REPORT NO. 2013-044
NOVEMBER 2012

HERNANDO 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.
John K. Sweeney	1
Matthew A. Foreman from 9-7-11, Vice Chair from 11-22-11 (1)	2
Dianne Bonfield, Vice Chair to 11-21-11	3
James C. Yant, Chair to 11-21-11	4
Cynthia J. Moore, Chair from 11-22-11	5

Bryan A. Blavatt, Superintendent

Note: (1) Position remained vacant from July 1, 2011 to September 6, 2011.

The audit team leader was Vanessa Cellini, CPA, and the audit was supervised by Karen J. Collington, CPA. For the information technology portion of this audit, the audit team leader was Deidre Melton, CISA, 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.

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HERNANDO COUNTY

District School Board

SUMMARY

Our operational audit disclosed the following:

CASH CONTROLS

Finding No. 1: Controls over electronic funds transfers could be enhanced.

PERSONNEL AND PAYROLL

Finding No. 2: 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.

PROCUREMENT

Finding No. 3: Controls over contractual payment processing needed to be enhanced.

Finding No. 4: Enhancements were needed in controls over the District's purchasing card program.

CAPITAL OUTLAY FUNDING

Finding No. 5: District records did not evidence that sales tax proceeds were used for authorized purposes, resulting in $104,780 of questioned costs.

FACILITIES ADMINISTRATION AND MONITORING

Finding No. 6: The District could enhance its controls relating to construction management.

Finding No. 7: Controls over facilities construction and maintenance activities could be enhanced.

ADULT GENERAL EDUCATION

Finding No. 8: The District needed to strengthen its controls to ensure the accurate reporting of instructional contact hours for adult general education classes to the Florida Department of Education.

INFORMATION TECHNOLOGY

Finding No. 9: Improvements were needed in District controls within the human resources application to ensure that information technology (IT) access privileges were appropriately assigned.

Finding No. 10: The District did not have a written IT security incident response plan.

Finding No. 11: District IT security controls related to data loss prevention needed improvement.

BACKGROUND

The Hernando County School District (District) is part of the State system of public education under the general direction of the Florida Department of Education. Geographic boundaries of the District correspond with those of Hernando County. The governing body of the District is the Hernando 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 23 elementary, middle, high, and specialized schools; sponsored one charter school; and reported 22,449 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

Cash Controls

Finding No. 1: Electronic Funds Transfers

Section 1010.11, Florida Statutes, requires each school board to adopt written policies prescribing the accounting and control procedures under which funds are allowed to be moved by electronic transaction for any purpose including direct deposit, wire transfer, withdrawal, investment, or payment. This law also requires that electronic transactions comply with the provisions of Chapter 668, Florida Statutes, which requires the use of electronic signatures in electronic transactions between school boards and other entities. In addition, State Board of Education (SBE) Rule 6A-1.0012, Florida Administrative Code (FAC), authorizes the District to make EFTs, provided adequate internal control measures are established and maintained, such as a written agreement with a financial institution. An agreement must, among other things, contain the title of the bank account subject to the agreements and the manual signatures of the Board chair, superintendent, and employees authorized to initiate EFTs. SBE Rule 6A-1.0012, FAC, also requires the District to maintain documentation signed by the initiator and authorizer of EFTs to confirm the authenticity of EFTs.

During the 2011-12 fiscal year, the District regularly used EFTs to make electronic disbursements for vendor payments, the purchasing card program, debt service payments, purchases and sales of investments, and direct deposit of employee pay and other payroll related activity, such as union dues. According to District records, cash and cash equivalents and investments totaling $66.4 million were available for electronic transfer at June 30, 2012. The Board established a bank agreement with each of two banks, an investment agreement with the State Board of Administration, and an investment agreement with Florida Education Investment Trust Fund to provide various services, such as EFTs.

While the District used informal processes, such as use of EFT control documents that identified employees who initiated and authorized EFTs, the Board had not adopted written policies prescribing the accounting and control procedures for EFTs, including the use of electronic signatures, contrary to Section 1010.11 and Chapter 668, Florida Statutes. Also, one of the investment agreements did not provide an appropriate separation of duties as it authorized an employee to make EFTs and change account information and, contrary to SBE Rule 6A-1.0012, FAC, the agreement omitted the Board chair's signature.

While the District had established controls over EFTs, such as management review of EFT transactions and independent bank reconciliations, and our tests did not disclose any EFTs for unauthorized purposes, the lack of specific guidance in the form of written policies and procedures increases the risk of misappropriation of funds without timely detection.

Recommendation: The Board should adopt written policies and procedures related to EFTs, including the use of electronic signatures. Such policies and procedures should ensure that the duties of making EFTs and changing account information are appropriately separated and that EFT agreements contain required signatures.

Personnel and Payroll

Finding No. 2: 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 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 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 differentiated pay, the documented process for applying the prescribed factors, and the individuals responsible for making such determinations.

The 2011-12 fiscal year salary schedule and union contract 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 athletic and drama coaches and department chairpersons. Also, differentiated pay salary supplements were provided for school demographics and level of job performance difficulties at two high schools that had not met the Federal school improvement requirements, and supplements were provided for critical shortage areas, such as speech and language pathologists, social workers, and program specialists. While the union contract identified the critical shortage areas, District records did not evidence the establishment of specific criteria for determining critical shortage areas. Such documentation could include records evidencing a minimal number of applicants, high personnel turnover rates, and other factors demonstrating the difficulty of hiring and retaining particular personnel.

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. A similar finding was noted in our report No. 2011-034.

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.

Procurement

Finding No. 3: Contractual Services

The Board routinely enters into contracts for goods and services, and internal controls have been designed and implemented to ensure payments are generally consistent with bid awards and contract terms. However, our review of 33 payments totaling $802,000 for contractual services disclosed that controls could be enhanced, as follows:

- The District paid a company $389,355 for the purchase and installation of a fire alarm system at a high school based on a bid award and contract with percentage discounts for certain system parts and an hourly labor rate. Although system parts, totaling $197,288, were subject to percentage discounts, District records only evidenced net prices paid for each part and did not evidence a reconciliation of the gross prices and discounts applied to bid and related contract terms and conditions. As such, District records did not evidence that the District received all discounts to which it was entitled and the risk of overpayment is increased.

  In addition, the labor costs for the fire alarm system totaled $97,000 for 1,940 labor hours to install the system at the high school's facilities, which had 289,426 square feet. District personnel indicated that the company actually provided approximately 2,100 labor hours, which were monitored biweekly by District personnel, and the company charged the District for less hours than the actual hours to perform the services. However, District records did not evidence a determination of whether the labor hours charged were reasonable based on the square footage of the facilities. Such records could evidence comparisons of the costs of fire alarm systems installed at comparably-sized facilities, consideration of fire alarm system industry standards, and other market factors.

- The District paid a company $77,282 for repairs, maintenance, and delivery of propane gas. The contract provided that propane gas costs would be based on a fixed fee of $0.225 per gallon and a base price that fluctuated according to gas rack prices (i.e., refinery prices) as market conditions and trends dictated. Our review of District records supporting a payment of $10,496 to the company disclosed that a District employee, without direct knowledge of the propane gas deliveries, signed invoices to indicate receipt of the deliveries at several school locations. Further, the payment was based on an invoice price of $2.68 per gallon of propane gas; however, District records did not evidence a reconciliation of the price paid to the contract terms and conditions. As such, District records did not evidence that the price paid was consistent with the contract terms and conditions and the risk of overpayment is increased. Based on our inquiries, the District initiated reviews of payments to the company and, although the result of the reviews was not finalized as of October 2012, the Board terminated the company's contract.

- The District prepaid a company $35,000, including $27,000 for six days of on-site training, and $8,000 for two webinar sessions, in August 2011. District personnel signed invoices evidencing receipt of the training services and approved the invoices for payment; however, because of dissatisfaction with the services, the webinar sessions costing $8,000 were never held. Subsequent to our inquiry, District personnel indicated they would request an $8,000 refund from the company.

- The District paid a company $30,870 for repairs to a bus, of which $21,302 was for parts and supplies. Although bid documentation for this purchase specified percentage discounts for parts and supplies, District records only evidenced net prices paid for these items and did not evidence a reconciliation of the gross prices and discounts applied to bid and related contract terms and conditions. As such, District records did not evidence that the District received all discounts to which it was entitled and the risk of overpayment is increased.

Without effective procedures to reconcile purchases to bid and related contract terms and conditions, document and justify the reasonableness of the labor hours charged for contracted services, and confirm that goods and services are received prior to payment, there is an increased risk that errors or fraud could occur without timely detection.

Recommendation: The District should enhance its monitoring procedures to ensure compliance with contract terms and conditions, document and justify the reasonableness of labor hours charged for services, and confirm that goods and services are appropriately received prior to payment. In addition, the District should continue its efforts to recover the $8,000 and any other overpayments, as appropriate.

Finding No. 4: Purchasing Cards

To expedite the purchase of selected goods and services, the District used purchasing cards in certain situations. Purchases made with purchasing cards are subject to the same rules and regulations that apply to other District purchases and are subject to additional purchasing card guidelines. The additional guidelines require documented

reviews by finance department personnel of the propriety and approval of charges prior to payment and prohibit purchases of capital assets costing over $1,000 and gift cards or gifts (e.g., prizes). Further, the agreement with the financial institution processing purchasing card transactions limits the District's time for disputing charges to 60 days after the statement date in which the transaction occurred.

During the 2011-12 fiscal year, the District had 152 purchasing cards assigned to individual employees and departments, and used the cards to make purchases totaling $2.8 million. However, as of June 30, 2012, purchasing card purchases totaling $18,281 remained unsupported from 60 to 1,153 days. District personnel indicated that, while the finance department made attempts to obtain documentation needed to support these purchases, many departments and schools did not always respond timely to the finance department. Given the set time to dispute purchasing card charges (i.e., 60 days from the statement date), the District's ability to contest such charges may be limited.

In addition, our review of 37 purchasing card transactions totaling $12,019 disclosed certain purchasing card expenditures that did not comply with the purchasing card guidelines, as follows:

- Purchases totaling $4,256 of capital assets (hot pressure washer and difibulator) costing over $1,000. While District personnel indicated approval was obtained for the capital asset purchases, District records did not evidence the approval.
- Purchases totaling $215 of gift cards.
- Purchases totaling $187 of two handheld computers for contest awards, with one awarded to a student and the other to a middle school employee. Subsequent to our inquiry, District personnel indicated that the purchases were contrary to the purchasing card guidelines because the purchases were for prizes and the school internal fund refunded the District for the purchases.

Although purchasing cards are useful for expediting the payment of certain purchases in an efficient manner, without effective monitoring procedures, there is an increased risk that purchasing cards will be used for unauthorized purchases or that errors or fraud may occur without timely detection.

Recommendation: The District should enhance monitoring procedures over purchasing cards to ensure that purchases are properly documented in a timely manner and to ensure compliance with the District's purchasing card guidelines.

Capital Outlay Funding

Finding No. 5: Sales Surtax Proceeds

Section 1011.71, Florida Statutes, allows the District to levy ad valorem taxes for capital outlay purposes within specified millage rates subject to certain precedent conditions. Allowable uses of ad valorem tax levy proceeds include, among other things, funding new construction and remodeling projects and maintenance, renovation, and repair of existing schools. The District accounts for the ad valorem tax levy proceeds in the Capital Projects - Local Capital Improvement (LCI) Fund.

In addition, Section 212.055(6), Florida Statutes, provides that each school board may levy a discretionary sales surtax at a rate that may not exceed 0.5 percent. The school board resolution for the tax must set forth a plan for use of the surtax proceeds for fixed capital expenditures or fixed capital costs associated with the construction, reconstruction, or improvement of school facilities and campuses, and other costs related thereto. This section further provides that

neither the proceeds of the surtax nor any interest accrued thereto may be used for operational expenses. The District accounts for the sales surtax proceeds in the Capital Projects - Sales Tax Revenue Bond (STRB) Fund.

In September 2009, the Board held a workshop and discussed that the District would need to hire a principal, assistant principal, bookkeeper, and custodian for the Weeki Wachee High School during the last six months of the 2009-10 fiscal year to provide facility-related services necessary for the school to open. The District paid these employees a total of $104,780 from the LCI Fund, and District personnel indicated that these costs primarily represented time for the principal and assistant principal to assist the architects and contractors in assigning classroom locations within the school and identifying material and equipment needs, and for the bookkeeper to prepare purchase orders to buy necessary items. However, the District did not maintain records, such as personnel activity reports, to evidence the extent to which these employees directly provided facility construction-related services as opposed to performing the duties associated with their position descriptions and, in our report No. 2011-034, we questioned these costs, totaling $104,780 charged to the LCI Fund.

In an attempt to remedy the questioned LCI Fund costs of the 2009-10 fiscal year, the District transferred $104,780 from the STRB Fund to the LCI Fund during the 2010-11 fiscal year. District management indicated that the District used internal staff (i.e., the principal, assistant principal, and bookkeeper) to perform construction-related duties and had it hired outside contractors to perform these functions, these expenses would have been allowable. District management also indicated that the functions performed were not operational in nature and were allowable under Section 212.055(6), Florida Statutes. However, absent records identifying time spent on facility construction-related services, these expenditures represent questioned costs totaling $104,780 of the STRB Fund.

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

Follow-up to Management's Response

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

Facilities Administration and Monitoring

Finding No. 6: Construction 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 must consist of, or contract with, licensed or registered professionals for the specific

fields or areas of construction to be performed, as required by law. In addition, 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 November 2009, the Board approved a GMP contract with a CME for the Winding Waters K-8 School project with total costs of $21.9 million. During the 2011-12 fiscal year, the District incurred project expenditures totaling $2.3 million, of which $1.5 million was for subcontractor work, and the project was completed. However, we noted certain control deficiencies related to the project, as follows:

- Chapter 489, Florida Statutes, establishes certain certification requirements for persons engaged in construction contracting. The District's building official verified the licenses of subcontractors required on the building permit, such as those engaged to perform electrical, plumbing, and air-conditioning work. While the District indicated that the CME was responsible for verifying the licenses of all other subcontractors during the prequalification process, District records did not evidence that the District monitored the CME's verification of roofing contractors' licenses.
- District records evidenced temporary duty assignments for two employees that indicated the employees would attend subcontractor bid openings conducted by the CME; however, District records, such as initials and dates on the bid tabulation sheets, did not evidence the employees' actual attendance or how District personnel appropriately monitored the selection of subcontractors at the bid openings.
- The District paid the CME based on payment requests that were supported by a schedule of values listing the components of the project, such as the amounts paid for work performed by subcontractors. District personnel indicated that they did not reconcile payment applications to subcontractor bids and related contracts because the CME performed these procedures at the end of the project.

Our tests confirmed subcontractors maintained appropriate licenses, were awarded contracts based on best prices consistent with acceptable quality, and were paid consistent with bid tabulation sheets and related contracts. However, without District procedures to appropriately monitor the award of subcontractor bids to licensed subcontractors and reconcile CME payments to subcontractor bids and contracts before CME payments are made, the risk increases that the District may not realize potential cost savings by obtaining the lowest and best prices for subcontractor services, consistent with acceptable quality and performance, or that overpayments to CMEs may occur and not be timely detected. A similar finding was noted in the previous audit report.

Recommendation: The District should enhance its monitoring procedures of GMP contracts to ensure subcontractors are appropriately licensed, selected, and paid consistent with subcontractor bids and contracts.

Finding No. 7: Facilities Management

The facilities department is responsible for managing construction and renovation projects. During the 2011-12 fiscal year, the facilities department employed six full-time employees, including construction personnel, and the department's operating cost was $516,139. Also, during this fiscal year, the District had expenditures totaling $4.5 million for capital projects fund construction and renovation projects and, as shown on the District's Five-Year Facilities Work Plan as approved by the Board on October 18, 2011, the District planned to spend an additional $6 million on these projects over the next four fiscal years. At June 30, 2012, the historical cost of the District's educational and ancillary facilities was $503 million and, as shown in the Florida Department of Education's Florida Inventory of School Houses data, District facilities had an average age of 19 years.

The maintenance department is responsible for ensuring facilities are safe and suitable for their intended use. The maintenance department performed heating, ventilating, air-conditioning (HVAC), electrical, plumbing, and other maintenance-related jobs. During the 2011-12 fiscal year, this department employed 72 employees, including grounds and maintenance personnel, and the department's operating cost was $4.9 million.

Given the significant commitment of public funds to construct and maintain educational facilities, it is important that the District establishes procedures to evaluate the effectiveness and efficiency of facility operations at least annually using performance data and established benchmarks. Such procedures could include written policies and procedures documenting processes for evaluating facilities construction methods and maintenance techniques before commitment of significant resources to the most cost-effective and efficient method or technique. In addition, performance evaluations could include established goals for facility and maintenance operations, and measurable objectives or benchmarks that are clearly defined, to document the extent to which goals are achieved and accountability for facilities and maintenance department employees. While our review of District procedures indicated that procedures were generally adequate, we noted the following procedural enhancements could be made:

- **Construction Planning**. School districts benefit from long-range facilities construction planning activities that include consideration of stakeholder input, including District personnel, parents, real estate and construction professionals, county long-range planning personnel, and other community stakeholders. A committee comprised of such individuals may help the District with facility construction decisions based on actual or anticipated commercial or residential expansion efforts and population demographics.

  The District has no formal committees with the responsibility of developing long-range construction priorities. Annually, when completing the Five-Year Facilities Work Plan and the capital outlay budget, several District employees review long-range planning. The use of a long-range facilities construction planning committee may help the District establish facility planning opportunities and cost savings not considered by the District's current process.

- **Alternative Construction Methods or Maintenance Techniques.** The District typically awards construction contracts of less than $200,000 to design professionals and construction contractors using traditional design-bid-build methods. A construction manager at risk within a GMP method is used for projects costing over $200,000. In addition, maintenance-related jobs, such as HVAC replacement and repair, are routinely performed by maintenance personnel based on safety and suitability priorities. The District had not established written policies and procedures for evaluating the various construction methods or maintenance-related job techniques. District personnel indicated that while alternative methods and techniques for facilities are considered, evaluations of the various approaches to determine which would be most cost-effective and beneficial are not documented. Without Board-approved policies and procedures, and documented evaluations of alternative construction methods and maintenance-related job techniques, there is an increased risk that the District may not use the most cost-effective and beneficial construction method or maintenance technique.

- **Accountability.** The District's facilities and maintenance departments have established short-term and long-term goals; however, our review disclosed that these goals did not address accountability for these departments. For example, facilities department goals were to incorporate best practices in all aspects of facilities operations through developing best practice manuals and hiring licensed staff, supporting professional development, and improving communications with District departments. Maintenance department goals included customer satisfaction, quality workmanship, and proper administration and use of materials. However, the goals of these departments did not sufficiently identify efficiency or cost-effectiveness outcomes.

  To adequately establish outcome measures, the departments could set goals such as completing construction or maintenance projects that meet or exceed building code industry standards at the lowest possible cost. Progress in attaining the goals could be measured by developing accountability systems to monitor work orders for return assignments or corrective action because a project did not initially meet building code requirements, and compare project costs to industry standards for similar work. Additional goals could

include setting benchmark time frames for routine projects or jobs, and progress toward meeting the goal could be measured by comparing project or job completion times to industry standards for similar work. Establishing goals that focus on accountability and measureable objectives and benchmarks could assist the District in determining whether its facilities and maintenance departments are operating as effectively and as cost-efficiently as possible.

Recommendation: The District should consider establishing a long-range facilities planning committee comprised of various stakeholders to periodically meet and assist the District in identifying long-range construction needs. Also, the District should develop written policies and procedures requiring periodic evaluations of alternative facilities construction methods and significant maintenance-related job techniques, and document these evaluations. In addition, the District should develop additional goals and objectives for the facilities and maintenance departments to identify efficiency or cost-effectiveness outcomes for department personnel.

Adult General Education

Finding No. 8: Adult General Education Classes

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. The District received State funding for adult general education and proviso language in Chapter 2011-69, Laws of Florida, Specific Appropriation 96, required that each school district report enrollment for adult general education programs identified in Section 1004.02, Florida Statutes, in accordance with Florida Department of Education (FDOE) instructional hours reporting procedures.

The FDOE procedures 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. The FDOE procedures also provided that school districts 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.

For the 2011-12 fiscal year, the District reported to the FDOE 35,094 adult general education instructional contact hours for 474 students enrolled in 116 classes. We tested approximately 1,200 hours reported to the FDOE for 15 students enrolled in 32 adult general education classes, of which 3 students were enrolled in a total of 3 online classes and reported for a total of 94 hours. For the online classes tested, District records only evidenced 10 hours of student participation in the online classes, resulting in 84 hours overreported. District personnel indicated that the 2011-12 fiscal year was the first year online classes were offered for adult general education, and they were learning how to use the online system to track and maintain student participation records for online classes. District records indicated that there were 48 additional students enrolled in online classes and 2,467 hours reported for those students.

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

Recommendation: The District should enhance its controls to ensure accurate reporting of instructional contact hours for adult general education online classes to the FDOE. The District should also determine the extent of adult general education hours misreported and contact the FDOE for proper resolution.

Information Technology

Finding No. 9: 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.

Because update access within the District's human resources (HR) application is based on privileges granted to transaction screens used to accept input for initiating HR and payroll processing steps rather than an individual field(s) on each screen, some employees had access privileges greater than those necessary to perform their assigned responsibilities. Specifically, two HR department employees had the ability to add or update all payroll adjustment features including retirement and wage garnishment information through access to one screen. Although the HR department employees did require access to the screen based on responsibilities related to insurance benefits, the additional access related to the payroll adjustments was inappropriate and unnecessary because payroll adjustments were the responsibility of the payroll department rather than HR department employees. In addition, four payroll department employees had the ability to update or remove an employee's termination date and to enter employee salary information; however, only HR department employees responsible for maintaining this information should be granted such access.

Although the District had compensating controls in place (e.g., department supervisor monitoring of budget and actual expenditures) to mitigate the risks of the control deficiencies noted above, inappropriate or unnecessary access privileges increase the risk that unauthorized disclosure, modification, or destruction of District data and IT resources may occur without timely detection. In response to our inquiry, District management removed the access privileges for one of the HR department employees described above and modified the application screens to restrict access further by field(s) for the other HR department employee and the four payroll department employees. Similar findings were noted in our report Nos. 2010-036 and 2011-034.

Recommendation: The District should continue its efforts to evaluate the application screens and further restrict access privileges within transaction screens to ensure that access privileges assigned are appropriate for employees' responsibilities.

Finding No. 10: 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.

The District included an incident reporting procedure in its IT department policies and procedures manual. However, the procedure referred to reporting a security incident related to password compromise and did not detail computer security incident response procedures such as identification, communication, and documentation of a suspected incident; escalation and reporting of and recovery from a confirmed incident; and provisions for designated staff to be trained in incident response. 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.

Finding No. 11: Security Controls - Data Loss Prevention

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 data loss prevention 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 appropriate security controls related to data loss prevention, the risk is increased that the confidentiality, integrity, and availability of District data and IT resources may be compromised.

Recommendation: The District should improve security controls related to data loss prevention 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. The following table provides information on recurring District audit findings:

	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**	**2009-10 Fiscal Year Audit Report and Finding Numbers**	**2008-09 Fiscal Year Audit Report and Finding Numbers**
2	NA	NA	Audit Report No. 2011-034, Finding No. 3	NA
6	CPA Firm, Finding No. 2011-02	NA	NA	NA
9	NA	NA	Audit Report No. 2011-034, Finding No. 5	Audit Report No. 2010-036, Finding No. 1

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 April 2012 to September 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.	Reviewed the District's written IT policies and procedures to determine whether they addressed certain important IT control functions.
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 the access privileges had been timely deactivated.
IT access privileges and separation of duties.	Tested selected access privileges over the 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, and application to determine whether these accounts had been appropriately assigned and managed.
IT data loss prevention.	Reviewed written policies and procedures governing the classification, management, and protection of confidential and sensitive information.
IT security incident response.	Determined whether the District had developed an adequate security incident response plan.
IT user authentication controls.	Reviewed supporting documentation to determine whether authentication controls were configured and enforced in accordance with IT best practices.
IT logging and monitoring.	Examined written policies, procedures, and supporting documentation to determine whether logging and monitoring controls were configured in accordance with IT best practices.
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 (i.e., financial condition ratio) was less than the percents specified in Section 1011.051, Florida Statutes. Also, reviewed records to determine sufficiency of financial condition ratios at other intervals. In addition, analytical procedures were applied to determine the reasonableness and ability of the District to make its future debt service payments.
Limitations on investment types.	Examined written policies and supporting documentation to determine compliance with Section 218.415, Florida Statutes.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Earmarked capital project resources.	Tested payments made from nonvoted capital outlay tax levy proceeds and other restricted capital outlay funds, and examined supporting documentation to determine whether the District complied with requirements related to the use of nonvoted capital outlay proceeds and other restricted capital outlay funds.
Restrictions on use of Workforce Development funds.	Tested workforce development expenditures to determine whether the District used funds for authorized purposes (i.e., not used to support K-12 programs or District K-12 administrative costs).
Adult general education program enrollment reporting.	Examined supporting documentation on a test basis to determine whether the District reported instructional contact hours in accordance with Florida Department of Education requirements.
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.
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.
Board member compensation.	Examined supporting documentation to determine whether Board members' salaries were in compliance with Section 1001.395, Florida Statutes.
Compensation for appointed superintendents.	Determined whether the appointed Superintendent's compensation was in accordance with Florida law, rules, and Board policies.
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.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
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.
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.
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 the charter school application for the fiscal viability of the charter school and the competency of the staff responsible for operating the charter school before the charter was 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 report for the District sponsored charter school 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 school to determine whether the audit was performed pursuant to Chapters 10.700 and 10.850, Rules of the Auditor General, and Section 1001.453, Florida Statutes.
Charter school expedited review.	Reviewed District procedures to determine whether they were sufficient and appropriate to determine whether its charter school was 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
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.
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

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

Superintendent
Bryan A. Blavatt
Chairperson
Cynthia Moore
Vice Chairperson
Matthew A. Foreman
Members
Dianne Bonfield
John K. Sweeney
James C. Yant

November 14, 2012

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

Re: Hernando County District School Board Preliminary and Tentative Audit Findings for the Fiscal Year Ended June 30, 2012

Dear Mr. Martin:

Please accept the following written response concerning the preliminary and tentative audit findings for the Hernando County District School Board's 2011-2012 fiscal year audit. The District will implement these recommendations to increase accountability and promote effective and efficient operations throughout the District.

Finding No. 1: Cash Controls

Controls over electronic fund transfers could be enhanced.

Response:

The District has established internal controls over the electronic wire transfer of funds to ensure that only authorized individuals are permitted to initiate repetitive wires and a system requiring multiple employees participate in non-repetitive wires. These processes are not in a formalized policy or procedure, but will be developed for Board review and approval during the 2012-2013 fiscal year as recommended by the auditors.

One investment agreement was not presented to the Board for approval as there was no formal resolution provided by the investment agency. The agreement will be presented to the Board for approval and procedures will be enhanced to ensure that all investment agreements are Board approved.

Finding No. 2: Compensation and Salary Schedules

The Board had not adopted formal policies and procedures for documenting the differentiated pay process of instructional personnel using the factors prescribed in Section 1012.22(1)(c)4, Florida Statutes.

Response:

As stated in the prior audit response, some parameters listed in the statute for differentiated pay are included in the District's salary schedules. The requirement remains an unfunded mandate and as the District continues to slash budgets, reduce contract days, eliminate positions, experience reduction in force, reduce salaries, etc.,

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

An Equal Opportunity Employer

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

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it is not fiscally possible nor reasonable to increase funding to our instructional and school-based administrative salary schedules. Therefore, this is not an immediate priority to the District. However, through the Race to the Top grant, the District will consider the opportunity to enhance its compliance in the area of differentiated pay.

Additionally, the requirements of the current Statute, new Senate Bill 736, and Race to the Top all differ in the required components of differentiated pay making it extremely difficult, if not impossible, for school districts to be fully compliant with all components. Differentiated pay will continue to be discussed during bargaining sessions, but will follow the timeline outlined in Race to the Top as that is the current and only funding source.

Finding No. 3: Contractual Services

Controls over contractual payment processing need to be enhanced.

Response:

The District has already taken action to review invoice amounts to bid and contract documents for direct pay purchases made outside the Purchase Order system for the propane contract. A reconciliation process will be developed and reviewed with appropriate District staff to ensure gross prices and discounts are in-line with bid and related contract terms and conditions.

Finding No. 4: Purchasing Cards

Enhancements are needed to internal controls over the District's purchasing card program.

Response:

The Purchasing and Finance departments have enhanced internal processes to ensure purchases made with a District purchasing card follow established Board approved procedures. Additionally, the District is preparing a procedure for Board approval outlining disciplinary actions for violations of purchasing card guidelines in an effort to establish accountability.

Finding No. 5: Sales Tax Proceeds

District records did not evidence that sales tax proceeds were used for authorized purposes resulting in questioned costs totaling $104,780.

Response:

Below is the response as provided in the 2009-2010 audit and the District continues to disagree with the finding of questioned costs.

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

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

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

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Documentation was provided to audit staff, which the District believes sufficiently outlines the work performed by these individuals. As such, the District disagrees with this finding and strongly feels that these costs are allowable as they relate to the final construction of the school project.

Finding No. 6: Construction Administration

The District could enhance its controls relating to construction management.

Response:

Facilities Department personnel assigned to a construction project will be required to initial all sub-contractor bid submittals at the time of receipt of bid. During the scope evaluation process, all sub-contractor bid submittals will be reviewed with the Contract Manager. District Facilities staff will also initial the final sub-contractor bid and establish a schedule of values based on the sub-contractors final bid. Upon payment, staff will review the schedule of values to ensure payment is consistent with bid documents. The District will retain a hard copy of final sub-contractors bids along with a digital copy of the bid process.

Finding No. 7: Facilities Management

Controls over facilities construction and maintenance activities could be enhanced.

Response:

The District will establish a construction capital planning team to review the needs for long-range construction projects with all stake holders.

The Maintenance Department will develop a priority response matrix for staff to have established goals. The goal for response/completion will be set by priority level providing efficiency indicators for the Department. Data will be collected through the SchoolDude system. Additionally, the Department will establish a written policy and procedure manual that will outline the expectations for the Department, as well as staff.

The Facilities Department will establish a construction team composed of contracting firms, architects, engineers, and District personnel to review construction techniques and delivery methods available for construction and maintenance projects.

Finding No. 8: Adult General Education Classes

The District needs to strengthen its controls to ensure the accurate reporting of instructional contact hours for adult general education classes to the Florida Department of Education.

Response:

Upon notification of the audit finding, the Adult Education Department implemented procedures for the Adult General Education on-line classes to ensure accurate reporting of contact hours to the Florida Department of Education (DOE). The District will review adult general hours reported and contact DOE to resolve reporting issues.

Finding No. 9: Information Technology – Access Privileges

Improvements were needed in District controls within the human resources application to ensure that information technology (IT) access privileges were appropriately assigned.

Response:

The Technology and Information Services (TIS) Department implemented the recommendations recommended by the auditors. Application screens were modified to restrict access by certain fields for the District employees ensuring only functions within their areas of responsibility are accessed.

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

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Finding No. 10: Information Technology – Security Incident Response Plan

The District did not have a written IT security incident response plan.

Response:

The TIS Policy and Procedures Manual will be amended to address computer security incident response procedures as recommended.

Finding No. 11: Information Technology – Data Loss Prevention

District IT security controls related to data loss prevention needed improvement.

Response:

The District implemented procedures to enhance security controls over data loss prevention to ensure continued confidentiality, integrity, and availability of District data and IT resources.

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

Sincerely,

Bryan A. Blavatt
Superintendent

BAB/drh

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