REPORT NO. 2010-036
OCTOBER 2009

HERNANDO COUNTY

DISTRICT SCHOOL BOARD

Operational Audit

For the Fiscal Year Ended
June 30, 2009

STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD MEMBERS AND SUPERINTENDENT

District School Board members and the Superintendent who served during the 2008-09 fiscal year are listed below:

	District No.
John K. Sweeney, Vice Chair from 11-18-08	*1*
Charles Patrick Fagan	*2*
Dianne Bonfield, Chair from 11-18-08	*3*
James B. Malcolm to 11-17-08, Vice Chair	*4*
James C. Yant from 11-18-08	*4*
Sandra K. Nicholson, Chair to 11-17-08	*5*

Dr. Wayne S. Alexander, Superintendent

The audit team leader was Brian Werthmiller, CPA, and the audit was supervised by Karen J. Collington, CPA. For the information technology portion of this audit, the audit team leader was Danielle Alvarez, CISA, and the supervisor was Nancy Reeder, CPA, CISA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Manager, by e-mail at gregcenters@aud.state.fl.us or by telephone at (850) 487-9039.

This report and other reports prepared by the Auditor General can be obtained on our Web site at 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.

HERNANDO COUNTY

District School Board

SUMMARY

Our operational audit for the fiscal year ended June 30, 2009, disclosed the following:

Financial Statement Significant Deficiencies

Finding No. 1: The District's management of information technology access privileges needed improvement.

Finding No. 2: Controls over the expenditure of capital outlay millage levy and Public Education Capital Outlay proceeds could be improved.

Additional Matters

Finding No. 3: Improvements were needed in controls over timesheets to support salary and benefit costs.

Finding No. 4: Controls could be enhanced to ensure compliance with Section 119.071(5)(a), Florida Statutes, regarding notifying individuals of the need for and use of social security numbers.

Finding No. 5: The District could improve controls over the reporting of instructional contact hours for adult general education to the Florida Department of Education.

Finding No. 6: Approval of production data changes by end users was not documented and Help Desk staff had the capability of altering production data.

Finding No. 7: Certain security controls related to user authentication needed improvement.

BACKGROUND

The Hernando County District School Board (District) is part of the State system of public education under the general direction of the Florida Department of Education. Geographic boundaries of the District correspond with those of Hernando County. The governing body of the Hernando County District School Board (School Board) is composed of five elected members. The appointed Superintendent of Schools is the executive officer of the School Board.

During the audit period, the District operated 21 elementary, middle, high, and specialized schools; sponsored 1 charter school; and reported 22,636 unweighted full-time equivalent students.

The results of our audit of the District's financial statements and Federal awards for the fiscal year ended June 30, 2009, will be presented in a separate report.

FINDINGS AND RECOMMENDATIONS

Financial Statement Significant Deficiencies

Finding No. 1: Information Technology – Access Controls

The implementation of separation of duties by management eliminates the possibility for a single employee to subvert a critical process. An appropriate separation of duties is typically enforced through system access privileges that restrict employees to performing only those system functions that are necessary for their job duties. We reviewed the

access privileges to the finance and human resource (HR) applications and identified several employees who had inappropriate or unnecessary access privileges.

Specifically:

- Four Purchasing Department, three Finance Department, and one Facilities Department employees had the ability to add or update vendor information and purchase requisitions, approve purchase orders, and process invoices for payment.
- Two Finance Department employees had the ability to add or update purchase requisitions and approve purchase orders.
- Two Finance Department employees had the ability to add or update vendor information and process invoices for payment.
- Five HR Department and one Finance Department employees had the ability to add or update existing general employee and job base pay information, time exceptions, pay adjustments, substitute pay, and account and other compensation information. Four Finance Department employees had the ability to update job base pay information, time exceptions, pay adjustments, and other compensation information. Although the District maintained a report to track changes made to the job base pay, it did not include all changes made. In addition, one of the employees who reviewed the report had the ability to update the job base pay, negating the usefulness of the review.

These access privileges either permitted the employees to perform incompatible duties or the access privileges were not necessary for their job functions, increasing the risk of unauthorized or erroneous disclosure, modification, or destruction of financial information and information technology (IT) resources.

Recommendation: The District should review the ongoing appropriateness of access privileges and timely remove or adjust any inappropriate or unnecessary access when detected to ensure that access privileges are compatible with employees' current job responsibilities.

Finding No. 2: Ad Valorem Taxation and Public Education Capital Outlay Expenditures

Section 1011.71, Florida Statutes, provides that each school board may levy against the taxable value not more than 1.75 mills for capital outlay purposes. This section also provides the allowable uses of capital outlay millage levy proceeds which includes, among other things, funding new construction and remodeling projects; school bus purchases; purchase of the opening day collection for the library media center of a new school; and payment of property-casualty insurance premiums and vehicle purchases subject to certain conditions and limitations. Further, Section 200.065(10)(a), Florida Statutes, imposes requirements to advertise, in advance of the adoption of a budget authorizing the expenditure of such tax levy proceeds, the purposes for which the Board intends to spend the proceeds of such tax levy and to specify in the required notice of tax levy the projects to be funded. In the event the District needs to amend the list of capital outlay projects previously advertised and adopted, a notice of intent to amend the notice of tax must be published, pursuant to Section 200.065(10)(b), Florida Statutes, and a public hearing to adopt the amended project list must be held.

During the 2008-09 fiscal year, the District had capital outlay millage expenditures, totaling $17.7 million, and we tested expenditures, totaling $4.1 million, to determine their propriety. Our tests disclosed purchases, totaling $176,331, for instructional software which is not specifically included as an allowable use, contrary to the provisions of Section 1011.71, Florida Statutes. In addition, although the purchase of the opening day collection for a new school's library media center is an allowable use of capital outlay millage proceeds, the District made purchases, totaling $4,246, for library books at a school that was in existence prior to the start of the 2008-09 fiscal year.

Subsequent to our inquiry, the District took corrective action to reimburse the Local Capital Improvement Fund for the questioned costs, totaling $180,577, by transferring funds from the General Fund.

Also, the State allocates Public Education Capital Outlay (PECO) moneys to the District on an annual basis. The District's annual PECO allocation consists of specific State-defined project categories and appropriation amounts each of which has its own restrictions governing use, including remodeling, renovation, maintenance, repair, or site improvement projects to expand or upgrade current educational plants. During the 2008-09 fiscal year, the District had PECO expenditures, totaling $22.6 million, and we tested the propriety of PECO purchases, totaling $4.75 million. Our tests disclosed purchases, totaling $47,913, for three vans that were not authorized uses of PECO moneys.

Subsequent to our inquiry, the District reimbursed the PECO Fund for costs of the three vans by transferring funds from its 2008-09 fiscal year capital outlay millage levy funds. However, this transfer was not initially allowable because the 2008-09 fiscal year advertised capital outlay notice did not list the vehicle purchases, contrary to Section 200.065(10)(a), Florida Statutes. We further noted that the District transferred funds, totaling approximately $1.4 million, from its 2008-09 fiscal year capital outlay millage funds to the General Fund for the reimbursement of property-casualty insurance premiums, also excluded from the initial capital outlay advertisement. In August 2009, the District amended the advertised notice of capital outlay millage levy for the 2008-09 fiscal year, pursuant to Section 200.065(10)(b), Florida Statutes, and held a rehearing to include the purchase of District vehicles and payment of property-casualty insurance premiums.

Recommendation: The District should continue its efforts to ensure that it limits the use of capital outlay millage and PECO funds to allowable purposes. In addition, the District should ensure that expenditures of such tax levies are made only after being properly advertised, as required by Section 200.065(10), Florida Statutes.

Additional Matters

Finding No. 3: Payroll Record Keeping

The Fair Labor Standards Act (FLSA) sets minimum wage, overtime pay, record keeping, and other labor standards that require employers to maintain certain records for each nonexempt worker. The act requires no particular form, but requires that the records include certain data about the hours worked and wages earned. In addition, the law requires that this information be complete, accurate, and well documented. The failure to properly document all required information in the District's time records and maintain good records could result in the District's inability to successfully defend challenges to its compliance with the FLSA and lead to penalties for noncompliance.

District Board Policy No. 7.51 provides that payrolls shall be submitted for all employees, properly signed by a designated administrative employee, and supported by time records. Additionally, the District's union contract with certain noninstructional personnel provides that such staff will be paid for hours in excess of the normal work-week, or the staff will accrue compensatory time for overtime. Our review indicated that payrolls on file with the payroll department contained signed certifications by administrative employees. However, inquiry of District personnel and our tests of timesheets and other payroll records for 25 employees disclosed that 2 instructional employees inadvertently had not signed timesheets for one day that they worked, and one noninstructional employee worked 11 extra hours but no compensatory time was recorded on the District-level records and payment was not made for the overtime. According to District personnel, the noninstructional employee subsequently used the 11 hours of

overtime by taking leave. Prior to July 2009, schools and departments maintained records of compensatory leave earned and used; however, without properly maintaining attendance and leave records at the District level, the risk increases that payroll payments may be misstated. In July 2009, the District implemented procedures to account for compensatory leave earned and used at the District level.

Maintaining adequate controls over the District's salaries and benefits costs require accurate time records, adequate supervisory review of the records, and submission of proper correspondence to the payroll department to provide a basis for such costs. A similar finding was noted in our report No. 2009-034.

Recommendation: The District should ensure that payroll timesheets are properly reviewed to support salary and benefit costs. In addition, the District should make adjustments, as appropriate, to leave records consistent with the actual work hours provided by the staff.

Finding No. 4: Collection of Social Security Numbers

The Legislature acknowledged in Section 119.071(5)(a), Florida Statutes, the necessity of collecting social security numbers (SSNs) for certain purposes because of their acceptance over time as a unique numeric identifier for identity verification and other legitimate purposes. The Legislature has also recognized that SSNs can be used to acquire sensitive personal information, the release of which could result in fraud against the individuals or cause other financial or personal harm. Therefore, public entities are required to provide extra care in maintaining such information to ensure its confidential status.

Section 119.071(5)(a), Florida Statutes, provides that the District may not collect an individual's SSN unless the agency has stated in writing the purpose for its collection and unless it is specifically authorized by law to do so, or it is imperative for the performance of the District's duties and responsibilities as prescribed by law. Additionally, this section requires the District to provide a copy of the written statement indicating the purpose for collecting the number to the individual from whom the number is obtained, and SSNs may not be used by the District for any purpose other than the purpose provided in the written statement.

The District collects SSNs from employees and students for various reasons such as record keeping and tax-related purposes. Our review disclosed that the District prepared written statements notifying employees of the purpose for collection of the SSNs. District personnel indicated that, for the 2008-09 fiscal year, the District used its website to notify parents and students of the reasons for collection of SSNs. Section 668.50(7)(c), Florida Statutes, provides that an electronic record would satisfy a requirement for the record to be in writing. However, since District personnel did not directly deliver the website communication to the individual providing the SSNs, the District cannot be assured that the purposes for obtaining SSNs from students were properly communicated. Further, during the 2009-10 fiscal year, District personnel posted in school lobbies the purposes for collection of SSNs from students; however, this procedure also does not ensure that the information was properly provided to individuals who provided the SSNs. Effective controls to properly monitor the need for and use of SSNs and ensure compliance with statutory requirements reduce the risk that SSNs may be used for unauthorized purposes. A similar finding was noted in our report No. 2009-034.

Recommendation: The District should continue its efforts to comply with Section 119.071(5)(a), Florida Statutes, and properly notify individuals of the need for and use of social security numbers.

Finding No. 5: Adult General Education Courses

Section 1004.02(3), Florida Statutes, defines adult general education, in part, as comprehensive instructional programs designed to improve the employability of the State's workforce. Chapter 2008-152, Laws of Florida, Paragraph 120, states that from the funds provided in Specific Appropriation 9A and 120, each school district shall report enrollment for adult general education programs identified in Section 1004.02, Florida Statutes, in accordance with the Florida Department of Education (FDOE) instructional hours reporting procedures. Procedures provided by FDOE to the school districts state that fundable instructional contact hours are those scheduled hours that occur between the date of enrollment in a class and the withdrawal date or end-of-class date, whichever is sooner.

Improvements in controls were needed over enrollment hours reported to FDOE. Our tests of District records for ten students enrolled in 12 adult general education classes disclosed exceptions in the enrollment reporting for nine of the classes tested, all at the HEART Literacy Department, as follows:

- For three classes, the District did not reduce the hours reported for three students who began after the start date. Although the District typically makes adjustments to hours reported based on enrollment after the start date, this practice was not always followed at this location, resulting in 7.5 hours overreported.
- FDOE procedures for reporting instructional hours stated that institutions must develop a procedure for withdrawing students for nonattendance and that the standard for setting the withdrawal date shall be six consecutive absences from a class schedule. However, contrary to FDOE guidance, the District did not withdraw three students who had six consecutive absences for five classes, resulting in 61.5 hours overreported. During the 2009-10 fiscal year, the District implemented procedures to timely withdraw students who have six consecutive absences.
- For one class, due to a miscalculation, the District underreported the hours for one student by 6.5 hours.

Since future funding may be based, in part, on enrollment data submitted to FDOE, it is important that such data be submitted correctly. A similar finding was noted in our report No. 2009-034.

Recommendation: The District should enhance its controls over the reporting of instructional contact hours for adult general education courses to the Florida Department of Education.

Finding No. 6: Information Technology – IT Staff Access

An appropriate separation of duties includes users, rather than IT staff, being responsible for transaction origination or correction and for initiating changes to application data. As similarly noted in our report No. 2009-034, the District allowed programmers to use utility software (utilities) to alter production data. Access to the utilities required use of a *Change of Data Form* for authorization and access. While audit logs were automatically generated for data changes, the form did not record the end-user's approval of the changes that had been made. In response to audit inquiry, the District modified the form and improved procedures to include provisions for end-user acceptance of data changes.

Our audit also disclosed that two of the three Help Desk staff had the ability to enter data for users who called the Help Desk for assistance. A similar finding was disclosed in our report No. 2009-034. Allowing IT staff to have

update access privileges increases the risk that unauthorized changes to production data will occur and not be timely detected. In response to audit inquiry, the District removed the update access privileges of the two Help Desk staff.

Recommendation: The District should continue to improve its formal program change methodology to include maintaining written evidence of the approval of data changes. The District should also continue to restrict Help Desk staff from updating production data.

Finding No. 7: Information Technology – Security Controls – User Authentication

Security controls are intended to protect the confidentiality, integrity, and availability of data and IT resources. As similarly noted in our report No. 2009-034, our audit disclosed certain security controls related to user authentication that needed improvement. We are not disclosing specific details of the issue in this report to avoid the possibility of compromising District data and IT resources. However, we have notified appropriate District management of the specific issue. Without adequate security controls, the confidentiality, integrity, and availability of data and IT resources may be compromised, increasing the risk that District data and IT resources may be subject to improper disclosure, modification, or destruction.

Recommendation: The District should improve security controls related to user authentication to ensure the continued confidentiality, integrity, and availability of District data and IT resources.

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the District had taken corrective actions for findings included in our report No. 2009-034.

OBJECTIVES, SCOPE, AND METHODOLOGY

The Auditor General conducts operational audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

We conducted this operational audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of this operational audit were to: (1) obtain an understanding and make overall judgments as to whether District internal controls promoted and encouraged compliance with applicable laws, rules, regulations, contracts, and grant agreements; the economic and efficient operation of the District; the reliability of records and reports; and the safeguarding of assets; (2) evaluate management's performance in these areas; and (3) determine whether the District had taken corrective actions for findings included in our report No. 2009-034. Also, pursuant to Section 11.45(7)(h), Florida Statutes, our audit may identify statutory and fiscal changes to be recommended to the Legislature.

The scope of this operational audit is described in Exhibit A. Our audit included examinations of various records and transactions (as well as events and conditions) occurring during the 2008-09 fiscal year.

Our audit methodology included obtaining an understanding of the internal controls by interviewing District personnel and, as appropriate, performing a walk-through of relevant internal controls through observation and examination of supporting documentation and records. Additional audit procedures applied to determine that internal controls were working as designed, and to determine the District's compliance with the above-noted audit objectives, are described in Exhibit A. Specific information describing the work conducted to address the audit objectives is also included in the individual findings.

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'S RESPONSE

Management's response is included as Exhibit B.

EXHIBIT A
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Fraud policy and related procedures	Examined written policies and procedures, and examined supporting documentation relating to the District's fraud policy and related procedures.
Financial condition	Applied analytical procedures to determine whether the General Fund unreserved fund balance at June 30, 2009, was less than 3 percent of General Fund revenues.
Restrictions on use of nonvoted capital outlay tax proceeds	Tested payments made from nonvoted capital outlay proceeds and examined supporting documentation to determine whether the District complied with requirements related to the use of nonvoted capital outlay proceeds.
Restrictions on use of Workforce Development funds	Tested Workforce Development payments to determine whether the District used funds for authorized purposes (i.e., not used to support K-12 programs or District K-12 administrative costs).
Adult general education program enrollment reporting	Tested adult education students from FDOE records and examined supporting documentation at the District to determine whether the District reported instructional and contact hours in accordance with FDOE requirements.
Social security number requirements of Section 119.071(5)(a)	Examined supporting documentation to determine whether the District had provided individuals with a written statement as to the purpose of collecting social security numbers.
Procedures for maintenance of payroll time records (timesheets)	Tested employee timesheets to determine whether the hours worked on the timesheets supported the salary and benefit cost payments.
Procedures for monitoring cellular telephone usage	Reviewed District policies and procedures for the issuance and monitoring of cellular telephones.
Procedures for monitor purchasing card transactions	Tested expenses charged by employees using purchasing cards and examined supporting documentation to determine whether selected transactions were effectively monitored and represented proper expenditures of the District.

EXHIBIT A (Continued)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Procedures for granting access to IT resources	Tested employee access to selected functions within different applications to determine if an appropriate separation of duties existed in relation to employees' job functions.
Security awareness training program	Examined supporting documentation relating to the District's IT security awareness training program.
Program change controls	Reviewed documentation that supported the District's change management methodology for production data changes related to IT resources.
Procedures to timely prohibit former employee access to electronic data files	Tested former employees who separated from service during the audit period to determine whether access privileges were appropriately revoked.
IT authentication controls	Examined supporting documentation to determine whether authentication controls were configured and enforced in accordance with IT best practices.
IT staff access	Reviewed selected access privileges for IT staff to determine whether access privileges were appropriately granted.

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EXHIBIT B
MANAGEMENT'S RESPONSE

The School Board of Hernando County, Florida

919 North Broad Street
Brooksville, Florida 34601
(352) 797-7001

SunCom 619-7001
Fax (352) 797-7101

Superintendent
Sonya L. Jackson
Chairperson
John K. Sweeney
Vice Chairperson
Sandra Nicholson
Members
Dianne Bonfield
Charles "Pat" Fagan
James C. Yant

October 15, 2009

The Honorable David W. Martin, CPA
Auditor General
Office of the Auditor General
G74 Claude Pepper Building
111 West Madison
Tallahassee, FL 32399-1450

Re: Hernando County District School Board Preliminary and Tentative Audit Findings for the Fiscal Year Ended June 30, 2009

Dear Mr. Martin:

Please accept the following written response concerning the preliminary and tentative audit findings for the Hernando County District School Board's 2008-2009 fiscal year audit. The District will implement these recommendations to increase accountability and promote effective and efficient operations throughout the District.

Finding No. 1: Information Technology – Access Controls

The District's management of information technology access privileges needed improvement.

Response:

The District will take measures to annually review individual access to Finance, HR, and Purchasing applications to ensure appropriate separation of duties and to ensure privileges are compatible with job responsibilities.

Finding No. 2: Ad Valorem Taxation and Public Education Capital Outlay Expenditures

Controls over the expenditure of capital outlay millage levy and Public Education Capital Outlay (PECO) proceeds could be improved.

Response:

As noted in the finding by the Auditor General, when the error was disclosed the District took immediate corrective action to reimburse PECO for the unallowable costs identified, and subsequently advertised the use of capital outlay millage proceeds and held a public hearing in accordance with Florida Statutes. The District will continue to ensure that capital outlay millage and PECO expenditures are for allowable purposes and such expenditures are done only after being properly advertised.

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Page 2
Audit Response
October 15, 2009

Finding No. 3: Payroll Record Keeping

Improvements were needed in controls over timesheets to support salary and benefit costs.

Response:

The Payroll and Human Resources Departments continue to provide annual training to site-based administrators and timekeepers on the Fair Labor Standards Act (FLSA) and the requirements of School Board Policy 7.51 in efforts to ensure that payroll timesheets are properly signed and document actual time worked. Beginning July 2009, the District implemented on-line tracking of compensatory time to ensure consistent record-keeping and tracking.

Finding No. 4: Collection of Social Security Numbers

Controls could be enhanced to ensure compliance with Section 119.071(5)(a), Florida Statutes, regarding notifying individuals of the need for and use of social security numbers (SSNs).

Response:

As noted in the finding, the District has adequately notified employees of the purpose for collection of SSNs. The District currently posts the purpose of collection and potential use of student SSNs on the District's web site and posts signs in school lobbies. Each year the District publishes a Student Code of Conduct in which a hard copy is provided to all students. We will include in the 2010-2011 Student Code of Conduct appropriate language regarding the purpose of collection and potential use of student SSNs.

Finding No. 5: Adult General Education Courses

The District could improve controls over the reporting of instructional contact hours for adult general education to the Florida Department of Education.

Response:

Adult Education personnel have been updated on the reporting of instructional contact hours. Future reportings will be more closely monitored to avoid over reporting of hours and to accurately submit correct data for FDOE records.

Finding No. 6: Information Technology – IT Staff Access

Approval of production data changes by end users was not documented and Help Desk staff had the capability of altering production data.

Response:

The Technology and Information Services (TIS) Department has implemented changes to the documentation of data changes whereby the user's signature is required to acknowledge the accuracy of the data change along with the date of acknowledgment. Additionally, security for the Help Desk staff has been modified so that the TIS staff does not have the same security as data entry operators.

Finding No. 7: Information Technology – Security Controls – User Authentication

Certain security controls related to user authentication needed improvement.

Response:

The District immediately updated the network security policy to ensure the continued confidentiality, integrity, and availability of District data and IT resources.

Page 3
Audit Response
October 15, 2009

We would like to compliment your staff for the courteous and competent manner in which they conducted the Fiscal Year 2008-2009 audit. They should be commended for their consideration of District staff's time and workloads. We greatly appreciate their concern and helpfulness.

Sincerely,

Sonya L. Jackson
Superintendent

SLJ/drh

cc: School Board Members
Heather Martin, Executive Director of Business Services