REPORT NO. 2011-034
NOVEMBER 2010

HERNANDO COUNTY

DISTRICT SCHOOL BOARD

Operational Audit

STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD MEMBERS AND SUPERINTENDENTS

Board members and Superintendents who served during the 2009-10 fiscal year are listed below:

	District No.
John K. Sweeney, Vice Chair to 9-14-09, Chair from 9-15-09 to 11-16-09	1
Charles Patrick Fagan, Chair from 11-17-09	2
Dianne Bonfield, Chair to 9-1-09 (1)	3
James C. Yant	4
Sandra K. Nicholson, Vice Chair from 9-15-09	5

Dr. Wayne S. Alexander, Superintendent to 9-11-09
Sonya L. Jackson, Interim Superintendent from 9-12-09 to 3-31-10
Bryan A. Blavatt, Superintendent from 4-1-10

Note: (1) Chair position was vacant from September 2, 2009, to September 14, 2009.

The audit team leader was Vanessa Cellini, CPA, and the audit was supervised by Karen J. Collington, CPA. 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 disclosed the following:

CAPITAL OUTLAY FUNDING

Finding No. 1: The District had not adequately documented the basis for using ad valorem tax levy proceeds for school employee costs, resulting in questioned costs totaling $104,780.

PERFORMANCE ASSESSMENTS AND COMPENSATION

Finding No. 2: District performance assessment procedures for instructional personnel and school administrators were not primarily based on student performance, contrary to Section 1012.34(3), Florida Statutes.

Finding No. 3: The Board had not adopted formal policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance pursuant to Section 1012.22(1)(c)2., Florida Statutes, and documenting the differentiated pay process of instructional personnel and school-based administrators using the factors prescribed in Section 1012.22(1)(c)4., Florida Statutes.

CONFIDENTIAL INFORMATION

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.

INFORMATION TECHNOLOGY

Finding No. 5: The District's management of information technology (IT) access privileges of employees needed improvement.

Finding No. 6: The District needed to enhance its procedures to ensure the timely removal of IT access privileges for former employees.

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 (Board) is composed of five elected members. The appointed Superintendent of Schools is the executive officer of the Board.

During the 2009-10 fiscal year, the District operated 21 elementary, middle, high, and specialized schools; sponsored one charter school; and reported 22,768 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, 2010, will be presented in a separate report.

FINDINGS AND RECOMMENDATIONS

Capital Outlay Funding

Finding No. 1: Ad Valorem Taxation

Section 1011.71(2), Florida Statutes, provides that each school board may levy against the taxable value not more than 1.50 mills for capital outlay purposes. This section also provides the allowable uses of ad valorem tax levy proceeds that includes, among other things, funding new construction and remodeling projects; maintenance, renovation, and repair of existing schools; and property insurance premiums within specified limits. The District accounts for the ad valorem tax levy proceeds in the Local Capital Improvement (LCI) Fund.

During the 2009-10 fiscal year, the District recorded budgeted transfers, totaling approximately $5.8 million, from the LCI Fund to reimburse the General Fund for new school, maintenance, and property insurance premium costs. Our review of District records supporting these reimbursements disclosed salary and benefit expenditures, totaling $104,780, representing the costs of the principal, assistant principal, bookkeeper, and custodian for the Weeki Wachi High School that opened in August 2010. In September 2009, the Board held a workshop in which it discussed that the District would need to hire these personnel during the last six months of the fiscal year. District personnel indicated that the District paid these employees as designated on the salary schedule for their respective position classifications and the employees provided facility-related services necessary for the school to open. District personnel further indicated that the costs primarily represented time spent from January 2010 to June 2010 for the principal and assistant principal to assist the architects and contractors in assigning classroom locations within the school and identifying material and equipment needs, and for the bookkeeper to prepare purchase orders to buy necessary items.

District personnel also provided a spreadsheet that listed the positions and information to estimate and capitalize the costs to the school. However, the District did not maintain records, such as personnel activity reports, to evidence the extent to which these employees directly provided facility construction-related services as opposed to performing the duties associated with their position descriptions. As such, District records did not evidence the allowability of these employees' salary costs charged to the LCI Fund. Absent records identifying time spent on facility construction-related services, these expenditures represent questioned costs totaling $104,780.

Recommendation: The District should document the extent to which these employees directly provided facility construction-related services. Without records to evidence the allowability of these employees' salary costs charged to the LCI Fund, the District should restore these moneys, totaling $104,780, to the LCI Fund.

Follow-up to Management's Response:

The District's response indicates that the documentation provided sufficiently outlines the work performed by these individuals and considers daily activity logs to be an unreasonable expectation. Documentation provided indicated a timeline for the hiring of certain school administrative staff in anticipation of opening the Weeki Wachi High School; however, such documentation did not specifically indicate that the intended duties would be limited to only construction related services, and some of the duties described appear to be for preparing the school for opening instead of school construction. Without District records to evidence the extent to which these employees directly provided facility construction-related services, we remain of the opinion that $104,780 should be restored to the LCI Fund.

Performance Assessments and Compensation

Finding No. 2: Performance Assessments

Section 1012.34(3), Florida Statutes, requires the District to establish annual performance assessment procedures for instructional personnel and school administrators. When evaluating the performance of employees, the procedures must primarily include consideration of student performance, using results from student achievement tests, such as the Florida Comprehensive Assessment Test (FCAT), pursuant to Section 1008.22(3), Florida Statutes, at the school where the employee works. Additional employee performance assessment criteria prescribed by Section 1012.34(3)(a), Florida Statutes, include evaluation measures such as the employee's ability to maintain appropriate discipline, knowledge of subject matter, ability to plan and deliver instruction and use of technology in the classroom, and other professional competencies established by rules of the State Board of Education and Board policies. Section 1012.34(3)(d), Florida Statutes, requires that, if an employee is not performing satisfactorily, the performance evaluator must notify the employee in writing and describe the unsatisfactory performance.

The District established performance assessment procedures based on criteria prescribed by Section 1012.34(3)(a), Florida Statutes, except that the employees were not evaluated based primarily on student performance. According to District personnel, this occurred because they were initially uncertain how to comply with the statutory requirements. Without measuring employee performance by the required criteria, performance assessments of instructional personnel and school administrators are incomplete and may not effectively communicate the employee's accomplishments or shortcomings.

The District, in March 2010, established a committee to revise the assessment procedures, and the committee developed new evaluation procedures and forms, effective for the 2010-11 fiscal year. The new evaluation procedures and forms include consideration of the FCAT results for assessing instructional personnel and school administrator performance, and the Board approved the evaluation procedures and forms in September 2010.

Recommendation: The District should continue its efforts to ensure that performance assessments for instructional personnel and school administrators include consideration of student performance.

Finding No. 3: Compensation and Salary Schedules

Section 1001.42(5)(a), Florida Statutes, requires the Board to designate positions to be filled, prescribe qualifications for those positions, and provide for the appointment, compensation, promotion, suspension, and dismissal of employees, subject to the requirements of Chapter 1012, Florida Statutes. Section 1012.22(1)(c)2., Florida Statutes, provides that, for instructional personnel, the Board must base a portion of each employee's compensation on performance. In addition, Section 1012.22(1)(c)4., Florida Statutes, requires the Board to adopt a salary schedule with differentiated pay for instructional personnel and school-based administrators. The salary schedule is subject to negotiation as provided in Chapter 447, Florida Statutes, and must allow differentiated pay based on District-determined factors, including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties.

While compensation of instructional personnel is typically subject to collective bargaining, the Board had not adopted formal policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance pursuant to Section 1012.22(1)(c)2., Florida Statutes. Such policies and procedures could establish and clearly communicate the performance measures affecting instructional employee compensation. In addition, the

Board had not adopted formal policies and procedures establishing the documented process to identify instructional personnel and school-based administrators entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4., Florida Statutes. Such policies and procedures could specify the prescribed factors used as the basis for determining differential pay, the documented process for applying the prescribed factors, and the individuals responsible for making such determinations.

The 2009-10 fiscal year salary schedule and applicable union contracts for instructional personnel and school-based administrators provided pay levels based on various factors such as job classification, years of experience, level of education, and other factors. However, the District's procedures for documenting compliance with Section 1012.22(1)(c), Florida Statutes, could be improved, as follows:

- **Instructional Personnel**. The instructional personnel salary schedule and union contracts did not evidence that a portion of the compensation of each instructional employee was based on performance, contrary to Section 1012.22(1)(c)2., Florida Statutes. In addition, neither the salary schedule nor the union contracts evidenced differentiated pay based on school demographics and level of job performance difficulties for instructional personnel, contrary to Section 1012.22(1)(c)4., Florida Statutes. According to District personnel, the District expects to receive a grant for two schools that will allow the District to adjust the instructional salary schedule for school demographics and level of job performance difficulties for the 2010-11 fiscal year.

  The instructional personnel salary schedule and union contracts provided salary supplements for additional responsibilities beyond the standard seven and three-quarter hour day, such as supplements for athletic and drama coaches and department chairpersons, and for critical shortage areas, such as speech and language pathologists, social workers, and program specialists. However, District records did not sufficiently evidence the basis for identifying the selected critical shortage areas. Such documentation could include records evidencing a minimal number of applicants, high personnel turnover rates, and other factors demonstrating the difficulty of hiring and retaining particular personnel.

- **School-based Administrators**. District personnel indicated that the school-based administrators' salary schedule includes consideration for additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties. For example, District personnel indicated that the schedule evidenced differing administrative pay grades for elementary, middle, and high schools based on the additional responsibilities and school demographics of the type of schools. District personnel further indicated that they considered critical shortage areas and level of job performance difficulties by providing additional compensation for the administrators of the exceptional education centers. However, District records did not document the basis for identifying the critical shortage areas that resulted in the additional compensation for the administrators of the exceptional education centers and did not evidence the District's review and analysis of its other school administrator positions to provide consistency in the application of differentiated pay factors.

Without Board-adopted policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance, and clearly identifying the basis for the differentiated pay, the District may be limited in its ability to demonstrate that each instructional employee's performance correlated to their compensation and the various differentiated pay factors were consistently considered and applied.

Recommendation: The Board should adopt formal policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance, and differentiated pay of instructional personnel and school-based administrators is appropriately identified on salary schedules, consistent with Section 1012.22(1)(c), Florida Statutes.

Confidential Information

Finding No. 4: Collection of Social Security Numbers

The Legislature has acknowledged in Section 119.071(5)(a), Florida Statutes, the necessity of collecting social security numbers (SSN) 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 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 District has stated in writing the purpose for its collection and unless it is specifically authorized by law to do so, or is imperative for the performance of the District's duties and responsibilities as prescribed by law. Additionally, this section requires that if the District collects an individual's SSN, it must provide that individual with a written statement indicating whether the collection of the SSN is authorized or mandatory under Federal or State law, and identifying the specific Federal or State law governing the collection, use, or release of SSNs for each purpose for which the SSN is collected. This section also provides that SSNs collected by the District may not be used for any purpose other than the purpose provided in the written statement. This section further requires that the District review whether its collection of SSNs is in compliance with the above requirements and immediately discontinue the collection of SSNs for purposes that are not in compliance.

The District collected SSNs from employees and students for various reasons, such as record keeping and tax-related purposes, and prepared written statements notifying employees of the purpose for collection of the SSNs. The District also posted the purposes for collection of SSNs from students in school lobbies. However, because of oversights, the notifications to employees and the school lobby postings did not include the specific Federal or State law governing the collection, use, or release of SSNs, and whether the collection was authorized or mandatory under Federal or State law. Additionally, posting notifications to students in school lobbies did not ensure that the individuals who provided the student SSNs were properly notified. A similar finding was noted in our report No. 2010-036.

The District, in June 2010, amended the employee notifications to include the required information. Additionally, the District included SSN notifications in the student handbooks for the 2010-11 fiscal year and parents or guardians were required to return a signed page from the handbook evidencing receipt of this information; however, the handbook notification did not include the specific Federal or State law governing the collection, use, or release of SSNs and whether the collection was authorized or mandatory under Federal or State law.

Effective controls to properly monitor the need for and use of SSNs and to ensure compliance with statutory requirements reduces the risk that SSNs may be used for unauthorized purposes.

Recommendation: The District should continue its efforts to comply with Section 119.071(5)(a), Florida Statutes.

Information Technology

Finding No. 5: 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 information technology (IT) system access privileges that restrict employees to performing only those system functions that are necessary for their job duties. As similarly noted in our report No. 2010-036, we reviewed the access privileges to the human resource (HR) and finance applications and identified several employees who had inappropriate or unnecessary access privileges. Specifically:

- One Finance Department and three HR Department employees had the ability to add or update existing general employee and job base pay information, time exceptions, pay adjustments, substitute pay, and other compensation information. Subsequent to our inquiry, the District, in July 2010, removed the Finance Department employee's unnecessary access privileges; however, the inappropriate access of the three HR Department employees remained as of that date.
- Two Finance Department employees used the same payroll user identification code (ID) and password to update job base pay information, time exceptions, pay adjustments, and other compensation information. However, without separately maintained user IDs and passwords, the system did not specifically identify the user who updated the compensation information. Subsequent to our inquiry, the District, in September 2010, changed the payroll user ID to inquiry only.
- One Facilities Department and four Purchasing Department employees had the ability to add or update vendor information and purchase requisitions, approve purchase orders, and process invoices for payment. Subsequent to our inquiry, the District, in September 2010, removed the unnecessary access privileges of these employees.
- One Finance Department employee had the ability to add or update purchase requisitions and approve purchase orders. Another Finance Department employee had the ability to add or update vendor information and process invoices for payment. Subsequent to our inquiry, the District, in July and August 2010, took corrective action to remove the unnecessary access privileges of these employees.

A contributing factor for the above deficiencies was that department supervisors did not always properly review access privileges on a periodic basis to determine whether the access remained appropriate for their staff. Additionally, the District maintained a report to track changes made to the job base pay; however, it excluded changes for union-negotiated retroactive pay, and the employees who reviewed the report had the ability to update the job base pay, negating the usefulness of the report and the review. While our tests did not disclose any errors or fraud resulting from the unnecessary access privileges, and personnel other than the employees listed above performed controls such as budgetary and expenditure monitoring, the incompatible duties increase the risk of unauthorized or erroneous disclosure, modification, or destruction of financial information and IT resources.

Recommendation: The District should continue its efforts to 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. 6: Timely Removal of Access Privileges

Effective management of system access privileges includes the timely removal of employee IT access privileges when employment is terminated. Prompt action is necessary to ensure that a former employee's IT access privileges are not misused by the former employee or others.

District records indicated that 274 employees terminated employment with the District during the 2009-10 fiscal year. Our review of access records for 10 of these former employees disclosed that the AS400 operating system and TERMS user IDs were not discontinued until 3 to 16 days after the employees' termination dates for 9 of these employees. The District typically discontinued access based on a daily report produced by the Technology Information Services Department; however, because the Human Resources Department did not always obtain all required information to enter the termination dates timely, the District sometimes allowed access beyond the termination dates. While we noted no errors or fraud because of this control deficiency, without timely removal of terminated employee access, there is an increased risk that access privileges could be misused.

Recommendation: The District should enhance its procedures to ensure the timely removal of access privileges for former employees.

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the District had taken corrective actions for findings included in our report No. 2010-036.

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 from May 2010 to August 2010 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. 2010-036. 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 2009-10 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
Procedures to timely prohibit terminated employees' access to electronic data files.	Tested employees who terminated during the audit period and examined supporting documentation evidencing when the District terminated access privileges.
Procedures for granting access to information technology (IT) resources.	Reviewed employee access to selected functions within different applications to determine if an appropriate separation of duties existed in relation to employees' job functions.
Program change controls.	Reviewed documentation that supported the District's change management methodology for production data changes related to IT resources.
IT authentication controls.	Examined supporting documentation to determine whether certain authentication controls were configured and enforced in accordance with IT best practices.
John M. McKay Scholarships for Students with Disabilities Program.	Tested records to determine whether parents and guardians were notified annually of the John M. McKay Scholarships for Students with Disabilities Program pursuant to Section 1002.39(5)(a), Florida Statutes.
Fraud policy and related procedures.	Examined written policies, procedures, and supporting documentation related to the District's fraud policy and related procedures.
Social security number requirements of Section 119.071(5)(a), Florida Statutes.	Examined records to determine whether the District had provided individuals with a written statement as to the purpose of collecting social security numbers pursuant to Section 119.071(5)(a), Florida Statutes.
Financial condition requirements of Section 1011.051, Florida Statutes.	Applied analytical procedures to determine whether the General Fund unreserved fund balance at June 30, 2010, was less than the percents of the fund's revenues specified in Section 1011.051, Florida Statutes.
Direct-support organization audits.	Reviewed the District's direct-support organization's audit report to determine whether the audit was performed pursuant to Chapter 10.700, Rules of the Auditor General, and Section 1001.453, Florida Statutes.
Charter school administrative fee.	Examined records to determine whether the District properly withheld the charter school administrative fee pursuant to Section 1002.33(20)(a), Florida Statutes.
Restrictions on use of nonvoted capital outlay tax proceeds and Public Education Capital Outlay (PECO) funds.	Applied analytical procedures, tested payments made from nonvoted capital outlay proceeds and PECO funds, and examined supporting documentation to determine whether the District complied with requirements related to the use of nonvoted capital outlay proceeds and PECO funds.

EXHIBIT A (Continued)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Restrictions on use of Workforce Development funds.	Tested expenditures charged to Workforce Development 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 Florida Department of Education (FDOE) records and examined supporting documentation to determine whether the District reported instructional and contact hours in accordance with FDOE requirements.
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.
Performance assessments.	Examined supporting documentation to determine whether the District had established adequate performance assessment procedures for instructional personnel and school administrators primarily based on student performance and other criteria in accordance with Section 1012.34(3), Florida Statutes.
Compensation and salary schedules.	Examined supporting documentation to determine whether the Board, for instructional personnel, based a portion of each employee's compensation on performance, and adopted a salary schedule with differentiated pay for instructional personnel and school-based administrators based upon District-determined factors, including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties.
Superintendent and school board member compensation requirements of Chapter 2009-59, Laws of Florida.	Determined whether the Superintendent was properly paid pursuant to employment agreements and received no more than $225,000 in remuneration from State funds. Also, determined whether the salary of school board members was calculated according to statutory guidance.
Purchasing card transactions.	Tested purchasing card transactions for propriety and compliance with related laws, rules, and District procedures.

EXHIBIT B
MANAGEMENT'S RESPONSE

The School Board of Hernando County, Florida
919 North Broad Street
Brooksville, Florida 34601
(352) 797-7000
Fax (352) 797-7100

Superintendent
Bryan A. Blavatt
Chairperson
Charles "Pat" Fagan
Vice Chairperson
Sandra Nicholson
Members
Dianne Bonfield
John K. Sweeney
James C. Yant

October 28, 2010

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, 2010

Dear Mr. Martin:

Please accept the following written response concerning the preliminary and tentative audit findings for the Hernando County District School Board's 2009-2010 fiscal year audit. The District will implement these recommendations to increase accountability and promote effective and efficient operations throughout the District.

Finding No. 1: Ad Valorem Taxation

The District had not adequately documented the basis for using tax levy proceeds for school employee costs, resulting in questioned costs totaling $104,780.

Response:

The District hired internal staff during the final construction phase of a school project to coordinate the educational design elements of the facility, to order the equipment, technology, furniture, etc. needed to open the school, and to actually set up the school prior to opening in August 2010. The staff hired happened to be the principal, assistant principal, bookkeeper, and custodian, and their respective salaries/benefits were charged to the construction project through June 30, 2010. They were "specifically" directed to work with the Facilities Department during this final stage and no operational type duties were assigned to them.

Additional staff were hired prior to the opening of the school to perform operational type activities such as hiring teachers, making curriculum decisions, registering students, etc. Accordingly, these individuals were coded to the General Fund. The District was very strategic and deliberate to differentiate the positions and functions of the individuals who were hired during this phase to ensure that those performing operational activities were separately coded and identified from those performing facility-related activities.

Documentation was provided to audit staff, which the District believes sufficiently outlines the work performed by these individuals. As such, the District disagrees with this finding and strongly feels that these costs are allowable as they relate to the final construction of the school project. Furthermore, to make this an allowable use of tax levy proceeds, we consider the recommendation to document through daily logs to be unreasonable to the daily operation of the District.

The mission of the Hernando County School System is to provide a quality education in a safe environment for the youth of our community to foster their growth physically, socially, and academically. We will provide the opportunity for life-long learning for all our citizens so that all may compete and flourish in a modern, global economy. While students are our primary concern, and we recognize they are the reason for our existence, we are also sensitive to the needs of others such as parents, the community and all employees of Hernando County Schools.

An Equal Opportunity Employer

EXHIBIT B (Continued)
MANAGEMENT'S RESPONSE

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Finding No. 2: Performance Assessments

District performance assessment procedures for instructional personnel and school administrators were not primarily based on student performance, contrary to Section 1012.34(3), Florida Statutes.

Response:

The District has already taken action to ensure compliance with Section 1012.34, Florida Statutes. The Board has approved an evaluation system for instructional personnel and school-based administrators that is based primarily on student performance. This issue was addressed and corrected prior to this audit finding being presented.

Finding No. 3: Compensation and Salary Schedules

The Board had not adopted formal policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance pursuant to Section 1012.22(1)(c)2, Florida Statutes, and documenting the differentiated pay process of instructional personnel and school-based administrators using the factors prescribed in Section 1012.22(1)(c)4, Florida Statutes.

Response:

The school-based administrative salary schedule does include some of the parameters in the statute for differentiated pay including differentiating between the levels (elementary, K-8, middle, and high school) and different pay for ESE centers and non-ESE centers to address the population component. While the District recognizes the instructional and school-based administrative salary schedule could include additional factors and should have a portion of the salary based on performance, this remains an unfunded mandate. Due to budget constraints, this is not an immediate priority. However, through the Race to the Top grant, the District will consider the opportunity to enhance its compliance in the area of differentiated pay.

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 adequately notified employees of the purpose for collection of SSNs. Although the District included SSN notification to students in the 2010-2011 Student Code of Conduct as instructed by the auditors in the previous audit, the only information not included in the notification was the "purpose of collection" of the student SSNs. Accordingly, the District will modify the student notification in the 2011-2012 Student Code of Conduct to ensure it includes the specific Federal or State law governing the collection, use, or release of SSNs and whether the collection was authorized or mandatory under Federal or State law.

Finding No. 5: Information Technology – Access Controls

The District's management of information technology (IT) access privileges of employees needed improvement.

Response:

Upon discovery of certain access controls, the District took immediate action to remove unnecessary privileges. The District will continue to review access controls to ensure access privileges are compatible with job responsibilities, and where such access may not be compatible define compensating controls to mitigate the potential for errors or fraud.

EXHIBIT B (Continued)
MANAGEMENT'S RESPONSE

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Finding No. 6: Information Technology – Timely Removal of Access Privileges

The District needed to enhance its procedures to ensure the timely removal of IT access privileges for former employees.

Response:

The Technology and Information Services (TIS) Department implemented a new procedure to ensure the timely removal of access privileges for former employees. A daily report is generated that lists terminated employees and employees on leave. An employee identification field was added to security files and is used to check an employee's job status on the Human Resources (HR) system, thereby eliminating the need for HR to notify TIS when employees leave the system. TIS will only be able to remove security based on TERMS records being updated on a timely basis by HR, but the new process will allow the removal of access privileges one day after the data is entered in TERMS.

We would like to extend our appreciation to your staff for their assistance throughout the audit process.

Sincerely,

Bryan A. Blavatt
Superintendent

BAB/drh

cc: School Board Members
Sonya Jackson, Assistant Superintendent
Heather Martin, Executive Director of Business Services