point-of-sales system to account for sales of \$4.7 million and cost-of-sales of \$3.5 million during the 2005-06 fiscal year. Our audit disclosed that the College's records and procedures related to bookstore inventory could be enhanced as discussed below.

The point-of-sales system is not integrated with a perpetual inventory system. Bookstore personnel performed periodic inventory counts to determine inventory quantities for operating purposes, such as reordering, and for financial reporting purposes. In addition, a separate database was necessary to track purchases. A point-of-sales system integrated with a perpetual inventory system could reduce College personnel time and effort, and produce an accurate value of year-end inventory for financial reporting purposes.

Our testing of 31 inventory items disclosed 8 (26 percent) instances in which an inventory item's cost per the inventory detail (list of the number of inventory items, determined by a physical count, and the related costs, at fiscal year end) was not in agreement with documentation (i.e., vendors invoices) showing the actual cost, as follows:

- Three new books, and two new calculators, purchased from vendors were recorded in the College's inventory system at a per unit cost that did not agree with the cost per vendor invoices. For new books and supplies, the College used the manufacturer's suggested retail price reduced by 25 percent to record the unit cost in the inventory system, rather than using the actual purchase price. For example, a book with a manufacturer's suggested retail price of \$10 would be recorded at \$7.50; however, the actual purchase price may have been greater or less than \$7.50.
- Three used books purchased from vendors were recorded in the College's inventory system at a per unit cost that did not agree with the cost per vendor invoices. Our tests disclosed that such books were recorded in the inventory system at the price used to purchase the same used books from students as part of the College's book buyback, rather than the price paid to the vendor (e.g., a used book purchased from a vendor for \$8 would

be recorded in the inventory system at a cost of \$10 because the same book purchased from a student during book buyback cost \$10).

The differences noted above ranged from \$418 less, to \$352 more, than the actual cost. College personnel indicated that the discrepancies were caused by inflexibility in the inventory system.

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**Recommendation:** The College should consider integrating its current point-of-sale system with a perpetual inventory system, and ensure that actual costs per vendor invoices are used to record inventory costs to the inventory system.

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**Finding No. 2: Instructional Faculty Office Hours**

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Pursuant to State Board of Education Rule 6A-14.0491, Florida Administrative Code, each college must establish a policy on the availability of instructional personnel to students that requires full-time instructional faculty to schedule a minimum total of 25 hours per week for classroom contact hours and office hours. The policy must require that the schedule of these hours be posted and that full-time instructional faculty be available to students during these posted hours. Additionally, Board of Trustees Policy number 6Hx11-6.62 requires instructors to provide for a minimum total of 15 to 17 hours per week for classroom hours and other assigned duties, and 10 office hours per week or the equivalent.

We conducted visits to offices of 20 full-time instructors during their posted office hours to determine whether instructors were providing adequate opportunity for student consultation outside of the classroom. Our visits disclosed that 3 of the 20 instructors were not in their offices during posted office hours, and the reasons for their absences were not evident. Explanations provided by College personnel for the instructors not being in their offices during their posted office hours included: (1)

instructor was on approved sick leave; (2) instructor was at a clinical site; and (3) instructor was substituting in another class. However, we found no evidence that information had been posted on or near these instructors' office doors to inform students of their absence and planned return.

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**Recommendation: The College should ensure that instructional faculty members are available during posted office hours and, if not available, that alternate contact information is posted.**

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### Finding No. 3: Purchasing Cards

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The College provided credit cards (purchasing cards) to authorized employees for purchasing goods. The College contracted with a financial institution to provide the purchasing cards and to process purchases. According to the College's Purchasing Card Manual, the purchasing card program was implemented to serve as an alternate and more efficient method for purchasing small dollar goods. The College issued purchasing cards to about 157 employees as of June 30, 2006, and paid purchasing card charges totaling \$1.5 million during the 2005-06 fiscal year.

The College's Purchasing Card Manual provided guidance to ensure that purchases were adequately supported by proper documentation within specific dollar and transaction limits. However, as similarly noted in our report No. 2004-210, our review of purchasing card transactions during November 2005 disclosed that the College's controls over the purchasing card system needed improvement. Specifically, we noted the following:

- Four instances, totaling \$813.03, in which the cardholder did not supply adequate documentation (vendor invoices or original receipts) supporting purchases made prior to the College's payment to the financial institution. Subsequent to our inquiry, the

College obtained additional documentation from the vendors demonstrating that the purchases were reasonable, appropriate, and for a valid public purpose.

- Thirty-two instances, totaling \$8,837.88, in which the receipt of goods was not adequately documented. In these instances, the cardholders' ordered goods that were shipped directly to the Department ordering the goods or to the College's receiving department. The supporting documentation provided by the cardholder did not evidence the receipt of goods (i.e., person who received goods, date goods were received, full/partial order received, etc.).
- Two instances, totaling \$4,106.34, appeared to represent split purchases to avoid the cardholder's \$1,000 maximum daily spending limit, as follows:
  - In one instance, three charges, totaling \$2,736.34, were made over a three-day period (\$1,000, \$1,000, and \$736.34) and were supported by one invoice from the vendor that indicated one customer order date.
  - In the other instance, two charges, totaling \$1,370, were made over a two-day period (\$685 and \$685).

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**Recommendation: The College should improve controls over purchasing cards to ensure that purchases are supported by adequate documentation, the receipt of goods is verified of record, and purchasing card spending limits are enforced or amended, as appropriate.**

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### Finding No. 4: Information Technology - Disaster Recovery Plan

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An important element of an effective internal control system over information technology (IT) operations is a disaster recovery plan to help minimize data and

asset loss in the event of a major hardware or software failure. A disaster recovery (business continuity) plan should be tested periodically to disclose any areas not addressed and to facilitate proper conduct in an actual disruption of IT operations.

The College developed a disaster recovery plan for its IT operations, which includes procedures for the reload of backup data to the College's hardware system, and for processing payroll with a financial institution. The College also has an agreement with a vendor to provide mainframe equipment in the event of an emergency. However, the plan had not been fully tested by reloading data to the College or vendor's mainframe, or by having the financial institution process a simulated payroll.

Without fully testing the disaster recovery plan, there is an increased risk that the College may be unable to continue critical operations in the event of a processing disruption.

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**Recommendation: The College should fully test its disaster recovery plan in a simulated exercise for mission critical functions.**

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

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The objectives of this operational audit were to obtain an understanding and make overall judgments as to whether College internal controls promoted and encouraged compliance with applicable laws, administrative rules, and other guidelines; the economic and efficient operation of the College; the reliability of financial records and reports; and the safeguarding of assets. Specifically, we reviewed internal controls and administration of accounting records, budgetary controls, cash and investments, student receivables, construction projects, capital assets, student activity and services fees and other selected revenues, purchasing processes, selected expenditures and contractual arrangements, and human resources and employee compensation for the fiscal year ended June 30, 2006.

This audit was conducted in accordance with applicable Generally Accepted Government Auditing Standards.

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#### **PRIOR AUDIT FINDINGS**

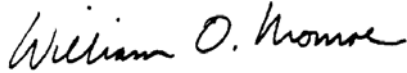
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As part of our current audit, we determined that the College had taken adequate corrective actions for findings included in our report No. 2004-210, except as noted in finding No. 3 of this report.

**AUTHORITY**

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.



William O. Monroe, CPA  
Auditor General

**MANAGEMENT RESPONSE**

The College's response is included as Appendix B of this report.

This audit was coordinated by Mark W. Smith, CPA, and supervised by Janice Priolo, CPA. Please address inquiries regarding this report to Ted J. Sauerbeck, CPA, Audit Manager, via e-mail at [tedsauerbeck@aud.state.fl.us](mailto:tedsauerbeck@aud.state.fl.us) or by telephone at (850) 487-4468.

This report, as well as other audit reports prepared by the Auditor General, can be obtained on our Web site at [www.state.fl.us/audgen](http://www.state.fl.us/audgen); by telephone at (850) 487-9024; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

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**APPENDIX A**  
**INDIAN RIVER COMMUNITY COLLEGE'S BOARD OF TRUSTEES**

Members of the College's Board of Trustees who served during the audit period are listed below:

<b><u>Board Member</u></b>	<b><u>County</u></b>
Werner Bols, Chair	Martin
Cheryl L. Kirton, Vice-Chair	Okeechobee
Bruce Abernethy	St. Lucie
Edith Bradshaw	Indian River
Leonard J. Hoag	Martin
Samuel L. Patterson	St. Lucie
Tomas René Perez	Indian River
Linda T. Syfrett	Okeechobee
Jane E. Rowley	St. Lucie

APPENDIX B  
MANAGEMENT RESPONSE



# INDIAN RIVER COMMUNITY COLLEGE

OFFICE OF THE PRESIDENT

October 23, 2006

William O. Monroe  
Auditor General  
State of Florida  
G74 Claude Pepper Building  
111 West Madison Street  
Tallahassee, FL 32399-1450

Dear Mr. Monroe:

The following is the response to the preliminary and tentative findings for Indian River Community College for the fiscal year ended June 30, 2006.

Finding No. 1: The College should consider integrating its current point-of-sale system with a perpetual inventory system, and ensure that actual costs per vendor invoices are used to record inventory costs to the inventory system.

College Response: The College has also recognized the need to have a perpetual inventory system integrated with our point-of-sale system as recommended by the Auditor. In April 2006, within the audit period, we issued a purchase order for the procurement of a nationally recognized perpetual inventory system. We have completed three months of training and currently the entire Bookstore inventory is being added to the management system for the point-of-sale register and physical inventory system. We will be fully operational before the end of this fiscal year.

Finding No. 2: The College should ensure that instructional faculty members are available during posted office hours and, if not available, that alternate contact information is posted.

College Response: As noted by the Auditor, all three instances of faculty not in their offices were for good reasons including approved sick leave for a doctor's appointment, instructor was at a clinical site and instructor was substituting in



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another class. To enhance our faculty office hour procedures, alternate contact information will be provided on each Instructor Schedule. When absence is anticipated, the instructor will complete a form to be attached to the Instructor Schedule providing a contact person and number. The Dean's office will complete the form if the instructor absence is not anticipated.

Finding No. 3: The College should improve controls over purchasing cards to ensure that purchases are supported by adequate documentation, the receipt of goods is verified of record, and purchasing card spending limits are enforced or amended, as appropriate.

College Response: The use of a purchasing card to make minor purchases significantly improves productivity and expedites the procurement of goods and services to effectively conduct business and instructional activities. This does decentralize a part of the purchasing function to several people and the College is refining its procedure to ensure proper internal controls. While all purchases were appropriate expenditures, the College held a workshop for card holders to address each of the Auditor's findings and enhanced procedures to address them have been developed.

The four instances cited by the auditor were supported by receipts; however the receipts were not descriptive enough to very specifically describe the items purchased. When receipts or invoices are not descriptive, we have implemented procedures to require the purchaser to provide a clear and definitive explanation of the item purchased. As noted by the Auditor, the items questioned were reasonable, appropriate and for a valid public purpose.

Cardholders are required to approve their monthly purchasing card statement certifying the legitimacy of the listed transaction including that goods were received. Each of the referenced instances was supported by this signature certification. However, we have implemented procedures to strengthen internal control to require the purchaser to provide a clear and definitive documentation of the person who received the goods, the date goods were received, the full/partial order received, etc.

In the two instances noted by the Auditor of split purchases, it should be noted that the purchases were budgeted and for a valid public purpose. However, the



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split purchases were a violation of purchasing procedures and the two employees have been reprimanded.

Finding No. 4: The College should fully test its disaster recovery plan in a simulated exercise for mission critical functions.

College Response: The College is developing procedures and will periodically test the reload of back up data and process a payroll with our financial institution.

Sincerely,

A handwritten signature in black ink that reads 'Edwin R. Massey'.

Edwin R. Massey, Ph.D.  
President



