REPORT NO. 2011-072
JANUARY 2011

PASCO COUNTY

DISTRICT SCHOOL BOARD

Operational Audit

STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD MEMBERS AND SUPERINTENDENT

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

	District No.
Allen Altman, Vice Chair to 11-16-09, Chair from 11-17-09	1
Joanne Hurley, Vice Chair from 11-17-09	2
Cathi Martin	3
Kathryn Starkey	4
Frank Parker, Chair to 11-16-09	5

Heather Fiorentino, Superintendent

The audit team leader was Eric Davis, CPA, and the audit was supervised by Janice Priolo, CPA. The information technology portion of this audit was conducted by Danielle M. Alvarez, CISA, and supervised by Nancy M. 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.

PASCO COUNTY

District School Board

SUMMARY

Our operational audit disclosed the following:

BOARD POLICIES

Finding No. 1: Board policies could be enhanced for communicating known or suspected fraud to appropriate authorities.

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.

CONSTRUCTION ADMINISTRATION

Finding No. 4: The District did not always procure construction management services in accordance with Section 287.055, Florida Statutes.

CHARTER SCHOOLS

Finding No. 5: The District could enhance the monitoring of insurance for District charter schools.

SAFETY PROCEDURES

Finding No. 6: The District did not timely provide floor plans for newly constructed facilities to area law enforcement agencies and fire departments, contrary to Section 1013.13, Florida Statutes.

RECORD KEEPING

Finding No. 7: The District needed to enhance controls over the maintenance and warehouse department inventories by adequately separating asset custody and record keeping responsibilities or implementing adequate compensating controls.

Finding No. 8: Controls over journal entries needed improvement.

STUDENT ENROLLMENT

Finding No. 9: Improvements were needed in controls over the reporting of instructional contact hours for adult general education courses to the Florida Department of Education.

INFORMATION TECHNOLOGY

Finding No. 10: The District's management of information technology (IT) access privileges needed improvement.

Finding No. 11: The District could improve IT security controls related to user authentication.

BACKGROUND

The Pasco 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 Pasco County. The governing body of the Pasco County District School Board (Board) is composed of five elected members. The elected Superintendent of Schools is the executive officer of the Board.

During the 2009-10 fiscal year, the District operated 76 elementary, middle, high, and specialized schools; sponsored five charter schools; and reported 66,207 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

Board Policies

Finding No. 1: Fraud Policy

The Board has various policies that require District administrative and instructional staff members to familiarize themselves with the Code of Ethics of the Educational Profession in Florida, self-report employee arrests, and the District to report employee arrests to the Florida Department of Education. In addition, the District provides ethics training to educate all employees about the types and examples of professional misconduct, and procedures for reporting such misconduct. Also, Board policies require all employees to report possible violations of Federal or State law, or Board Policy, in writing to their immediate supervisor, the Superintendent if the violation regards the immediate supervisor, or directly with the Board Chair or Governor if the violation regards the Superintendent.

While these policies address professional misconduct, they do not clearly identify actions constituting fraud, responsibility for fraud investigations, and consequences for fraudulent behavior. Also, since the policies require that alleged or known fraud be reported in writing and do not provide for verbal reporting, employees who are hesitant to report in writing may not communicate this information. Effective fraud policies are necessary to educate employees about proper conduct, create an environment that deters dishonesty, and maintain internal controls that provide reasonable assurance of achieving management objectives and detecting dishonest acts. In addition, such policies serve to establish the responsibilities for investigating potential incidents of fraud, taking appropriate action, reporting evidence of such action to the appropriate authorities, and to avoid damaging the reputations of persons suspected of fraud but subsequently found innocent. Further, in the absence of such policies, the risk increases that a known or suspected fraud may be identified but not reported to the appropriate authorities.

Recommendation: To aid in the detection and prevention of fraud, the Board should enhance its policies by clearly identifying actions constituting fraud, responsibility for fraud investigations, consequences for fraudulent behavior, and allowing verbal reporting of alleged or known fraud.

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. The District's assessment form used to evaluate instructional personnel consisted of nine distinct competency areas, one of which relates to assessment of student performance; however, District records did not evidence the correlation of the results from student achievement tests, such as the FCAT, to instructional employee performance assessments. In addition, the assessment form for school administrators did not evidence any consideration of student performance.

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.

Recommendation: The District should enhance procedures to ensure that performance assessments for instructional personnel and school administrators are based primarily on 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 the

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 to be 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.

  Instructional personnel salary schedule and union contracts provided salary supplements for additional responsibilities beyond the standard seven and one-half hour day, such as supplements for athletic coaches, department chairpersons, and student activity and organization sponsors. Also, District personnel indicated that the District complied with the school demographic and level of job difficulty requirements prescribed by statute as additional compensation was provided to teachers at two schools that had low test scores of students during the 2007-08 school year. However, neither the salary schedule nor the union contracts evidenced provision for differentiated pay based on critical shortage areas for instructional personnel, contrary to Section 1012.22(1)(c)4., Florida Statutes.

- **School-based Administrators**. District personnel indicated that the school-based administrators' salary schedule included consideration for additional responsibilities, school demographics, and level of job performance difficulties as the schedule provided differing administrative pay grades for elementary, middle, and high school administrators. However, the salary schedule did not evidence provision for differentiated pay based on critical shortage areas for school-based administrators, contrary to Section 1012.22(1)(c)4., Florida Statutes.

Without Board-adopted policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance, and sufficiently 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.

Construction Administration

Finding No. 4: Construction Management Services

Pursuant to Section 1013.45(1), Florida Statutes, the District may contract for the construction or renovation of facilities using various delivery methods, including construction management. Pursuant to Section 1013.45(1)(c), Florida Statutes, the District must select the construction management entity pursuant to Section 287.055, Florida Statutes. Section 287.055(3), Florida Statutes, requires that the District publicly announce, in a uniform and consistent manner, each occasion when professional services must be purchased for a project in which the basic construction cost is estimated by the agency to exceed a specified amount ($250,000 for the 2009-10 fiscal year). The public notice must include a general description of the project and must indicate how interested consultants may apply for

consideration. Sections 287.055(4) and (5), Florida Statutes, require the District to select in order of preference no fewer than three firms deemed to be the most highly qualified to perform the required services for each proposed project. Should the District be unable to negotiate a satisfactory contract with the firm considered to be the most qualified at a price the District determines to be fair, competitive, and reasonable, negotiations with that firm must be formally terminated, and the District must then undertake negotiations with the second most qualified firm. Failing accord with the second most qualified firm, the District must then undertake negotiations with the third most qualified firm.

Our review of District construction activities during the 2009-10 fiscal year disclosed that the District used construction management firms for:

- The Anclote High and Watergrass Elementary School projects, for which construction began in January and June 2008, respectively, and were completed in August 2009. Project expenditures totaled approximately $2.5 million and $1 million, respectively, for the 2009-10 fiscal year.
- The Connerton Elementary School project, for which construction began in May 2009 and was completed in June 2010. Project expenditures totaled approximately $7.1 million for the 2009-10 fiscal year.
- The Odessa Elementary School project, for which construction began in June 2009 and was completed in June 2010. Project expenditures totaled approximately $8.3 million for the 2009-10 fiscal year.

Our inquiry and review of District records disclosed that the District typically uses the same process once every three years to select construction managers for projects planned for the next three-year period. For the above projects, we noted that the District, in August 2006, solicited a request for qualifications (RFQ) for construction management for several school projects planned to be constructed over the next three years, including the four projects noted above for which project expenditures were incurred during the 2009-10 fiscal year. As part of the RFQ process, the District separated the planned projects into five distinct request for proposal (RFP) packages each of which included a varying number of the planned projects. Construction costs were estimated at the time to be approximately $266 million for all planned projects. The District's selection committee selected 12 firms to take part in an interview phase, which the Board approved on November 7, 2006.

As part of the interview phase, the firms listed their preference of the packages. Based on the results of this interview phase, the selection committee ranked the 12 firms and the highest ranked firm received their first choice of the packages, the second highest ranked firm received their choice of the remaining packages, and this process continued until all five packages were assigned. Once the selection committee awarded a package to a firm, the firm was not eligible to choose any other package. The Board approved the final selections of the five firms on December 5, 2006. However, contrary to Section 287.055, Florida Statutes, by grouping these major construction projects into a single RFQ and assigning the projects to five different firms in such a manner, District records did not evidence that the most highly qualified firm was selected for each of the five packages.

Recommendation: The District should enhance procedures to competitively select the most highly qualified firm for each project as required by Section 287.055, Florida Statutes.

Follow-up to Management's Response:

The District's response indicates that the process outlined in the finding was established by District staff in July 2003 after consulting and receiving approval from Auditor General's staff, Attorney General's staff, and determination by the District's Board Attorney to comply with Section 287.055, Florida Statutes. It should be noted that the Auditor General, as an independent post auditor, does not pre-approve procurement

processes, nor do we have the authority to do so. While District staff did previously consult with Auditor General staff regarding statutory provisions addressing the competitive selection requirements, District correspondence did not describe a process that would give construction managers the choice of which construction projects they wanted to complete rather than the District selecting the most highly qualified firm for each package of projects. If it is the District's intent to continue to use the above-described process, we recommend that the District request an opinion from the Attorney General.

Charter Schools

Finding No. 5: Insurance

Agreements with the five charter schools that the District sponsored during the 2009-10 fiscal year required the schools to maintain commercial general liability, automobile liability, workers' compensation, school leaders' errors and omissions, and property insurance, with specified limits. The District's Charter Schools Department is responsible for monitoring the charter schools' compliance with the insurance requirements. As similarly noted in our report No. 2008-074, District records did not always evidence that charter schools maintained adequate insurance, as follows:

- Insurance requirements in some of the charter school agreements omitted certain necessary types of insurance. Although agreements with three schools required fidelity insurance, agreements with two schools (Dayspring Academy and Academy at the Farm) did not. Also, agreements with three schools (Dayspring Academy, Academy at the Farm, and Countryside Montessori) required property insurance but excluded wind and hail insurance.

- Although the agreements for two charter schools (Dayspring Academy and Academy at the Farm) required insurance for all owned, nonowned, and hired autos and buses of $1 million per occurrence with an annual aggregate of at least $2 million, these schools insurance policies only provided $1 million aggregate annual coverage. The Academy at the Farms charter school owned no vehicles, and Dayspring Academy charter school only owned buses; however, the required insurance is necessary for the schools' transportation of staff and students using nonowned and hired vehicles.

- While agreements for three charter schools (Dayspring Academy, Academy at the Farm, and Countryside Montessori) required workers' compensation coverage of at least $1 million per occurrence with an annual aggregate of at least $2 million, these schools' insurance policies only provided $1 million aggregate annual coverage.

- The agreement for one charter school (Countryside Montessori) required fidelity coverage of at least $250,000 for employee dishonesty, $250,000 for forgery and alteration, $250,000 for embezzlement, and $500,000 for computer crime; however the charter school's insurance certificate indicated no fidelity coverage.

Absent sufficient insurance requirements in charter school agreements, and adequate procedures to monitor compliance with such requirements, there is an increased risk that insurance may not be adequate, subjecting the District to potential losses.

Recommendation: The District should enhance procedures to ensure that all charter school agreements include language requiring sufficient insurance, and that such insurance is properly maintained.

Safety Procedures

Finding No. 6: Educational Facilities

Section 1013.13(1), Florida Statutes, requires the District to provide a copy of the educational facility floor plans and other relevant documents to law enforcement agencies and fire departments that have jurisdiction over District facilities. This statute further requires that, after the initial submission of these copies, the District must submit to these agencies by October 1 of each year, revised documents of District facilities that were modified during the preceding year. This information is useful to local authorities in the event that emergency hazardous conditions develop at District sites.

The District completed construction of Sunlake High, Wiregrass Ranch High, Charles S. Rushe Middle, Trinity Oaks Elementary, and Double Branch Elementary during 2007; Crew Lake Middle, Veterans Elementary, Gulf Trace Elementary, and New River Elementary during 2008; and Anclote High and Watergrass Elementary Schools prior to October 2009. However, contrary to Section 1013.13(1), Florida Statutes, the District did not submit facility floor plans for these newly constructed facilities to local law enforcement agencies and fire departments until after our inquiries in May 2010. District staff indicated that the delay occurred because the District was implementing a new digital imaging process that provides comprehensive facility-related information, such as aerial photo overviews and floor plans, and the process was not complete until May 2010. A similar finding was noted in our report No. 2008-074.

Recommendation: The District should enhance school safety procedures to ensure that floor plans and other relevant documents are filed timely with appropriate law enforcement agencies and fire departments.

Record Keeping

Finding No. 7: Inventories

The maintenance and warehouse inventories consisted primarily of items used to maintain and repair facilities, and purchased food and supplies, and totaled $1,322,737.63 and $1,508,611.43, respectively, at June 30, 2010. Two employees in the maintenance department and two employees in the District's main warehouse had unrestricted access to the physical inventory and maintained the perpetual inventory records. District personnel indicated that the incompatible duties existed because of staffing limitations. To compensate, in part, for the incompatible duties for the main warehouse inventories, the Director of Food, Nutrition, and Distribution Services independently reviewed and approved the March and April 2010 inventory adjustments. Our analytical procedures and tests did not disclose any errors or fraud associated with these control deficiencies; however, given the inadequate separation of duties and lack of adequate compensating controls, there is an increased risk that errors or fraud could occur and not be timely detected. Such compensating controls could include periodic independent comparisons of inventory purchases or issuances recorded in the perpetual records to supporting documentation, independent review and approval of inventory adjustments, and periodic independent reconciliations of physical inventory counts to perpetual inventory records. A similar finding was noted in our report No. 2008-074.

Recommendation: The District should provide for an adequate separation of duties associated with the maintenance and warehouse departments' inventories to the extent practicable with existing personnel or implement adequate compensating controls.

Finding No. 8: Journal Entries

Certain finance office staff prepared journal entries to make adjustments to the accounting records, and the Director of Finance Services generally evidenced his approval of these entries by signing and dating a journal entry preparation sheet prepared by finance office staff for entries proposed. However, because the Director of Finance Services relied on staff to submit preparation sheets, without reviewing a detail report of posted journal entries, there was a risk that entries could be posted without review and approval. Although independent bank account reconciliations were performed to mitigate the lack of journal entry approval and our tests disclosed that entries were appropriate and adequately supported, under these circumstances, there is an increased risk of incorrect or unauthorized adjustments to the accounting records. Subsequent to our inquiry, in September 2010, the Director of Finance Services began approving monthly detail reports of posted journal entries.

Recommendation: The District should continue its efforts to ensure that journal entries are reviewed and approved by supervisory personnel.

Student Enrollment

Finding No. 9: 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 2009-081, Laws of Florida, Specific Appropriation 111, states that from the funds provided in Specific Appropriations 9 and 111, 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 stated 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. Also, FDOE procedures provided 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 with the withdrawal date reported as the day after the last date of attendance. Additionally, FDOE procedures provided that a student must participate in at least 12 hours of instructional activity in a program before the enrollment hours for the student can be reported. District procedures provided that instructors of virtual (online) classes review online logon records at least monthly to identify nonactive students for withdrawal.

For the 2009-10 fiscal year, the District reported 654,500 adult general education contact hours for 6,561 students to FDOE. Our review of the hours reported for 25 students enrolled in 41 adult general education classes disclosed various reporting exceptions for 17 of the students tested, resulting in 744 hours overreported for 22 classes, as follows:

- For ten students enrolled in 12 online classes, contact hours were overreported by 413 hours, ranging from 11 hours to 69 hours overreported. The main reason for the overreported hours was because District personnel did not properly perform the review procedures to identify and withdraw nonactive students.
- Two students switched from online to traditional classes; however, because of an oversight, the students were never withdrawn from the online classes, resulting in 178 hours overreported.
- For five students enrolled in seven classes, contact hours were overreported by 153 hours because the District used the wrong withdrawal date for students who had six consecutive absences or were not properly withdrawn.

Since future funding may be based, in part, on enrollment data submitted to FDOE, it is important that such data be submitted correctly.

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. The District should also contact the Florida Department of Education to determine proper resolution of the overreported hours.

Information Technology

Finding No. 10: Management of Access Privileges

Access controls are intended to protect data and information technology (IT) resources from unauthorized disclosure, modification, or destruction. Effective access controls provide employees access to IT resources based on a demonstrated need to view, change, or delete data and restrict employees from performing incompatible functions or functions outside of their areas of responsibility. Periodically reviewing IT access privileges assigned to employees promotes good internal control and is necessary to ensure that employees cannot access IT resources inconsistent with their assigned job responsibilities.

We reviewed selected access privileges to the production environment and the financial and human resources applications to determine the appropriateness of access privileges. Our audit disclosed that, although Information Services (IS) employees perform an annual review of access privileges, whereby cost center administrators review lists of all active user accounts for their sites and provide feedback to IS on any needed changes to access privileges, some inappropriate or unnecessary access privileges existed. The existence of the inappropriate or unnecessary access privileges indicated a need for improved District review of access privileges. Specifically:

- Thirteen IS employees had update access to production programs, files, and data, including payroll, human resource, and expenditure files. Also, 7 of the 13 IS employees plus one additional IS employee had front end application update capability. Such access was inappropriate for their job duties. Failure to appropriately restrict update access to the production environment increases the risk that unauthorized programs may be moved into production or erroneous modification to production data may occur, thereby compromising the integrity of District data. In response to audit inquiry, the District implemented a monitoring control that requires a supervisor to review production modifications made by IS employees and retain evidence of this review.
- Four employees in the Finance department had the ability to enter and post journal entries within the financial application. This access was unnecessary for their assigned job duties.

Although the District had controls in place (e.g., budgetary restrictions) to mitigate some of the risks of the control deficiencies noted above, inappropriate or unnecessary access privileges increase the risk that unauthorized disclosure, modification, or destruction of data and IT resources may occur without timely detection.

Recommendation: The District should be more restrictive in the granting of access privileges to ensure that access privileges are compatible with assigned job responsibilities and promote appropriate separation of duties. Additionally, the District should improve its review of the appropriateness of access privileges and timely remove or adjust any inappropriate access detected.

Finding No. 11: Security Controls

Security controls are intended to protect the confidentiality, integrity, and availability of data and IT resources. Our audit disclosed certain District security controls related to user authentication that needed improvement. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising District data and IT resources. However, we have notified appropriate District management of the specific issues. Without adequate security controls related to user authentication, 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 previous audit reports.

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 April 2010 to October 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 previous audit reports. 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
Security awareness and training program regarding the confidentiality of information.	Examined supporting documentation to determine whether the District had developed a comprehensive information technology (IT) security awareness and training program.
Change control procedures.	Examined written policies, procedures, and supporting documentation to determine whether change control procedures were in place to ensure modifications are properly authorized, tested, and approved. Tested programmer access to production data files.
User authentication controls.	Examined supporting documentation to determine whether authentication controls were configured and enforced in accordance with IT best practices.
Application access.	Reviewed selected access privileges to determine whether access privileges were appropriately granted.
Audit logging and monitoring.	Examined written policies, procedures, and supporting documentation to determine whether audit logging and monitoring controls were configured in accordance with IT best practices.
Procedures to timely prohibit former or transferred employees' access to electronic data and IT resources.	Tested employees who terminated or transferred during the audit period and examined supporting documentation to determine whether the District timely terminated IT access privileges.
Procedures for monitoring charter schools.	Interviewed District personnel and reviewed supporting documentation to determine if the District effectively monitored charter schools.
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.
Fraud policy and related procedures.	Examined written policies, procedures, and supporting documentation related to the District's fraud policy and related procedures.
Sunshine Law.	Reviewed selected Board minutes and supporting documentation to determine whether the District complied with the Sunshine Law requirements (i.e., proper notice of meetings, ready access to public, maintain minutes).
Financial condition.	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.
Restrictions on use of nonvoted capital outlay tax levy proceeds.	Applied analytical procedures, tested payments made from nonvoted capital outlay tax levy proceeds, and examined supporting documentation to determine whether the District complied with requirements related to the use of nonvoted capital outlay tax levy proceeds.
Restrictions on use of Workforce Development funds.	Applied analytical procedures 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).

EXHIBIT A (Continued)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
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.
Social security numbers.	Examined supporting documentation to determine whether the District had provided individuals with a written statement as to the purpose of collecting social security numbers and certified compliance pursuant to Section 119.071(5)(a), Florida Statutes.
Timely monitoring of financial information.	Examined Board minutes, and for selected months, reviewed financial reports presented to the Board to determine whether information was timely and reflected the District's actual financial position.
Internal audit function.	Examined organizational structure, interviewed District personnel, and reviewed reports prepared by the District's internal auditor to determine effectiveness of the District's internal audit function.
Procedures for adopting and amending the budget.	Examined supporting documentation to determine whether budgets and amendments to budgets were prepared and adopted in accordance with applicable Florida Statutes and State Board of Education Rules.
Voted and nonvoted millage rates.	Reviewed Board minutes and supporting documentation to determine millage rates enacted were those approved by the Board and prescribed by the Florida Department of Education.
Strategic plan.	Reviewed the District's strategic plan to determine whether it established long-term and short-term goals and priorities.
Bank account reconciliations.	Reviewed bank account reconciliations and supporting documentation to determine whether the District timely performed bank reconciliations.
Depositories.	Interviewed District personnel and reviewed supporting documentation to determine whether the District used only depositories qualified by the State Treasurer.
Electronic funds transfers.	Reviewed electronic funds transfer agreements and procedures to determine whether such procedures promoted compliance with SBE Rule 6A-1.0012, FAC.
Investment policy.	Examined the Board's investment policy to determine whether components prescribed by Section 218.415, Florida Statutes, were present.
Commodity food items.	Reviewed District records and procedures to determine whether the District properly safeguarded commodity food items.
Land acquisitions.	Examined District records supporting land acquisitions to determine whether the District complied with applicable laws and State Requirements for Educational Facilities guidelines pertaining to these acquisitions.

EXHIBIT A (Continued)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
John M. McKay Scholarships for Students with Disabilities Program.	Reviewed documentation 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.
Cash collection procedures.	Reviewed collection procedures and tested daily cash collections at selected locations to determine the effectiveness of the District's collection procedures.
Tangible personal property.	Tested significant tangible personal property items at selected schools to determine whether items existed, were properly marked, and listed in subsidiary records. Also determined, on a test basis, whether the District timely deleted tangible personal property items approved for disposal.
Educational facility floor plans.	Interviewed District personnel and reviewed supporting documentation to determine whether floor plans for all newly constructed or remodeled educational facilities were submitted to law enforcement and fire agencies by October 1 pursuant to Section 1013.13, Florida Statutes.
Administration of construction projects.	Tested major construction projects to determine whether District monitoring procedures ensured construction managers were properly licensed, selected, and paid, and maintained sufficient insurance; the Board properly approved project designs; and the District obtained required inspections prior to occupancy.
Selection process and insurance for architects and engineers.	Tested major construction projects to determine whether architects and engineers engaged during the audit period were properly selected and, where applicable, had evidence of required insurance.
Annual safety inspections.	On a test basis, obtained copies of the most recent safety inspection reports and determined whether deficiencies noted were timely corrected.
Employee compensation procedures.	Tested employee payments to ensure payments were properly documented, supported, and accounted for.
New hire procedures.	Tested whether District records evidenced prior work experience, educational background and required background checks for new hires.
Procedures for fingerprinting and background checks for personnel that had direct contact with students.	Tested District records to determine whether the District had obtained required fingerprint and background checks for individuals included in our test.
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.

EXHIBIT A (Continued)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
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 Board member compensation.	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.
Procurement policies and procedures.	Tested District records to determine the propriety of expenditures and whether the District complied with bid requirements for significant dollar purchases.
Self-insurance claims payments.	Interviewed District personnel and supporting documentation to determine whether payments for claims were proper.
Purchasing card transactions.	Tested purchasing card transactions for propriety and compliance with related laws, rules, and District procedures.

EXHIBIT B
MANAGEMENT'S RESPONSE

Pasco County Schools
Helping Students Reach Their Highest Potential

District School Board of Pasco County

7227 Land O' Lakes Boulevard • Land O' Lakes, Florida 34638 • 813/ 794-2000

Heather Fiorentino, Superintendent www.pasco.k12.fl.us

December 6, 2010

David W. Martin, CPA
Auditor General
111 West Madison Street
Tallahassee, Florida 32302

Dear Mr. Martin:

We appreciate the efforts of your professional staff in analyzing the District School Board of Pasco County's operations.

The following paragraphs enumerate various actions the District will take and provides clarification applicable to certain findings and recommendations listed in the preliminary and tentative operational audit report for the fiscal year ended June 30, 2010.

Finding #1: The District will enhance its Board policies by clearly identifying actions that constitute fraud, responsibility for fraud investigations, consequences of fraudulent behavior, and allowing for verbal reporting of alleged fraud.

Finding #2 – The District has established performance assessment procedures based on the criteria specified in Section 1012.34(3), Florida Statutes, including an evaluation dimension based on assessment of student performance. The District will work to enhance performance procedures to ensure that performance assessments for instructional personnel and school administrators are based primarily on student performance.

Finding #3 – In the 2010-2011 school year, the Board adopted a performance pay system for instructional and administrative personnel working in Pasco e-school. The District is implementing for the 2010-2011 school year, differentiated pay at Ridgewood High School to comply with requirements for schools in the lowest performing 5%. The District will enhance its compensation systems to clearly identify and document both performance pay and differentiated pay components, as prescribed in Section 1012.22(1)(c), Florida Statutes.

Finding #4 – While the District understands the auditor's position, it respectfully disagrees with the auditor's assessment that the District records did not evidence that the most highly qualified firm was selected for the projects referenced in the comment. The process outlined in the comment was established by District staff in July 2003 after consulting and receiving approval from Auditor General's staff, Attorney General's staff and determination by the District's Board Attorney to comply with Section 287.055, Florida Statutes.

EXHIBIT B
MANAGEMENT'S RESPONSE (Continued)

Finding #5 – On November 2, 2010, the Board approved an amendment to all existing charter school contracts that requires uniform insurance coverage, the use of common language and alignment with current industry standards. The District will enhance its procedures to ensure that Charter Schools comply with all insurance requirements.

Finding #6 – The District concurs with this finding and has implemented measures, by way of a digital school facility database, to provide floor plans to law enforcement agencies and fire departments in accordance with Section 1013.13, Florida Statutes.

Finding #7 – The District will evaluate the duties among the maintenance staff to ensure an adequate separation of duties and will implement periodic independent reviews of inventory adjustments; and periodic independent reconciliations of physical inventory to perpetual inventory for both the Maintenance and Warehouse Departments' inventories.

Finding #8 – The District had compensating controls to prevent incorrect or unauthorized ledger adjustments. As a result of the large turn-over of supervisory level employees in the Finance Department during the past three years, this procedure was inadvertently discontinued. During the 2010-2011 fiscal year, the procedure was reinstated and official review of all posted journal entries has resumed.

Finding #9 – The District concurs with this finding and is in the process of revising procedures and providing additional training to Adult Education staff to ensure compliance with state-mandated entry and withdrawal policies and will contact the Florida Department of Education to determine proper resolution of the over reported hours.

Finding #10 – The District concurs with this finding and steps have been taken to remove unnecessary privileges. The District will continue to review access controls to ensure access privileges are compatible with job responsibilities and to promote separation of duties. The Information Services Department has implemented controls to ensure the timely removal of any inappropriate access detected.

Finding #11 – Information Services staff has already implemented controls related to user authentication to ensure the continued confidentiality, integrity and availability of District data and IT resources.

We appreciate the opportunity to respond to these findings and we would like to extend our appreciation to your staff for their assistance throughout the audit process.

Sincerely,

Heather Fiorentino
Superintendent