



AUDITOR GENERAL

WILLIAM O. MONROE, CPA



BREVARD COMMUNITY COLLEGE

Operational Audit

SUMMARY

Our operational audit for the fiscal year ended June 30, 2006, and selected actions subsequent thereto, disclosed the following:

Finding No. 1: The College had not provided for an adequate separation of duties regarding electronic transfer of funds.

Finding No. 2: College controls over student accounts receivable needed improvement. Our tests disclosed instances in which students who had not paid for classes or received authorized deferments were allowed to attend the classes, and instances in which academic holds were not timely placed on records of students with overdue accounts.

Finding No. 3: The College needed to improve its controls over the purchasing card program. Our tests disclosed instances in which purchases appeared to represent split purchases to avoid exceeding the established single purchase limit, and instances in which purchases were not in accordance with prescribed College policies and procedures.

Finding No. 4: College policies and procedures did not provide for adequate monitoring of cellular telephone (cell phone) usage. Also, the College did not report to the Internal Revenue Service the taxable value of cell phone services as income for employees who did not make an adequate accounting of the business use of their assigned cell phones for calendar year 2005. Effective in August 2006, the College discontinued providing cell phones to individual employees, but began paying certain College

employees salary supplements to cover the cost of cell phone plans; however, the new procedures had not been approved by the Board.

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 five 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.

Brevard Community College has campuses in Cocoa, Melbourne, Palm Bay, and Titusville, Florida. Additionally, the College offers classes through a virtual campus, a center located at the Kennedy Space Center, and dual enrollment courses in public schools throughout Brevard County. The College reported enrollment of 10,036 full-time equivalent students for the 2005-06 fiscal year.

The President of the College during the audit period was Dr. Thomas E. Gamble.

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: Electronic Transfer of Funds

Electronic transfer of funds among bank accounts should be properly authorized, processed, and recorded. There should be a written agreement between the College and the bank setting forth the responsibilities of each party, including locations and accounts where funds may be transferred; College employees who may authorize transactions; and limitations on amounts that may be transferred. Employees who authorize wire transfers should not be the same employees who record the transfers, prepare bank reconciliations, receive notices of transfers, or have the authority to change the terms of the written agreement.

The College utilized electronic transfer of funds to move cash to and from its bank accounts and its pooled investment accounts with the State Board of Administration and the State Treasury. The College entered into agreements with its bank that give the College the ability to initiate online wire transfer transactions. As part of the agreement, the College chose a “dual administrator” option, which requires one administrator to initiate and a different administrator to approve each entitlement action (options users may perform) and locations where funds may be transferred.

Our review disclosed that one employee was assigned incompatible duties of being both an administrator and an authorized representative that could amend the terms of the College’s agreements with the bank. This access could allow the agreement to be revised to the “single administrator” option and make it possible for

this person to initiate and approve a transaction. The same employee also had the ability to transfer funds to the College’s bank accounts from its pooled investment accounts where the College maintains significant amounts of excess cash. Although our review did not disclose any irregularities, under these conditions, there is an increased risk that an unauthorized electronic transfer of funds could occur and not be timely detected.

Subsequent to our inquiry, the College, on June 27, 2006, amended the banking agreement to delete this employee’s administrator function.

Recommendation: The College should ensure an adequate separation of duties regarding electronic transfer of funds.

Finding No. 2: Student Accounts Receivable

Pursuant to College Procedure No. 403.2, students who had been approved for Federal or State financial assistance, or veterans or social security benefits, and students who had written authorization of financial assistance from a College-approved third party organization, were authorized to defer payment of tuition and fees. Students taking courses without approved financial assistance were not authorized to defer tuition and fees. Academic holds were placed on the records of students with overdue outstanding balances to prevent them from graduating or receiving an official College transcript, or re-enrolling at the College (for students with balances exceeding \$50), until they paid the amount due.

Student accounts receivable as of May 16, 2006, totaled \$1,163,949. Our test of 15 student receivables as of that date disclosed that the College’s controls over student accounts receivable needed improvement, as follows:

- Of the 15 students tested, 3 with outstanding balances totaling \$253.45 did not have authorized tuition and fee deferrals for their outstanding balances. Two of these students

had taken continuing education classes without any documented evidence of authorized financial assistance. The third student had taken vocational education classes, and an authorized third party organization had approved payment for one class plus associated fees; however, the student was allowed to register for two classes. College personnel indicated that new procedures for Continuing Education registration and payment processes have since been developed and implemented.

- Of 13 students tested who had overdue outstanding balances, 5 did not have an academic hold placed on their record. All five of these students had outstanding balances of less than \$50. In response to our inquiry, College personnel advised us that these exceptions resulted from a computer program used to apply such holds on student records that was not functioning as intended. Timely placement of holds on student records assists in the subsequent collection of amounts due. Subsequent to our inquiry, College personnel placed holds on the records for these five students on May 19, 2006, and stated that they had corrected the computer program problem in May 2006.

Recommendation: The College should ensure that students who have not paid for classes or received authorized deferments are not allowed to attend the classes. The College should also ensure that academic holds are timely placed on records of students with overdue accounts.

Finding No. 3: Purchasing Cards

The College administers a purchasing card program in which it issues credit cards to employees to procure certain goods and services. Cardholders must adhere to Florida Statutes and applicable College policies and procedures. The College issued purchasing cards to

approximately 250 employees as of April 2006, and incurred related charges totaling approximately \$1.4 million during the period July 1, 2005, through February 28, 2006. Our test of 15 purchasing card transactions during this period disclosed that improvements in controls over the purchasing card program were needed, as follows:

- In general, purchasing cards are issued with single purchase limits of \$749 and monthly limits of \$7,500. Of the 15 purchasing card transactions tested, we noted 4 instances in which several purchases were made on the same day, from the same vendor, which appeared to represent split purchases to avoid the single purchase limit of \$749. The total combined purchases for each of these 4 instances exceeded the cardholders' limits by amounts ranging from \$522 to \$1,987.
- According to the College's Purchasing Cards Policies and Procedures Manual, purchases can be made if they are for a College-related purpose and should not include certain purchases, such as, entertainment; liquor, beer, or wine; holiday decorations for offices; departmental social function supplies; or personal purchases of any sort. Additionally, College purchases are exempt from local, county, and State sales taxes.

Our test of purchasing card transactions disclosed a purchase for a holiday celebration dinner that included alcoholic beverages, gratuity, and taxes. The same cardholder made two additional purchases in the same month that were also for holiday celebration meals. The total cost of all three holiday meals was \$1,097. In response to our inquiry, College personnel indicated that funds for these purchases were obtained from fundraising events and were not subject to College policies and procedures. However, the College's Purchasing Cards Policies and Procedures Manual states specifically that

each cardholder is responsible for using the card strictly in accordance with the policies and procedures set forth in the Manual.

Recommendation: The College should improve controls over purchasing cards to ensure that purchases comply with College policies and procedures, including authorized purposes and single transaction purchase limits.

Finding No. 4: Cellular Telephones

During the 2005-06 fiscal year, the College provided certain employees cellular telephones (cell phones), and expenditures for cell phone usage totaled approximately \$60,000. College Procedure No. 204.1.3 provided that cell phones were to be used for business needs and that incidental personal use should be kept to a minimum. If the number of minutes used per month exceeded the number of plan minutes, the employee was required to reimburse the College for the cost of all personal calls up to the total of extra charges related to that employee's phone plan for the month.

Pursuant to United States Treasury Regulations, Section 1.274-5T(e), an employee may not exclude from gross income any amount of the value of property listed in Section 280F(d)(4) of the Internal Revenue Code (IRC), unless the employee substantiates the amount of the exclusion in accordance with the requirements of Section 274(d) IRC, and United States Treasury Regulations, Section 1.274-5T. Because cell phones are listed property, their use is subject to the substantiation requirements of the United States Treasury Regulations, Section 1.274-5T(b)(6), which require employees to submit records to the College to establish the amount, date, place, and business purpose for each business call. A notated copy of the employee's cell phone bill is an example of such a record.

Although the College permitted employees to use cell phones for incidental personal use, it did not require

employees to submit monthly records substantiating the business use of cell phones, and cell phone bills were not routinely reviewed to ascertain personal calls made (employees were required to review their bills and reimburse the College for personal calls made only when usage exceeded the plan limit). As such, the College should have reported to the Internal Revenue Service (IRS) the value of cell phone services provided to each employee assigned a cell phone. College personnel indicated that the College had not included the value of cellular telephone services in the income reported on the 2005 calendar year W-2 forms for these employees.

Effective in August 2006, the College discontinued providing cell phones to most individual employees, and kept a limited number of cell phones for departmental general use. The College also began providing a salary supplement to certain employees to cover the cost of a personal cell phone plan, obtained by the employee, to be available for College business use.

As of November 2006, 59 employees were being provided cell phone salary supplements ranging from \$43 to \$101 a month. College records evidenced the procedures used to determining which employees required a supplement, and the amounts of such supplements. However, the Board had not approved the providing of supplements for cell phone usage, and had not revised College Procedure No. 204.1.3 to reflect the new policy and procedures regarding the supplements. The Board is required by Sections 1001.64(4)(b) and 1001.64(18), Florida Statutes, to adopt personnel policies and procedures, including employee compensation.

Recommendation: The College should implement procedures to ensure that department-assigned cell phones are only used for College business, and report appropriate amounts in employee income to the IRS in accordance with Federal requirements. In addition, the College should revise College Procedure No. 204.1.3 to reflect the new policy and procedures regarding cell phone salary supplements, and obtain Board approval of such procedures. Such policies and procedures should require a periodic assessment, for each employee, of whether there is a continued need for the employee to receive the supplement.

OBJECTIVES, SCOPE, AND METHODOLOGY

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 and management reporting, budgetary controls, cash and investments, student receivables, construction projects, capital assets, student activity and services fees and other selected revenues, purchasing card program, travel expenses, communication expenses, insurance expenses, human resources and employee expenses, information technology, and reporting of student enrollment for the fiscal year ended June 30, 2006, and selected actions subsequent thereto.

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

This audit was coordinated by Robyn D. Bishop, CPA, and supervised by Brenda C. Racis, CPA. Please address inquiries regarding this report to Ted J. Sauerbeck, CPA, Audit Manager, via e-mail at 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; by telephone at (850) 487-9024; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

PRIOR AUDIT FINDINGS

As part of our current audit, we determined that the College had taken adequate corrective actions for findings included in our report No. 2004-209.

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.

APPENDIX A
BREVARD COMMUNITY COLLEGE'S BOARD OF TRUSTEES

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

Board Member

Alberta K. Wilson, Chair
C. R. "Rick" McCotter, III, Vice-Chair
James W. Handley
Miriam E. Martinez to 5-31-06
Kimberly Tsamoutales from 6-1-06
James Theriac

**APPENDIX B
MANAGEMENT RESPONSE**



Office of the President • 1519 Clearlake Road • Cocoa, Florida 32922 • 321/433-7000 • Fax: 321/433-7005

District Administration

1519 Clearlake Road
Cocoa, Florida 32922
321/632-1111
Fax: 321/433-7065

Cocoa Campus

1519 Clearlake Road
Cocoa, Florida 32922
321/632-1111
Fax: 321/433-7065

Melbourne Campus

3865 N. Wickham Road
Melbourne, Florida 32935
321/632-1111
Fax: 321/433-5820

Palm Bay Campus

250 Community College Pkwy.
Palm Bay, Florida 32909
321/632-1111
Fax: 321/433-5325

**Titusville Campus &
Virtual Campus**

1311 North U.S. 1
Titusville, Florida 32796
321/632-1111
Fax: 321/433-5115

Health Sciences Campus

1519 Clearlake Road
Cocoa, Florida 32922
321/632-1111
Fax: 321/433-7599

Spaceport Center

BCC-A, M6-306, Room 2000
Kennedy Space Center
Florida 32899
321/449-5060
Fax: 321/449-5062

Website

www.brevardcc.edu



January 16, 2007

Mr. 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 Brevard Community College for the fiscal year ended June 30, 2006.

Finding No. 1 – Electronic Transfer of Funds

As noted in the finding, the college immediately changed approval authority when notified of the issue.

Finding No. 2 – Student Accounts Receivable

As noted in the finding, the college implemented improved controls over Continuing Education payments, and the computer error which allowed students with balances under \$50 to register was also corrected.

Finding No. 3 – Purchasing Cards

The college had found all but one of the split purchases noted by the auditors during the normal monthly purchase review, and those situations had already been addressed with the responsible employees. The other split purchase involved two employees and two purchasing cards, and was not noted during the monthly review. The college has reminded all purchasing card holders of the purchasing card rules as well as the consequences for not following the same.

The restaurant purchases were appropriate non-college expenditures, as they utilized funds donated by parents of child care enrollees for the express purpose of having holiday dinner parties for two different child care staffs. Since the purchasing card procedures do not address exceptions for non-college (agency) funds, the child care director has been instructed to use a personal credit card for future parties and request reimbursement from the donated funds.

Mr. William O. Monroe
January 16, 2007
Page -2-

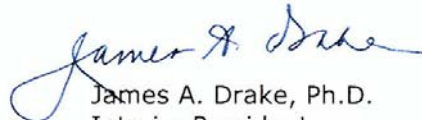
Finding No. 4 – Cellular Telephones

The noted IRS regulation came to the college's attention in late 2005. During 2006, data was collected to compute the value of personal calls. Appropriate compensation values have been computed for employees assigned college-funded cellular phones, and those values will be included on the 2006 W-2s.

College procedures will be updated to current practice, and the Board will be asked to approve the supplements for cellular phones. Employees will be required to complete an annual compliance form to document continued need of the cellular phone for college purposes.

Please do not hesitate to contact my office if further clarification is needed.

Sincerely,



James A. Drake, Ph.D.
Interim President

JAD/kmb

cc: Mr. Mark Cherry, Associate Vice President, Financial Services