



# AUDITOR GENERAL

DAVID W. MARTIN, CPA



## LAKE CITY COMMUNITY COLLEGE

### Operational Audit

#### SUMMARY

Our operational audit for the fiscal year ended June 30, 2007, disclosed the following:

**Finding No. 1:** The Board had not approved policies and related methodology for implementation of laboratory fees.

**Finding No. 2:** The College did not identify in its Board-approved capital outlay budget, or otherwise document of record, specific projects to be funded with \$280,986 of capital improvement fees budgeted to be received in the 2006-07 fiscal year.

**Finding No. 3:** The College did not conform with certain provisions of law related to its energy performance-based contract.

#### 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.

Lake City Community College has its main campus in Lake City, Florida, and a center in Baker County that has been contracted with the Florida Department of

Corrections to be a Training Academy for the Department. Additionally, credit and noncredit classes are offered in public schools and other locations throughout Baker, Columbia, Dixie, Gilchrist, and Union Counties. The College reported enrollment of 2,290 full-time equivalent students for the 2006-07 fiscal year.

The President of the College during the audit period was Dr. Charles W. Hall.

The results of our financial audit of the College for the fiscal year ended June 30, 2007, 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, 2007, will be presented in a separate report.

#### FINDINGS AND RECOMMENDATIONS

##### Finding No. 1: Laboratory Fees

Section 1009.23(12), Florida Statutes, authorizes each community college board of trustees to establish user fees, including laboratory fees. Such user fees cannot exceed the cost of the services provided and may only be charged to persons receiving the services. State Board of Education Rule 6A-14.054(6), Florida

Administrative Code, authorizes each board of trustees to establish user fees in addition to tuition fees for services that incur unusual costs. Laboratory fees collected by the College totaled \$834,876 for the 2006-07 fiscal year.

The Florida Community College Council of Business Affairs (COBA) and the Florida Department of Education, Division of Community Colleges (Division), have issued guidelines for assessing laboratory, special course, and other user fees. The guidelines provide that each local board of trustees establish policies for the implementation and justification of additional laboratory fees, defining which costs are in excess of base instructional costs, and describing the documentation required to support the fees, the time period for review of such fees, and the manner of presenting such fees to the board for approval.

In our report No. 2006-023, we noted that the College Board of Trustees (Board) had not approved such policies, and that the College did not have a written methodology for determining which courses should require laboratory fees and the required amount of such fees. Our current review disclosed that College personnel had developed a written methodology; however, the Board had not approved the methodology nor established policies for implementation of laboratory fees.

Subsequent to our inquiry, the Board, in October 2007, adopted a policy authorizing implementation of laboratory fees and establishment of related procedures, and College personnel prepared formal procedures.

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**Recommendation: The College should continue its efforts to ensure that its procedures for implementing laboratory fees are consistent with the COBA and Division guidelines.**

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### **Finding No. 2: Capital Improvement Fees**

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Section 1009.23(11), Florida Statutes, authorizes each community college board of trustees to establish a separate fee for capital improvements. Such fees must be expended only to construct and equip, maintain, improve, or enhance educational facilities. To demonstrate the necessity of such fees, the board must identify each project, including maintenance projects, proposed to be funded in whole or in part by such fee. The College assessed a separate capital improvement fee of \$5 per credit hour for resident students and \$20.97 per credit hour for non-resident students.

In our report No. 2006-023, we noted that the Board had not approved a spending plan identifying projects to be funded with capital improvement fees. Our current review disclosed that the Board-approved 2006-07 fiscal year capital outlay budget identified specific projects to be funded with capital improvement fees carried over from previous years (total of \$599,768); however, it did not identify specific projects to be funded with the \$280,986 of capital improvement fees budgeted to be received in the 2006-07 fiscal year. Nor had the College otherwise demonstrated, of record, the necessity of the \$280,986 of capital improvement fees.

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**Recommendation: The College should identify each project proposed to be funded by the capital improvement fees prior to the assessment of such fees.**

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### **Finding No. 3: Energy Performance Contract**

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Section 1013.23(3), Florida Statutes, provides that each board of trustees may enter into an energy performance-based contract with an energy performance contractor to significantly reduce energy or operating costs of an educational facility through one or more energy conservation measures. Section 1013.23(4), Florida Statutes, provides that the contract must include a guarantee by the energy performance

contractor that annual energy cost savings will meet or exceed the amortized cost of the energy conservation measures. The contractor must provide the College an annual reconciliation of the guaranteed energy cost savings, and is liable for any annual savings shortfall that may occur.

The College entered into a written agreement with an energy performance contractor in March 2004, which resulted in certain energy conservation measures being undertaken at a total estimated cost of \$3,816,169 over the ten-year contract term, including \$2,041,645 for installation of the energy savings measures; \$209,079 for interest and other financing costs; approximately \$1,450,000 for an annual technical support program projected over the ten-year term (this program provides for the contractor to maintain the mechanical equipment, and provide hardware and software upgrades); and \$115,445 for monitoring and verifying energy savings realized from the energy conservation measures. The technical support program and monitoring and verification plan were supplemental agreements required by the energy performance-based contract.

In our report No. 2006-023, we noted that according to the March 2004 agreement, the contractor guaranteed savings of \$2,482,689 over the ten-year term of the arrangement, or \$1,333,480 less than the total estimated costs to be incurred, which is not consistent with the requirements of Section 1013.23(4), Florida Statutes. Our current review disclosed that, on September 11, 2007, the Board approved an amendment to the contract eliminating the requirement for a technical support program supplemental agreement with the contractor, contending that much of the projected maintenance cost was previously incurred by the College under separate maintenance contracts not related to the energy savings contract. Eliminating the estimated cost of this supplemental agreement reduced the total estimated cost of the energy conservation measures to \$2,366,169, which is less than the \$2,482,689 ten-year guaranteed savings amount.

We also recommended in our report No. 2006-023 that the College document its determination of the reasonableness of \$823,400 of stipulated savings included in the ten-year guaranteed savings amount. However, as of December 6, 2007, this had not been done. College personnel indicated that their intent in entering into the energy performance contract was to assure that the guaranteed savings would cover the ten-year loan, interest, and monitoring costs totaling \$1,315,713, rather than the total cost of the energy conservation measures. Under this premise, there would be no need to document reasonableness of the stipulated savings because the ten-year guaranteed savings of \$2,482,689, less the \$823,400 of stipulated savings, would still leave a guaranteed savings of \$1,659,289, which is sufficient to cover the \$1,315,713 of loan, interest, and monitoring costs. However, failure to consider the total cost is contrary to Section 1013.23, Florida Statutes, which requires the energy savings guarantee to cover the total cost of the energy conservation measures.

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**Recommendation: The College, prior to entering into future contracts of this nature, should ensure that the guaranteed savings meet or exceed the total costs of energy conservation measures as specified in Section 1013.23, Florida Statutes.**

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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, rules, regulations, contracts, and grant agreements; 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, 2007.

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 not taken sufficient corrective actions for findings included in our report No. 2006-023.

**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.



David W. Martin, CPA  
Auditor General

**MANAGEMENT RESPONSE**

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

This audit was coordinated by Robert E. Taylor, CPA, and supervised by Robert L. Kuitert, CPA. Please address inquiries regarding this report to Ted J. Sauerbeck, CPA, Audit Manager, via e-mail at [redsauerbeck@aud.state.fl.us](mailto:redsauerbeck@aud.state.fl.us) or by telephone at (850) 487-4468.

This report and other audit reports prepared by the Auditor General can be obtained on our Web site at [www.myflorida.com/audgen](http://www.myflorida.com/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**  
**LAKE CITY COMMUNITY COLLEGE'S BOARD OF TRUSTEES**

Members of the College's Board of Trustees who served during the 2006-07 fiscal year are listed below:

<u>Board Member</u>	<u>County</u>
Dr. James Surrency, Chair	Gilchrist
Suzanne M. Norris, Vice-Chair from 1-09-07	Columbia
Stevie H. Landon, Vice-Chair to 9-29-06 (1)	Columbia
Robert C. Brannan, III	Baker
Richard J. Johnson	Columbia
Kathryn Land McInnis	Dixie
Donald R. Kennedy from 11-06-06	Columbia
Julia M. Richardson	Baker
Thomas M. Riherd, II	Union
Harriet Wall	Dixie

Note: (1) Board member resigned effective September 29, 2006. Position remained vacant through November 5, 2006.

**APPENDIX B  
MANAGEMENT RESPONSE**



Mr. David W. Martin  
Auditor General  
G74 Claude Pepper Building  
111 West Madison Street  
Tallahassee, Florida 32399-1450

Dear Mr. Martin:

In response to the preliminary and tentative findings and recommendations related to your operational audit of the Board of Trustees, Lake City Community College, for the Fiscal Year ended June 30, 2007, we thank you for your suggestions and recommendations to improve the College's operation. Our responses to the findings are as follows:

Finding No. 1: Recommendation: The College should continue its efforts to ensure that its procedures for implementing laboratory fees are consistent with the COBA and Division Guidelines.

The College will follow the Board adopted policy authorizing the implementation of laboratory fees and establishment of related procedures, and formal procedures.

Finding No. 2: Recommendation: The College should identify each project proposed to be funded by the capital improvement fees prior to the assessment of such fees.  
Finding noted.

Finding No. 3: Recommendation: The College, prior to entering into future contracts of this nature, should ensure that the guaranteed savings meet or exceed the total costs of energy conservation measures as specified in Section 1013.23, Florida Statutes.  
Finding noted.

If the College can be of further assistance in this matter, or if you have any questions regarding our response, please do not hesitate to contact me.

Sincerely,

  
Marilyn C. Hamm  
Vice President for Business Services  
Lake City Community College

