REPORT NO. 2013-039
NOVEMBER 2012

VOLUSIA 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 2011-12 fiscal year are listed below:

	District No.
Candace Lankford	1
Dr. Al Williams, Vice Chair to 11-21-11, Chair from 11-22-11	2
Stan Schmidt, Chair to 11-21-11	3
Judy Conte, Vice Chair from 11-22-11	4
Diane Smith	5

Dr. Margaret Smith, Superintendent

The audit team leader was Tina Z. Myers and the audit was supervised by Keith A. Wolfe, CPA. For the information technology portion of this audit was conducted by William Y. Marshall and the supervisor was Heidi G. Burns, 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) 487-9175; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

VOLUSIA COUNTY

District School Board

SUMMARY

Our operational audit disclosed the following:

PERSONNEL AND PAYROLL

Finding No. 1: The Board had not adopted formal policies and procedures establishing a documented process to identify instructional personnel entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4.b., Florida Statutes.

FACILITIES ADMINISTRATION AND MONITORING

Finding No. 2: Improvements were needed in controls over monitoring subcontractor services for guaranteed maximum price contracts.

PROCUREMENT

Finding No. 3: Controls over purchasing card single transaction and monthly credit limits could be enhanced.

FINANCIAL REPORTING

Finding No. 4: District records did not document the basis for reporting approximately $2 million of resources as restricted fund balance in a capital projects fund or the specific capital outlay purposes for which these resources were restricted.

INFORMATION TECHNOLOGY

Finding No. 5: The District lacked written and approved policies and procedures for certain information technology (IT) functions.

Finding No. 6: Certain IT security controls related to network administration, data loss prevention, and logging and monitoring needed improvement.

Finding No. 7: The District's IT disaster recovery planning procedures needed improvement.

Finding No. 8: The District did not have a written IT security incident response plan.

BACKGROUND

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

During the 2011-12 fiscal year, the District operated 69 elementary, middle, high, and specialized schools; sponsored nine charter schools; and reported 61,403 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, 2012, will be presented in a separate report.

FINDINGS AND RECOMMENDATIONS

Personnel and Payroll

Finding No. 1: 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)4.b., Florida Statutes, provides that, for instructional personnel, the Board must provide differentiated pay based upon 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 establishing the documented process to identify instructional personnel entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4.b., 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 2011-12 fiscal year union contract and salary schedule for instructional personnel provided pay levels based on various factors such as job classification, years of experience, level of education, and other factors. The instructional personnel salary schedule and union contract provided salary supplements for additional responsibilities beyond the standard workday, such as supplements for coaching athletic activities, extra duty supplements, and supervising student clubs. These records also provided differentiated pay salary supplements for school demographics and level of job performance difficulties for those schools that had not met the Federal adequate yearly progress requirements. In addition, the union contract provided for the Superintendent to designate instructional personnel eligible for critical shortage area signing bonuses; however, no critical shortage area bonuses were paid for the 2011-12 fiscal year. In addition, District records did not evidence the establishment of specific criteria for determining critical shortage areas for instructional personnel or the application of such criteria by the Superintendent. To document this process, records could evidence the number of applicants, personnel turnover rates, and other factors demonstrating the difficulty of hiring and retaining certain instructional personnel.

Without Board-adopted policies and procedures for identifying the basis for differentiated pay, the District may be limited in its ability to demonstrate that the various differentiated pay factors are consistently considered and applied.

Recommendation: The Board should adopt formal policies and procedures for ensuring that differentiated pay of instructional personnel is appropriately identified on salary schedules, consistent with Section 1012.22(1)(c)4.b., Florida Statutes.

Facilities Administration and Monitoring

Finding No. 2: Construction Management Services – Contract Administration

Section 1013.45(1)(c), Florida Statutes, authorizes the District to contract for the construction or renovation of facilities with a construction management entity (CME). Under the CME process, contractor profit and overhead are

contractually agreed upon, and the CME is responsible for all scheduling and coordination in both design and construction phases and is generally responsible for the successful, timely, and economical completion of the construction project. The CME may be required to offer a guaranteed maximum price (GMP), which allows for the difference between certain costs of the project and the GMP amount, or the net cost savings, to be returned to the District. As such, a GMP contract requires District personnel to closely monitor the construction costs and award of bids to subcontractors.

In July 2007, the Board approved a GMP contract with a CME for the Ormond Beach Middle School project with total costs of approximately $40 million. During the 2011-12 fiscal year, the District incurred expenditures totaling $23.8 million for major construction projects, including approximately $5.3 million for the contractor of the middle school project, of which $4.8 million was for subcontractor work. It is anticipated that the project will be completed during the 2012-13 fiscal year.

District personnel indicated that the CME solicited bids and awarded subcontracts, as necessary, for the middle school project and, prior to payment to the CME, the District project manager visually inspected the job site with the architect and CME representative. While the project manager signed the CME application for payment to evidence approval of the construction work, District personnel did not attend the subcontractor bid openings or initially obtain subcontractor bids and contracts. Subsequent to our inquiry, District personnel obtained subcontractor bid tabulation sheets and contracts that evidenced the selection of subcontractors with the lowest dollar bids and that generally supported payments to the CME for subcontractor services. However, without District procedures to appropriately monitor the award of subcontractor bids and reconcile CME payments to subcontractor bids and contracts before CME payments are made, the risk increases that the lowest and best prices for subcontractor services, consistent with acceptable quality and performance, will not be obtained or that overpayments to CMEs may occur and not be timely detected and corrected.

Recommendation: The District should enhance controls over GMP contracts to ensure that District personnel monitor the subcontractor selection process and reconcile CME payments to subcontractor bids and contracts.

Procurement

Finding No. 3: Purchasing Cards

The District administers a purchasing card program to efficiently and effectively expedite low dollar purchases of goods and services and high volume repetitive purchases. Purchasing cards are subject to the same rules and regulations that apply to regular District purchases, and the District established a purchasing card manual that sets forth additional guidelines detailing the responsibilities of the cardholder and the process for setting and changing card limits, reviewing and approving card transactions, and canceling lost or stolen cards.

During the 2011-12 fiscal year, the District assigned 696 purchasing cards to individual employees and departments, and made payments totaling approximately $4.2 million for goods and services purchased with the cards. Our review of controls over the use of 20 purchasing cards disclosed certain single transaction or monthly credit limits that appeared excessive based on actual purchases during the 2011-12 fiscal year, as shown below:

Department	Single Transaction Limit	Actual Highest Single Transaction Limit	Actual As Percent of Limit	Monthly Total Limit	Actual Highest Monthly Total	Actual As Percent of Limit
Maintenance	$ 5,000	(A)	(A)	$ 75,000	$ 20,157	27%
Maintenance	5,000	1,661	33%	50,000	5,833	12%
Maintenance	5,000	1,744	35%	50,000	5,033	10%
Transportation Services	10,000	4,500	45%	50,000	20,936	42%
Professional Development	10,000	(B)	(B)	25,000	(B)	(B)
Federal Compensatory Education	10,000	3,697	37%	25,000	(A)	(A)
Maintenance	10,000	(A)	(A)	25,000	10,694	43%
Professional Development	5,000	(A)	(A)	25,000	7,285	29%

Note: (A) Single transaction or monthly credit limits were reasonable based on actual transactions.
(B) No transactions during 2011-12 fiscal year and card canceled on June 28, 2012.

While District personnel indicated that the single transaction and monthly credit limits were originally set based on assessments by department administrators, District records did not evidence any assessments during the 2011-12 fiscal year to ensure limits were consistent with actual card use. Effective controls to monitor the reasonableness of purchasing card credit limits reduce the risk of unauthorized use.

Recommendation: The District should enhance procedures to ensure that appropriate single transaction and monthly credit limits are established consistent with actual use by cardholders.

Financial Reporting

Finding No. 4: Fund Balance Reporting

The Governmental Accounting Standards Board has established accounting and financial reporting standards for all governments reporting governmental funds that clarify definitions for governmental fund types and establish criteria for classifying fund balances into specifically defined classifications. One of the classifications, restricted fund balance, represents resources that have externally imposed constraints by creditors, grantors, or laws that require use of the resources for specific purposes. In addition, capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

On the District's 2011-12 fiscal year annual financial report, submitted to the FDOE, certain resources totaling $3.5 million were reported as restricted fund balance in a capital projects fund. These resources consisted of fuel tax refunds, totaling $1.5 million, and real property sales, totaling $2 million. Section 206.41(4)(e)2., Florida Statutes, requires that the District use fuel tax refunds for roads and streets associated with new or renovated school facilities and District personnel indicated that the resources from the real property sales were restricted in the capital projects fund because the FDOE required that these proceeds be used for capital outlay purposes. While the FDOE

recommended in its *Guidelines for Educational Facilities* (2007) that the real property sales be reported in capital projects funds, the current version of the *State Requirements for Educational Facilities* (2007) does not require this reporting. Absent externally imposed constraints that require use of the resources for specific purposes, the basis upon which these resources were reported as restricted in the capital projects fund is not readily apparent. Further, neither the District's Five-Year Facilities Work Plan nor other District records evidenced the specific capital outlay purposes for which these resources were restricted. Consequently, by such reporting, financial statement users may misunderstand the Board's intent regarding fund balances reported in the capital projects funds.

Subsequent to our inquiry, in October 2012, the District transferred the $2 million from the capital projects fund to the General Fund.

Recommendation: The District should continue its efforts to appropriately report fund balances.

Information Technology

Finding No. 5: Written Policies and Procedures

Each information technology (IT) function needs complete, well-documented policies and procedures to describe the scope of the function and its activities. Sound policies and procedures provide benchmarks against which compliance can be measured and contribute to an effective control environment.

The District had not developed written policies and procedures for authorizing, testing, and approving program changes, including emergency program changes. Additionally, the District lacked written policies and procedures for other important IT functions, including the review of network and server event logs, the implementation of operating system patches or updates, the performance of vulnerability scans, the use of encryption protocols, and the logging and reviewing of system activity logs, including security events for the District's finance and human resource and payroll applications. Subsequent to our inquiry, in September 2012, the District documented certain policies and procedures in its *Technology Services Policies and Procedures Manual*. Without written policies and procedures, the risk is increased that IT controls may not be followed consistently and in a manner pursuant to management's expectations. Similar findings were noted in previous audit reports.

Recommendation: The District should continue its efforts to maintain and update, as appropriate, written policies and procedures to document management's expectations for the performance of the IT functions.

Finding No. 6: Security Controls – Network Administration, Data Loss Prevention, and Logging and Monitoring

Security controls are intended to protect the confidentiality, integrity, and availability of data and IT resources. Our audit disclosed that certain District security controls related to network administration, data loss prevention, and logging and monitoring needed improvement. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising the District's data and IT resources. However, we have notified appropriate District management of the specific issues. Without appropriate security controls related to network administration, data loss prevention, and logging and monitoring, the risk is increased that the confidentiality, integrity, and availability of District data and IT resources may be compromised. Similar findings were noted in previous audit reports.

Recommendation: The District should improve security controls related to network administration, data loss prevention, and logging and monitoring to ensure the continued confidentiality, integrity, and availability of District data and IT resources.

Finding No. 7: Disaster Recovery Planning

Disaster recovery planning is an element of IT controls established to manage the availability of valuable data and IT resources in the event of a processing disruption. The primary objective of disaster recovery planning is to provide the District a plan for continuing critical operations in the event of a major hardware or software failure. The success and effectiveness of a disaster recovery plan requires elements such as secured off-site storage of backup files located away from the District's proximity to guard against a disaster affecting both locations, an alternate site processing arrangement, and identification of current IT personnel responsible for recovery activities.

The District has a disaster recovery plan that identifies various necessary elements such as the circumstances under which a backup site will be used; the employees needed at the site, their job responsibilities, and supplies needed; and location to maintain backups of critical files. However, the off-site storage of the District's backup files was within the proximity (i.e., a mile) of the District's data center and the District did not have a formal agreement for an alternate processing site in the event of a disaster that interrupts critical IT operations. In addition, the disaster recovery plan was not current in that it contained the names and contact information of the former IT director and the former assistant director, technical services, whose employment terminated in December 2010 and August 2011, respectively. These conditions may limit the ability of the District to efficiently and effectively continue operations with minimal loss in the event of a disaster. In response to our inquiry, District management indicated that they were in the process of securing an alternate site processing agreement, including backup and recovery services; however, due to budget constraints, the agreement had been delayed. A similar finding was noted in the previous audit report.

Recommendation: The District should enhance disaster recovery procedures by providing off-site storage of backup files located away from the District's proximity, establishing an alternate processing site agreement, and updating its disaster recovery plan to identify names and contact information of employees currently responsible for recovery activities.

Finding No. 8: Security Incident Response Plan

Computer security incident response plans are established by management to ensure an appropriate, effective, and timely response to security incidents. These written plans typically detail responsibilities and procedures for identifying, logging, and analyzing security violations and include a centralized reporting structure, provisions for designated staff to be trained in incident response, and notification to affected parties.

Although the District had procedures in place to address computer security incidents, the District had not developed a written security incident response plan. Should an event occur that involves the potential or actual compromise, loss, or destruction of District data or IT resources, the lack of a written security incident response plan may result in the District's failure to take appropriate actions in a timely manner to prevent further loss or damage to the District's data and IT resources.

Recommendation: The District should develop a written security incident response plan to provide reasonable assurance that the District will respond in a timely and appropriate manner to events that may jeopardize the confidentiality, integrity, or availability of 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. The following table provides information on recurring audit findings for the Volusia County District School Board:

	Financial		Operational
Current Fiscal Year Finding Numbers	**2010-11 Fiscal Year Audit Report and Finding Numbers**	**2009-10 Fiscal Year Audit Report and Finding Numbers**	**2008-09 Fiscal Year Audit Report and Finding Numbers**
5	CPA Firm, Finding No. 2011-4	CPA Firm, Finding No. 3	Audit Report No. 2010-059, Finding No. 3
6	CPA Firm, Finding No. 2011-3	NA	Audit Report No. 2010-059, Finding No. 4
7	CPA Firm, Finding No. 2011-6	NA	NA

NA – Not Applicable

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 February 2012 through May 2012 and August 2012 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:

- Evaluate management's performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse, and in administering assigned responsibilities in accordance with applicable laws, rules, regulations, contracts, grant agreements, and other guidelines.
- Examine internal controls designed and placed in operation to promote and encourage the achievement of management's control objectives in the categories of compliance, economic and efficient operations, reliability of records and reports, and the safeguarding of assets, and identify weaknesses in those controls.
- Determine whether management had taken corrective actions for findings included in previous audit reports.
- Identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

This audit was designed to identify, for those programs, activities, or functions included within the scope of the audit, deficiencies in management's internal controls, instances of noncompliance with applicable laws, rules, regulations, contracts, grant agreements, and other guidelines, and instances of inefficient or ineffective operational policies, procedures, or practices. The focus of this audit was to identify problems so that they may be corrected in such a way as to improve government accountability and efficiency and the stewardship of management. Professional judgment has been used in determining significance and audit risk and in selecting the particular transactions, legal compliance matters, records, and controls considered.

For those programs, activities, and functions included within the scope of our audit, our audit work included, but was not limited to, communicating to management and those charged with governance the scope, objectives, timing, overall methodology, and reporting of our audit; obtaining an understanding of the program, activity, or function; exercising professional judgment in considering significance and audit risk in the design and execution of the research, interviews, tests, analyses, and other procedures included in the audit methodology; obtaining reasonable assurance of the overall sufficiency and appropriateness of the evidence gathered in support of our audit's findings and conclusions; and reporting on the results of the audit as required by governing laws and auditing standards.

The scope and methodology of this operational audit are described in Exhibit A. Our audit included the selection and examination of various records and transactions occurring during the 2011-12 fiscal year. Unless otherwise indicated in this report, these transactions and records were not selected with the intent of statistically projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

An audit by its nature does not include a review of all records and actions of agency management, staff, and vendors, and as a consequence, cannot be relied upon to identify all instances of noncompliance, fraud, waste, abuse, or inefficiency.

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
Information Technology (IT) policies and procedures.	Examined the District's written IT policies and procedures to determine whether they addressed certain important IT control functions.
IT security awareness and training.	Determined whether a comprehensive IT security awareness and training program was in place.
Deactivation of employee IT access.	Reviewed procedures to prohibit former employees' access to electronic data files. Tested access privileges for former employees to determine whether their access privileges had been timely deactivated.
IT logical access controls and user authentication.	Reviewed selected operating system, database, network, and application security settings to determine whether authentication controls were configured and enforced in accordance with IT best practices.
IT access privileges and separation of duties.	Tested selected access privileges over the database and finance and human resources applications to determine the appropriateness and necessity based on employees' job duties and user account functions and adequacy with regard to preventing the performance of incompatible duties. Tested administrator account access privileges granted and procedures for oversight of administrator accounts for the network, operating system, database, and application to determine whether these accounts had been appropriately assigned and managed.
IT logging and monitoring controls.	Determined whether logging and monitoring controls were in place in accordance with IT best practices.
IT data loss prevention.	Determine whether there were current written security policies and procedures governing the classification, management, and protection of sensitive and confidential information.
IT disaster recovery plan.	Determined whether a comprehensive disaster recovery plan was in place and had been recently tested.
IT security incident response.	Determined whether the District had developed an adequate security incident response plan.
IT physical access controls.	Reviewed the data center's physical access controls to determine whether vulnerabilities existed.
Board meetings.	Read Board minutes and, for selected Board meetings, examined supporting documentation evidencing compliance with Sunshine Law requirements.
Financial condition.	Applied analytical procedures to determine whether the percent of the General Fund total unassigned and assigned fund balances at June 30, 2012, to the fund's revenues was less than the percents specified in Section 1011.051, Florida Statutes. Analytical procedures were also applied to determine the reasonableness and ability of the District to make its future debt service payments.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Limitations on investment types.	Examined written policies and supporting documentation to determine compliance with Section 218.415, Florida Statutes.
Earmarked capital project resources.	Applied analytical procedures, tested payments made from nonvoted capital outlay tax levy proceeds and Public Education Capital Outlay (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.
Social security number requirements of Section 119.071(5)(a), Florida Statutes.	Examined supporting documentation to determine whether the District had provided individuals with a written statement as to the purpose of collecting their social security numbers.
Bank account reconciliations.	Reviewed bank reconciliations and other supporting documentation to determine whether the District timely performed bank reconciliations.
Authorized signatures on banking agreements.	Reviewed authorized signatures for all banking agreements for timely changes in response to personnel changes.
Compensation for appointed superintendents.	Determined whether the appointed Superintendent's compensation was in accordance with Florida law, rules, and Board policies.
Cash collection procedures.	Reviewed collection procedures and tested District internal reviews of extended day education program collections at selected locations to determine the effectiveness of the District's collection procedures.
High school diplomas.	Determined whether diplomas were adequately safeguarded at selected high schools and were awarded to students meeting graduation requirements in accordance with Section 1003.428, Florida Statutes.
Compensation and salary schedules.	Examined supporting documentation to determine whether the Board adopted a salary schedule with differentiated pay for both instructional personnel and school administrators based upon District-determined factors, including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties.
Overtime payments.	Reviewed District policies, procedures, and supporting documentation evidencing the approval of, and necessity for, overtime payments. Performed analytical procedures to determine the reasonableness of overtime payments
Bonuses.	Determined whether bonuses paid were in compliance with Section 215.425(3), Florida Statutes.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Board member compensation.	Examined supporting documentation to determine whether Board members' salaries were in compliance with Section 1001.395, Florida Statutes.
Employee compensation.	Tested payroll transactions for proper authorization, amounts, and posting to the accounting records.
John M. McKay Scholarships for Students with Disabilities Program.	Examined 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.
Purchase of software applications.	Determined whether the District evaluated the effectiveness and suitability of the software application prior to purchase and if the purchase was performed through the competitive vendor selection process. Also, determined if the deliverables met the terms and conditions of the contract.
Procurement.	Reviewed District policies and procedures related to the procurement of goods and services to ensure the competitive vendor selection process. Tested disbursements to determine whether purchase orders were issued prior to the District incurring an obligation for the goods or services. Tested significant dollar purchases and examined supporting documentation to determine compliance with bid requirements.
Insuring buildings.	Determined, on a test basis, whether insurance coverage was updated for major asset acquisitions and disposals occurring in the audit period. Also, reviewed District records and procedures to determine the adequacy of property insurance, considering replacement value of insured property, resources that it can use to cover uninsured losses, and whether there is a plan to expedite replacement or repair of property losses.
Wireless communication devices.	Reviewed policies and procedures to determine whether the District limited the use of, and documented the level of service for, wireless communication devices. Also, determined whether the District paid Federal, State, or local taxes or fees for which it was exempt.
Purchasing card transactions.	Tested transactions to determine whether purchasing cards were administered in accordance with District policies and procedures. Also, tested former employees to determine whether purchasing cards were timely canceled upon termination of employment.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Electronic transfers and payments.	Reviewed District policies and procedures relating to electronic funds transfers and vendor payments. Tested supporting documentation to determine if selected electronic funds transfers and payments were properly authorized and supported, and complied with State Board of Education Rule 6A-1.0012, Florida Administrative Code.
School district fees.	Reviewed policies and procedures to determine whether the District assessed fees to parents or students, or required parents or students to contribute supplies, as a condition of the student attending school or taking classes, contrary to the Florida Constitution.
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.
Charter school fiscal viability.	Examined records to determine whether the District evaluated charter school applications for the fiscal viability of the charter schools and the competency of the staff responsible for operating the charter schools before the charters were granted using the FDOE evaluation instrument required by Section 1002.33(6)(b), Florida Statutes, and Section 6A-6.0786, Florida Administrative Code.
Charter school audits.	Reviewed the audit reports for District sponsored charter schools to determine whether the required audit was performed.
Direct-support organizations and charter school audits.	Reviewed the audit reports for the District's direct-support organization and charter schools to determine whether the audits were performed pursuant to Chapters 10.700 and 10.850, Rules of the Auditor General, and Section 1001.453, Florida Statutes.
Charter school termination.	For charter school or charter technical career center charters that are not renewed or are terminated, reviewed District procedures to determine whether applicable funds and property appropriately reverted to the District, and that the District did not assume debts of the school or center, except as previously agreed upon by the District.
Charter school expedited review.	Reviewed District procedures to determine whether they were sufficient and appropriate to determine whether its charter schools and charter technical career centers were required to be subjected to an expedited review pursuant to Section 1002.345, Florida Statutes.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Self-insurance programs.	Determined whether the District monitored the third-party administrator for the worker's compensation self-insurance plan. Also reviewed the third-party administrator's report on the suitability of the design and operating effectiveness of controls, performed by an external certified public accountant, in accordance with *Statement on Standards for Attestation Engagements No. 16, Reporting on Controls at a Service Organization*.
Construction processes.	Examined records and evaluated construction planning processes to determine whether processes were comprehensive, including consideration of restricted resources and other alternatives to ensure the most economical and effective approach, and met District short-term and long-term needs.
Construction contractor selection.	Tested selected construction project records to determine whether contractors were awarded construction projects in accordance with applicable laws and rules.
Monitoring progress of construction projects.	Tested selected construction project records to determine whether projects progressed as planned and were cost-effective and consistent with established benchmarks, and whether contractors performed as expected.
Identifying and prioritizing facility maintenance needs, including identification and timely resolution of health and safety deficiencies, and tracking maintenance jobs.	Evaluated procedures for identifying facility maintenance needs and establishing resources to address those needs. Compared maintenance plans with needs identified in safety inspection reports, reviewed inspection reports for compliance with Federal and State inspection requirements and timely resolution of deficiencies identified during inspections, and tested the work order system for appropriate tracking of maintenance jobs.
Evaluating maintenance department staffing needs.	Reviewed procedures for evaluating maintenance department staffing needs. Determined whether such procedures included consideration of appropriate factors and performance measures that were supported by factual information.
Consultant contracts.	Tested selected consultant contracts to determine compliance with competitive selection requirements, whether the District contracted with its employees for services provided beyond that provided in the salary contract contrary to Section 112.313, Florida Statutes, and whether the contract clearly specified deliverables, time frames, documentation requirements, and compensation. Also tested selected payments for proper support and compliance with contract terms.

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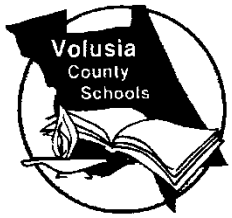
EXHIBIT B
MANAGEMENT'S RESPONSE



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School Board of Volusia County

Dr. Al Williams, Chairman
Ms. Judy Conte, Vice-Chairman
Mr. Stan Schmidt
Ms. Candace Lankford
Mrs. Diane Smith

Margaret A. Smith, D.Ed.
Superintendent of Schools

November 1, 2012

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

RE: Response to preliminary and tentative audit findings and recommendations for the fiscal year ended June 30, 2012.

Dear Mr. Martin:

As requested, enclosed you will find a written statement in response to the preliminary and tentative findings, along with corrective action, where we feel corrective action is warranted.

Sincerely,

Margaret A. Smith

Margaret A. Smith, D.Ed.
Superintendent of Schools

Enclosure

Cc: School Board Members

An Equal Opportunity Employer

EXHIBIT B (Continued)
MANAGEMENT'S RESPONSE

November 1, 2012

Finding No. 1: Personnel and Payroll

The district is in the process of forming a committee to address the requirements for policies and procedures regarding differentiated pay under 1012.22(1)c4(b) of the Florida Statutes. While the district currently differentiates pay for most areas required by the statute, we will focus on identifying current critical shortage areas as well as creating procedures for identifying future critical shortage areas. In addition, the district will determine a policy and procedure for differentiating pay for individuals teaching in identified critical shortage areas. The committee will recommend a policy for differentiated pay to the school board.

Finding No. 2: Facilities Administration and Monitoring

The district is in the process of amending the procedures manual as it relates to construction management at-risk projects, regardless of cost. Project Managers shall attend all bid openings conducted by the Construction Manager and assist the Construction Manager in the determination of the lowest and best price for each subcontracted service. The Project Manager shall create and circulate a sign-in sheet for all attendees in the bid openings. The Project Manager shall obtain copies of all bids received for all bid tabulation sheets. During the course of construction, as the Construction Manager signs contracts with subcontractors, the Project Manager shall receive copies of all subcontractor contracts. At every application for payment the Construction Manager shall attach copies of all subcontractor applications for payment to his/her application for payment.

Finding No. 3: Procurement

Purchasing has contacted the cardholders of the accounts that were mentioned in the audit to review the dollar limits for their accounts and respond back to Purchasing with justification if they feel that limit is warranted. Included in the yearly audit of the District's purchasing cards we will now include the limits for each account and the Principals and Department heads will be instructed to review the current limits and determine if changes are required. We also plan to review each account that has a monthly limit of $10,000 or more to determine if the limits for those accounts are justified. We will then contact the cardholders and make recommendations for change.

Finding No. 4: Financial Reporting

The district transferred the sale of property balance totaling $2,001,814 from the capital projects fund to the General Fund in October, 2012.

Finding No. 5: Information Technology – Written Policies and Procedures

In the fall of 2012, a written policies and procedures manual was completed by staff. The Technology Services Policies and Procedures Manual now exists and provides documentation for key IT policies and procedures, which includes content related to system controls, scanning, and monitoring of server activity.

EXHIBIT B (Continued)
MANAGEMENT'S RESPONSE

November 1, 2012

Finding No. 6: Information Technology – Security Controls

The school district will be engaging an external expert to review this recommendation, study the current status of these controls, and recommend best practices for future action. Actions will then be taken to implement and comply with recommendations. Expected completion date for compliance in this area will be March 30, 2013.

Finding No. 7: Information Technology – Disaster Recovery Planning
The school district will be engaging an external expert to review this recommendation, study the current status, and recommend best practices for future action. Actions will then be taken to implement and comply with recommendations. Expected completion date for compliance in this area will be June 30, 2013.

Finding No. 8: Information Technology – Security Incident Response Plan

The school district will be engaging an external expert to review this recommendation, study the current status, and recommend best practices for future action. Actions will then be taken to implement and comply with recommendations. Expected completion date for compliance in this area will be March 30, 2013.

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