REPORT NO. 2013-071
DECEMBER 2012

POLK 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.
Frank O'Reilly	1
Lori Cunningham, Vice Chair from 11-22-11	2
Hazel Sellers, Chair from 11-22-11	3
Dick Mullenax	4
Kay Fields, Chair to 11-21-11	5
Debra Wright	6
Tim Harris, Vice Chair to 11-21-11	7

Sherrie B. Nickell, Ed.D., Superintendent

The audit team leader was Mary W. Lynn, CPA, and the audit was supervised by David A. Blanton, CPA. For the information technology portion of this audit, the audit team leader was Vikki Mathews, 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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POLK 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.

PROCUREMENT

Finding No. 2: Enhancements were needed in controls over the District's purchasing card program.

Finding No. 3: The District had not established procedures to document the basis for classifying individuals as independent contractors rather than District employees, and our review disclosed three individuals the District classified as independent contractors that appear to be employees based on Internal Revenue Service guidelines.

Finding No. 4: Controls over payments for legal services could be enhanced.

INSURANCE

Finding No. 5: The Board had taken no official action to establish the health self-insurance plan's target net asset balance or funding level and the plan reported a loss of approximately $7 million for the 2011-12 fiscal year.

CHARTER SCHOOLS

Finding No. 6: Procedures could be enhanced to ensure that property and unencumbered funds of terminated charter schools are appropriately returned to the District.

ADULT GENERAL EDUCATION

Finding No. 7: 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.

CAPITAL OUTLAY FUNDING

Finding No. 8: District records did not always evidence that ad valorem tax levy proceeds were used for authorized purposes.

FACILITIES ADMINISTRATION AND MONITORING

Finding No. 9: Controls over facilities construction and maintenance activities could be enhanced.

COMMUNICATION EXPENSES

Finding No. 10: Controls over wireless device allowances could be improved.

INFORMATION TECHNOLOGY

Finding No. 11: Some inappropriate or unnecessary information technology (IT) access privileges existed, indicating a need for an improved review of employee and contractor IT access privileges.

Finding No. 12: The District did not timely deactivate the network access privileges of some former employees.

Finding No. 13: Contrary to the requirements of the State of Florida *General Records Schedule,* the District did not retain some access control records.

Finding No. 14: The District's IT security awareness program needed improvement.

Finding No. 15: District IT security controls related to user authentication, protection of workstations, data loss prevention, and monitoring of critical data changes needed improvement.

Finding No. 16: District IT security incident response procedures did not include provisions for designated staff to be trained in incident response.

Finding No. 17: The District has not developed a written, comprehensive IT risk assessment.

BACKGROUND

The Polk 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 Polk County. The governing body of the District is the Polk County District School Board (Board), which is composed of seven elected members. The appointed Superintendent of Schools is the executive officer of the Board.

During the 2011-12 fiscal year, the District operated 116 elementary, middle, and high schools; 23 specialized schools; sponsored 24 charter schools; and reported 94,921 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 for 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 generally 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 coaches and club or activity sponsors. However, neither the salary schedule nor the union contract evidenced differentiated pay based on school demographics, level of

job performance difficulties, and critical shortage areas for instructional personnel, contrary to Section 1012.22(1)(c)4.b., Florida Statutes.

District personnel indicated that, as of October 2012, negotiations were underway with the teacher's union to include the required differentiated pay provisions in the union contract. 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 the salary schedules, consistent with Section 1012.22(1)(c)4.b., Florida Statutes.

Procurement

Finding No. 2: Purchasing Cards

The District provided purchasing cards to expedite the payment of certain purchases in an efficient manner. Purchases made with purchasing cards are subject to the same rules and regulations that apply to other District purchases and are subject to guidelines in the purchasing card manual. The manual requires that card users timely prepare purchasing card reports that identify card users, the amount, vendor, description, and account code of each purchase, and that administrators timely reconcile charges to supporting documentation and purchasing card bank statements. Also, the manual only allows the professional development department to incur travel expenditures after negotiating with a travel agent to limit costs, and purchasing cards are only issued to administrative personnel such as department directors or school principals. In addition, administrative personnel allow employees within their respective departments to use their purchasing cards to make purchases.

During the 2011-12 fiscal year, the District had 617 purchasing cards assigned to administrative personnel, used the cards to make purchases totaling $3.9 million, and contracted with a financial institution to provide the purchasing cards and process purchases. Our tests of October 2011 and January 2012 purchasing card expenditures totaling $57,400 and related support disclosed the District's purchasing card controls could be enhanced, as follows:

- District records did not evidence independent review and approval of the $57,400 expenditures tested. Independent review and approval of charges may timely detect errors or fraud.
- District records did not evidence purchasing card reports to identify the employees that made purchases totaling $42,511. While the charges were primarily for airfare and travel agent fees, without properly prepared purchasing card reports, the District's ability to hold card users responsible for purchases may be limited.
- Support for charges totaling $1,196 was insufficient, consisting only of amounts penciled on packing slips for supply equipment ($487), handcarts ($429), and cameras ($280). In these instances, District records did not evidence whether charges were appropriate or excluded sales tax.
- Contrary to purchasing card manual requirements, certain payments totaling $369 were made for:
  - Food purchases of $178 for refreshments at a teacher mentoring meeting and a leadership review board meeting.
  - Car rental of $119, without professional development department involvement to negotiate costs with a travel agent.
  - Sales tax of $42, although the District is exempt from sales tax.
  - Coffee and kitchen cleaning supplies of $30 for one department.

Although purchasing cards are useful for expediting payment for 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 controls over purchasing cards to ensure that purchases are properly documented, approved, and comply with purchasing manual requirements.

Finding No. 3: Employee/Independent Contractor Status

The Internal Revenue Service (IRS) established certain guidelines to assist employers in making the distinction between classifying individuals as employees or independent contractors. The regulations provide that an employer-employee relationship generally exists if the employer has the right to control not only the result of the services, but also the means by which that result is accomplished. Accordingly, an employer-employee relationship generally exists if the person providing the services is subject to the will and control of the employer not only as to what will be done but how it will be done. Whether the requisite control exists should be determined based on all the relevant facts and circumstances. The distinction between whether an individual is an employee or an independent contractor is important because there are certain laws that apply when an individual serves in the role of an employee rather than an independent contractor. For example, compensation to independent contractors is not subject to withholding for employment taxes, such as Federal Insurance Contributions Act (FICA) and Medicare taxes, and retirement plan contributions may be required for employees that are not required for independent contractors.

To help employers consider relevant facts and circumstances when making employee or independent contractor determinations, the IRS developed a list of factors such as whether workers are required to comply with employer instructions, training requirements, and established work hours. The factors also include consideration of whether workers personally provide services and maintain their own office space and related equipment. For circumstances in which an employer is unable to establish the basis upon which a worker is an employee or independent contractor, an employer may file Form SS-8, *Determination of Worker Status for Purposes of Federal Employment Taxes and Income Tax Withholding*, with the IRS for it to make the determination.

Our review disclosed that the District classified the following three workers as independent contractors who it appears, based on IRS guidelines, should have been classified as employees:

- An independent contractor, previously a District guidance counselor who terminated employment with the District on August 2, 2003, was paid $42,996 to coach personnel at Title I schools and assist in planning interventions for at-risk students. The District obtained these services from the independent contractor from September 2010 to June 2011 and August 2011 to June 2012.
- An independent contractor, previously a District principal who terminated employment with the District on October 31, 2005, was paid $26,000 to provide consultant and coaching services for select Title I schools to ensure compliance with certain Federal program requirements. The District obtained these services from the independent contractor from November 2006 to June 2008, August 2008 to June 2009, August 2009 to June 2010, August 2010 to June 2011, and September 2011 to June 2012.
- An independent contractor, previously a District principal who terminated employment with the District on July 1, 2011, was paid $12,438 to coach principals and first year teachers in the District's new evaluation procedures. The District obtained these services from the independent contractor from February to June 2010 and October 2011 to May 2012.

While the contracted services of the three workers were different than the services while employed, the three workers were required to comply with District instructions and established work hours, the workers provided the services

personally, and the District provided office space and related equipment for the workers to perform the services. In addition, District records did not evidence documented evaluations to establish the basis upon which the independent contractor classifications were made. Without adequate and sufficient information in public records to evidence the relevant facts and circumstances for classifying individuals as employees or independent contractors, there is an increased risk that the District may be subject to additional payroll taxes and penalties for individuals classified as independent contractors that should have been classified as employees.

Recommendation: The District should establish procedures to document the relevant facts and circumstances upon which workers are classified as independent contractors rather than employees. The District should also contact the IRS to determine whether these three individuals should be classified as employees rather than independent contractors and, if appropriate, amend its payroll reporting and remit any required payroll taxes and retirement contributions for the employees to the appropriate Federal and State agencies.

Finding No. 4: Contract Administration

Pursuant to Section 1001.41(4), Florida Statutes, the Board is the contracting agent for the District, and Board policy requires the Board to approve contracts in excess of $50,000. The Board contracted with a firm in 1998 for legal services and, during the 2011-12 fiscal year, the District reported expenditures totaling $423,400 for the services. The Board's contract with the firm provided for hourly compensation rates that ranged from $25 for legal staff to $125 for senior partner, reimbursable out-of pocket expenses as permitted by law, and automatic annual renewals, unless terminated by either party.

Invoices supporting payments to the firm for the 2011-12 fiscal year identified services performed, service times, and related charges; however, District procedures did not ensure charges reconciled to Board-approved contract terms and conditions and the hourly compensation rates charged and paid exceeded the contract rates by $25 per hour for each service. Discussions with District personnel and review of records disclosed that the firm has charged this additional compensation rate since 2003 and, for the 2011-12 fiscal year, the District paid $85,000 more than the contract terms and conditions allowed. District personnel further indicated that the increased legal fees in 2003 may have been informally presented to the Board at a workshop, but no official approval had occurred because of an oversight. In addition, our tests of a $19,000 payment to the firm disclosed that the District paid $288 for reimbursable out-of-pocket expenses without receipts or other correspondence to confirm that the expenses were reimbursable. Without District procedures to ensure legal service charges agree with Board-approved contract terms and conditions, and are appropriately and sufficiently supported, there is an increased risk that the District may overpay for such services.

Recommendation: The District should enhance its controls to ensure payments for legal services are consistent with Board-approved contracts and appropriately supported. In addition, the Board should determine whether any overpayments of legal services have occurred; seek recovery of any overpayments, as appropriate; and establish the basis upon which it will pay for future legal services.

Finding No. 5: Financial Condition - Group Health Self-Insurance Plan

The District established a group health self-insurance plan for employees, retirees, and dependents pursuant to Section 112.08(2), Florida Statutes. Section 112.08(2)(b), Florida Statutes, requires the District to annually submit to the Florida Department of Financial Services, Office of Insurance Regulation (OIR), a report that includes a

statement prepared by an actuary of the plan's actuarial soundness. To obtain approval of a plan that lacks sufficient reserves to pay the actuarially-projected average claims expense for the 60-day period after plan year end, OIR requires a certification assuring the availability of other funds to compensate for plan reserve shortages.

As of plan calendar years ended 2009 and 2010, the District had plan reserve shortages of $9.4 million and $16.3 million, respectively, to pay the average claims expenses for the 60-day periods. Also, as of plan calendar year ended 2011, the plan reserve was $1.5 million and the average claims expense for the 60-day period was $13.1 million, resulting in a plan reserve shortage of $11.6 million. To compensate for the plan reserve shortages of the three plan calendar years, the District provided OIR with certifications of other available funding and OIR accepted the plans as actuarially sound. While District records indicated that the plan was adequately funded for the plan calendar year ending 2012, actuarial projections in March 2012 disclosed that $5.2 million and $10.1 million of other available funding were necessary to compensate for the plan reserve shortages at plan calendar years ending 2013 and 2014, respectively.

In an effort to improve the financial condition of the health self-insurance plan, the Board restructured its insurance rates effective January 1, 2012, and approved the use of a District-operated clinic. However, the Board had taken no official action to establish the plan's target net asset balance or funding level and the plan reported a loss of $7 million for the 2011-12 fiscal year. Further, at June 30, 2012, the plan's net assets balance was $8.3 million, or $4.8 million less than the average claims expense for the 60-day period at plan calendar year ended 2011, and as of August 31, 2012, the District's monthly financial report disclosed that the net asset balance had declined to $3.9 million. Although the Board receives monthly financial reports to monitor the financial stability of the plan, future plan funding and design improvements are needed to ensure net asset balances are adequately funded to meet future obligations.

Recommendation: The Board should establish policies identifying a target net asset balance or funding level for the health self-insurance plan and continue to take actions, as necessary, to ensure adequate funding of the plan.

Charter Schools

Finding No. 6: Charter School Termination

Section 1002.33(8)(e), Florida Statutes, provides that when a charter school terminates operations, certain school unencumbered public funds and property purchased with public funds must revert to the District. The Life Skills Center Polk County East, Inc., (Charter School) began student services during the 2007-08 school year, primarily for dropout retrieval purposes, and the Charter School voluntarily discontinued operations on June 30, 2011. The Charter School obtained a financial audit for the 2010-11 fiscal year, and the financial audit report was provided to the District in October 2011, reporting property (i.e., furniture and equipment) of $55,063, net of accumulated depreciation, and unencumbered public funds of $27,951 (i.e., total unassigned fund balance and prepaid expense of $16,823 and $11,128, respectively).

District personnel indicated that they prepared a list of property the Charter School returned to the District and the District transferred the property to another charter school (the New Beginnings High School Charter School). District personnel also prepared a charter school closure checklist to confirm parents were appropriately notified of the closure, proper transfer of student records, and completion of the charter school audit. However, District

procedures did not ensure appropriate receipt of equipment by reconciling the items to the Charter School's property records and related costs in the audit report, and unencumbered public funds to which the District was entitled. Subsequent to our inquiry, District personnel determined that the prepaid expenses totaling $11,128 were nonrefundable and began negotiating the return of the unencumbered funds totaling $16,823.

Without appropriate procedures, upon terminations of charter schools, to physically inventory and reconcile property to related records and require timely reversion of unencumbered funds, there is an increased risk that the District may not rightfully reclaim assets of terminated charter schools.

Recommendation: The District should enhance procedures to ensure, upon terminations of charter schools, that property and unencumbered funds are appropriately returned to the District. Further, the District should continue its effort to obtain unencumbered funds totaling $16,823.

Adult General Education

Finding No. 7: 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 the 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 403,606 adult general education instructional contact hours for 2,006 students at the District's four adult education centers. Our test of 4,440 reported contact hours for 30 students who attended 43 classes disclosed District personnel did not adjust the hours reported for actual attendance at one adult education center. Consequently, this center overreported 234 contact hours for three students and underreported 14 contact hours for one student. Further, District records did not evidence the basis for 851 hours reported for five students at this adult education center.

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 classes to the FDOE. The District should also determine the extent of adult general hours misreported and contact the FDOE for proper resolution.

Capital Outlay Funding

Finding No. 8: Ad Valorem Taxation

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; maintenance, renovation, and repair of existing school plants; and purchase of certain enterprise resource software (ERS) applications that are used to support districtwide administration subject to certain conditions and limitations. Also, Section 1013.01(12), Florida Statutes, provides a definition of maintenance and repair that excludes custodial and groundskeeping functions. The District accounts for the ad valorem tax levy proceeds in the Capital Projects – Local Capital Improvement (LCI) Fund.

For the 2011-12 fiscal year, the District had LCI Fund expenditures totaling $22 million and transfers totaling $52 million to other funds. Our audit tests disclosed that the District used LCI Funds of $99,961 for high school lawn chemical services; $48,373 for architectural and teaching software; and $3,117 for photo software, contrary to Section 1011.71, Florida Statutes. As a result of these groundskeeping and non-ERS expenditures, District incurred $151,451 of ad valorem tax levy unallowed costs.

Subsequent to our inquiry, the District restored $151,451 to the LCI fund. A similar finding was noted in our report No. 2010-171.

Recommendation: The District should enhance its procedures to ensure that ad valorem tax levy proceeds are used only for allowable purposes.

Facilities Administration and Monitoring

Finding No. 9: Facilities Management

The facilities and operations (facilities) department is responsible for managing construction and renovation projects. During the 2011-12 fiscal year, the facilities department employed 91 full-time employees, including construction personnel, and the department's operating cost was $50.8 million. Also, during this fiscal year, the District had expenditures totaling $56.6 million for construction and renovation projects and, as shown on the District's Five-Year Facilities Work Plan as approved by the Board on September 6, 2011, the District planned to spend an additional $68.8 million on various projects in the 2012-13 fiscal year. At June 30, 2012, the cost of the District's educational and ancillary facilities was $996 million and, as shown in FDOE's Florida Inventory of School Houses data, the average age of its permanent facilities and relocatable facilities was 28 and 22 years, respectively.

The facilities maintenance (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 294 employees, including grounds and maintenance personnel, and the department's operating cost was $16.8 million.

Given the significant commitment of public funds to construct and maintain educational facilities, it is important that the District establish 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 facilities management procedures indicated that procedures were generally adequate, we noted the following procedural enhancements could be made:

- **Alternative Construction Methods or Maintenance Techniques.** The District primarily awards construction contracts to construction contractors using construction management entity guaranteed maximum price construction methods for projects over $2 million. In addition, maintenance-related jobs, such as HVAC replacement and repair, are routinely performed by maintenance personnel based on safety and suitability priorities. District personnel indicated that they evaluate alternative construction methods or maintenance-related job techniques before proceeding with these tasks; however, the District had not established written policies and procedures for evaluating the various construction methods or maintenance techniques to determine which would be most cost-effective and beneficial. Without Board-approved policies and procedures, and documented evaluations consistent with such policies and procedures, 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 mission statements to identify goals of the departments; however, the mission statements did not sufficiently address accountability for these departments. Examples of goals in the mission statements included innovative, cost-effective, and high quality maintenance, custodial, and construction services; assurance of properly maintained facilities; and properly completed work orders by priority. However, the mission statements of the 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 to 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 planning and maintenance departments are operating as effectively and as cost-efficiently as possible.

Recommendation: 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.

Communication Expenses

Finding No. 10: Wireless Communication Devices

During the 2011-12 fiscal year, the District provided monthly cellular telephone (cell phone) allowances to 200 employees at a total cost of $145,270, as an alternative to providing District-owned cell phones. The District maintained and used cell phone procedures based on an agreement modified in May 2008 that identified four rates ranging from $45 to $65 per month and an additional allowance of $50 for data services based on business need. However, the District had not prepared a rate study or usage analysis since that date to evidence the reasonableness of

the monthly allowances. Periodic documented evaluations of cell phone allowances, including comparisons of plan minutes to actual business usage, may help the District determine the reasonableness of such allowances and limit related costs.

Recommendation: The District should periodically evaluate and document its review of cell phone allowances to determine the reasonableness of such allowances and limit related costs.

Information Technology

Finding No. 11: 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 and contractors access to IT resources based on a demonstrated need to view, change, or delete data and restrict employees and contractors from performing incompatible functions or functions outside of their areas of responsibility. For example, access privileges should typically be configured to enforce a separation of IT and application end-user duties whereby only the responsible end-users can originate or correct transactions and initiate changes to data files and IT employees and contractors are restricted from performing end-user functions. In addition, appropriate restrictions of application end-user access privileges are necessary to preclude the possibility of one individual controlling all critical stages of a transactions process, including a combination of functions such as data entry and verification of data, reconciliation of output, or supervisory authorization functions.

Our review of selected access privileges to the District's enterprise resource planning (ERP) finance and human resources (HR) applications disclosed that some employees had access privileges that permitted the employees to perform incompatible duties and two consultants no longer under contract with the District retained access privileges. Specifically:

- Four Information Systems and Technology (IST) employees had the ability to update all finance and HR transactions. One additional IST employee had the ability to add and update an employee, adjust salaries, and update direct deposit information. The access privileges assigned were contrary to an appropriate separation of duties given the employees' assigned responsibilities related to the technical support of the District's ERP applications.
- Eighteen employees from the Business Services Division had update access privileges to one or more finance functions, including the ability to update a purchase; create a vendor; enter and process an invoice; and change check information, payment assignments, and reprint checks. In addition, 73 employees from various departments had update access privileges to one or more HR functions, including the ability to add and update an employee, adjust salaries, update direct deposit information, and create or request a payroll run.
- One contractor had the ability to create and update a purchase order and vendor; enter, update, and process an invoice; change check information, payment assignments, and reprint checks; post payments; add and update an employee; adjust salaries; and update direct deposit information. Another contractor had the ability to add and update an employee, adjust salaries, and update direct deposit information.

Periodically reviewing IT access privileges assigned to employees and contractors promotes good internal control and is necessary to ensure that employees and contractors cannot access IT resources inconsistent with their job responsibilities. The existence of the inappropriate access privileges described above indicated a need for the District to review employee and contractor access privileges. However, the District had not developed written procedures for the periodic review of access privileges. In response to our inquiry, District management stated that, because staffing

resources limited the District's ability to perform a periodic review, the District reviewed access only upon request by end-user management.

District personnel further indicated, and records evidenced, that various controls compensate for the deficiencies noted above. For example, District procedures include supervisory review and approval of employee work activities; timely, independent bank account reconciliations; supervisory review and approval of transactions such as journal entries and electronic funds transfers; and restricted access to unused checks. While our tests did not disclose any errors or fraud resulting from the unnecessary access privileges, the incompatible duties increase the risk of unauthorized disclosure, modification, or destruction of financial information and IT resources. Similar findings were noted in our report Nos. 2007-157 and 2010-171.

Recommendation: The District should establish written procedures for the review of employee and contractor IT access privileges and timely remove any inappropriate or unnecessary access detected.

Finding No. 12: Timely Deactivation of Access Privileges

Effective IT access controls include provisions for the timely deactivation of employee IT access privileges when employment terminations occur. Prompt action is necessary to ensure that former employees' access privileges are not misused by the former employees or others to compromise data or IT resources. District procedures provided for network accounts to be deactivated upon termination and then deleted after 30 days if the employee was not reappointed.

Our test of 26 former District employees who terminated employment during the 2011-12 fiscal year disclosed that the network access privileges of 4 former employees remained active for 4 to 19 days after termination of employment. In response to our inquiry, District management indicated that these four accounts allowed access to certain e-mail and local school resources. When access privileges of former employees are not timely deactivated, the risk is increased that the access privileges may be misused by the former employees or others.

Recommendation: The District should improve its termination procedures to ensure that the access privileges of former employees are timely deactivated.

Finding No. 13: Access Control Records

The State of Florida *General Records Schedule GS1-SL for State and Local Government Agencies (General Records Schedule)*, revised by the Department of State effective August 2010, provides that access control records must be retained for one anniversary year after superseded or after the employee separates from employment. As previously discussed in Finding No. 12, District procedures provided for network accounts to be deactivated upon termination and then deleted after 30 days if the employee was not reappointed; however, this process is contrary to the *General Records Schedule* requirements.

Without adequate retention of access control records, the risk is increased that the District may not have sufficient documentation to assist in future investigations of security incidents, should they occur.

Recommendation: The District should ensure that access control records are retained as required by the *General Records Schedule*.

Finding No. 14: Security Awareness

A comprehensive security awareness training program apprises new employees of, and reemphasizes to current employees, the importance of preserving the confidentiality, integrity, and availability of data and IT resources entrusted to them. Significant nonpublic records (e.g., student record information and other records that contain sensitive information) are included in the data maintained by the District's IT systems.

Although the District provided some security awareness training through e-mails to District employees, there was no formal ongoing security awareness training program to facilitate employees' education and training on security responsibilities, including acceptable or prohibited methods for storage and transmission of confidential data; physical security over workstations, personal digital assistants, and laptops; and protection against malicious software and virus threats. In addition, while read receipts for the e-mails were available, employees were not required to sign an annual acknowledgement that they have read, understood, and accepted District security policies. In response to our inquiry, District management indicated that they are implementing a video training program that will provide comprehensive training related to district security policies and allow for the monitoring of employee participation.

The lack of a comprehensive security awareness training program increases the risk that the District's IT resources could be unintentionally compromised by employees while performing their assigned duties. A similar finding was noted in our report No. 2010-171.

Recommendation: The District should implement a comprehensive security awareness training program to ensure that applicable employees are aware of the importance of preserving the confidentiality, integrity, and availability of data and IT resources. Additionally, the District should require applicable employees to acknowledge in writing their understanding and acceptance of security-related responsibilities on an annual basis.

Finding No. 15: Security Controls – User Authentication, Protection of Workstations, Data Loss Prevention, and Monitoring

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

Finding No. 16: 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 a written plan documenting procedures for reporting, analyzing, and responding to IT security incidents, the plan had not been distributed to applicable personnel and appropriate training had not been performed. In response to our inquiry, District management indicated that distribution of the plan and associated training would occur after final Board approval of the plan. Should an event occur that involves the potential or actual compromise, loss, or destruction of District data or IT resources, the lack of designated staff trained in incident response could 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 distribute the security incident response plan following Board approval and train designated staff 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. 17: Risk Assessment

Management of IT-related risks is a key part of enterprise IT governance. Incorporating an enterprise perspective into day-to-day governance actions helps an entity understand its greatest security risk exposures and determine whether planned controls are appropriate and adequate to secure IT resources from unauthorized disclosure, modification, or destruction. IT risk assessment, including the identification of risks and the evaluation of the likelihood of threats and the severity of threat impact, helps support management's decisions in establishing cost-effective measures to mitigate risk and, where appropriate, formally accept residual risk.

Although the District had informally considered external and internal risks, identified security controls such as selected configuration settings and policies and procedures to mitigate these risks, and performed vulnerability and penetration testing using automated tools, the District had not developed a written, comprehensive IT risk assessment. The absence of a written, comprehensive IT risk assessment may lessen the District's assurance that all likely threats and vulnerabilities have been identified, the most significant risks have been addressed, and appropriate decisions have been made regarding which risks to accept and which risks to mitigate through security controls. A similar finding was noted in the previous audit report.

Recommendation: The District should develop a written, comprehensive IT risk assessment to provide a documented basis for managing IT-related risks.

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**	**2008-09 Fiscal Year Audit Report and Finding Numbers**	**2005-06 Fiscal Year Audit Report and Finding Numbers**
8	NA	NA	Audit Report No. 2010-171, Finding No. 6	NA
11	NA	NA	Audit Report No. 2010-171, Finding No. 12	Audit Report No. 2007-157, Finding No. 2
14	NA	NA	Audit Report No. 2010-171, Finding No. 13	NA
15	CPA Firm, Finding No. 2011-03	NA	Audit Report No. 2010-171, Finding No. 14	NA
17	CPA Firm, Finding No. 2011-03	NA	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 to October 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 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 records and transactions 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	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 of 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, database, and application to determine whether these accounts had been appropriately assigned and managed.
IT data loss prevention.	Determined whether there were current written security policies and procedures governing the classification, management, and protection of sensitive and confidential information.
IT risk management and assessment.	Determined whether a written, comprehensive IT risk assessment had been developed to document the District's risk management and assessment processes and security controls intended to protect the confidentiality, integrity, and availability of data and IT resources.
IT security incident response.	Determined whether the District had developed an adequate written security incident response plan.
IT authentication controls.	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 logging and monitoring.	Reviewed procedures and reports related to the capture, review, maintenance, and retention of system and security event logs.
Board minutes and other correspondence.	Read Board minutes and, for selected Board meetings, examined supporting documentation evidencing compliance with Sunshine Law requirements. Examined e-mail correspondence between Board members for compliance with Sunshine Law requirements.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
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 percentages 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.
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.
Restrictions on use of Workforce Development funds.	Applied analytical procedures to determine whether the District used funds for authorized purposes (i.e., not used to support K-12 programs or District K-12 administrative costs).
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.
Compensation for appointed superintendents.	Determined whether the appointed Superintendent's compensation was in accordance with Florida law, rules, and Board policies.
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.
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.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
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.
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 available for 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 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 audits were 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.

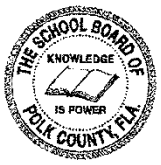
EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Charter school termination.	For charter schools 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 were required to be subjected to an expedited review pursuant to Section 1002.345, Florida Statutes.
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 and tracking maintenance jobs.	Evaluated procedures for identifying facility maintenance needs and establishing resources to address those 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. Reviewed the sufficiency of District procedures and documentation to support classifying selected individuals as independent contractors instead of employees.
Construction Contracts.	Tested selected construction contract payments for proper support and compliance with contract terms.
Construction in Progress (CIP).	Reviewed the subsidiary records for CIP to determine whether construction projects completed during the fiscal year were appropriately reclassified from CIP to other capital assets.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Employee Group Health Self Insurance.	Reviewed District procedures to determine whether health self-insurance plan costs reported by the third-party administrator were appropriately recorded in the accounting system. Reviewed health self-insurance plan records and related actuarial reports to determine whether the plan was actuarially sound.
Donated equipment.	Examined Board minutes, disposal records, and controls over donated equipment to ensure compliance with State law and Board policies.
Food delivery procedures.	Reviewed food delivery procedures and related feasibility study to determine whether the District documented the cost/benefit of using a cold storage facility instead of in-house delivery.
Procedures manuals.	Examined the District's written policies and procedures to determine whether they ensured appropriate training of new staff and documented the duties of key business services and finance-related personnel.
Cash and Investment Account Reconciliations.	Reviewed cash and investment account reconciliations and other supporting documentation to determine whether the District timely performed the reconciliations.
Interim financial reports presented to Board.	Examined financial review and analysis presented to the Board to ensure they included comparisons of financial results with budget estimates.
Interfund Loans.	Reviewed District records to determine whether interfund loans were repaid within 13 months in accordance with Section 1011.09(2), Florida Statutes.
Arbitrage.	Reviewed District records to determine whether District personnel properly calculated estimated arbitrage rebate liability and appropriately reported the amount on its financial statements.
Board Member Conflicting Employment/Contractual Relationship.	Reviewed District records to determine whether conflicting employment or contractual relationships existed, contrary to Section 112.313, Florida Statutes.
Investment of Funds Board Policy.	Reviewed District records to determine whether controls were designed properly and operating effectively for compliance with the investment of funds Board policy.
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.
Diplomas.	Reviewed District records to determine whether controls were designed properly and operating effectively to ensure that diplomas are properly controlled and distributed only to those students who meet the eligibility requirements for graduation.

EXHIBIT B
MANAGEMENT'S RESPONSE



SCHOOL BOARD OF POLK COUNTY

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Board Members
BOARD CHAIR
HAZEL SELLERS
DISTRICT 3

HUNT BERRYMAN
DISTRICT 1

LORI CUNNINGHAM
DISTRICT 2

DICK MULLENAX
DISTRICT 4

KAY FIELDS
DISTRICT 5

DEBRA S. WRIGHT
DISTRICT 6

TIM HARRIS
DISTRICT 7

C. WESLEY BRIDGES, II
General Counsel

Administration
JOHN A. STEWART, Ed.D.
Superintendent

December 19, 2012

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

Dear Mr. Martin:

The responses to the Preliminary and Tentative Findings on the operational audit for fiscal year ending June 30, 2012 have been completed. Please accept this letter along with the attached response as the submission from the Polk County Schools operational audit.

We understand that additional comments could be shared upon final review. If you have any questions on the responses you can contact, Pennie Zuercher, Director of Financial Reporting at (863) 534-0539.

Sincerely,

John A. Stewart, Ed. D.
Interim Superintendent

Attachment

Polk County Schools - an equal opportunity institution for education and employment

The Mission of Polk County Public Schools is to ensure rigorous, relevant learning experiences that result in high achievement for our students.

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

Polk County District School Board
Management Response to Preliminary and Tentative Findings
Operational Audit for Fiscal Year 2011-12

Finding No. 1:

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

Management Response: The Human Resources department will develop procedures in accordance with the recommendation. In addition, the District is currently the process of negotiating with its union to establish a differentiated pay program.

Finding No. 2:

Recommendation: The District should enhance controls over purchasing cards to ensure that purchases are properly documented, approved, and comply with purchasing manual requirements.

Management Response: Current staffing levels in Purchasing and Finance do not allow for detailed review of purchasing card transactions at the District level. It is the responsibility of the approving department head or principal to ensure that purchases are properly documented, approved, and comply with purchasing card manual requirements. The Purchasing Department conducts mandatory training for each procurement card holder upon issuance of a new procurement card. As part of the training each card holder receives the Purchasing Card Manual. The manual is also available on-line in Public Folders to inform users of procurement card procedures. Purchasing has developed and implemented, in the 2012-13 fiscal year, online training addressing purchasing card manual requirements that must be completed annually by those individuals assigned a purchasing card. In addition, the user must successfully pass a test demonstrating their understanding of the purchasing card manual requirements. Lastly, Purchasing and Finance will work together to determine if there are any compensating controls under current staffing restraints that can be put in place to periodically review purchasing card transactions.

Finding No. 3:

Recommendation: The District should establish procedures to document the relevant facts and circumstances upon which workers are classified as independent contractors rather than employees. The District should also contact the IRS to determine whether these three individuals should be classified as employees rather than independent contractors and, if appropriate, amend its payroll reporting and remit any required payroll taxes and retirement contributions for the employees to the appropriate Federal and State agencies.

Management Response: The Business Service division developed a checklist, based on IRS regulations, to be included with all Consultant contracts beginning December 2012. The purpose of this checklist is to document the relevant facts and circumstances upon which a consultant is identified as an independent contractor rather than an employee. Business Services will review the three individuals to determine whether the individuals are properly classified as independent contractors or not.

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

Finding No. 4:

Recommendation: The District should enhance its controls to ensure payments for legal services are consistent with Board-approved contracts and appropriately supported. In addition, the Board should determine whether any overpayments of legal services have occurred; seek recovery of any overpayments as appropriate; and establish the basis upon which it will pay for future legal services.

Management Response: The Finance department will work with the Legal department to enhance its controls to ensure payments for legal services are consistent with Board-approved contracts and appropriately supported. In October 2012, the Board approved a new schedule of fees for the provision of legal services for the firm identified in the finding. In addition, the Board will execute a new representation agreement reflecting those fees. Legal services provided by other firms will be subject to separate contractual arrangements. The Legal department will obtain receipts and other documentation to support the reimbursement of any out-of-pocket expenses before they are reimbursed by the District. The District is not aware of any overpayments that need to be recovered.

Finding No. 5:

Recommendation: The Board should establish policies identifying a target net asset balance or funding level for the health self-insurance plan and continue to take actions, as necessary, to ensure adequate funding of the plan.

Management Response: Risk Management is currently consulting with legal experts to determine whether the funding of group health insurance is a negotiable item. If it is, then the District will negotiate with its labor unions to appropriately fund group health. If it is determined not to be a negotiable item, the Risk Management will establish procedures to ensure adequate funding of the plan.

Finding No. 6:

Recommendation: The District should enhance procedures to ensure, upon terminations of charter schools, that property and unencumbered funds are appropriately returned to the District. Further, the District should continue its effort to obtain unencumbered funds totaling $16,823.

Management Response: The Office of Magnet, Choice and Charter Schools will work closely with the Finance Department to develop procedures that ensure all appropriate property and unencumbered funds are returned timely to the district for closing charter schools. Language has already been added to the charter closure checklist to address the concerns raised in the audit recommendation. The district is continuing in its efforts to reclaim the remaining monetary assets of the closed charter school reviewed during the operational audit.

Finding No. 7:

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

Management Response: Workforce Education has developed a written procedure for the reporting of instructional hours in adult general education classes. Workforce Education will review the reporting of adult general hours and resolve any issues that have occurred.

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

Finding No. 8:

Recommendation: The District should enhance its procedures to ensure that ad valorem tax levy proceeds are used only for allowable purposes.

Management Response: Review procedures have been strengthened for expenditures of funds transferred from Local Capital Improvement (LCI or ad valorem tax proceeds) to the general fund. Responsible staff in Facilities has received additional training in allowable expenditures from the ad valorem funds for construction or maintenance purposes. The Senior Director of Facilities shall review and approve all requisitions of funds from LCI for construction or maintenance purposes. The Senior Director of Finance shall review and approve all requisitions of funds from LCI for non-construction and maintenance purposes (i.e. purchase of capital outlay equipment utilized in schools and enterprise resource software).

Finding No. 9:

Recommendation: 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.

Management Response: Facilities and Operations will develop written procedures requiring periodic evaluations of alternative construction methods and maintenance-related job techniques. The District will consider developing goals and objectives to identify efficiency or cost-effectiveness outcomes for Facilities and Operations.

Finding No. 10:

Recommendation: The District should periodically evaluate and document the reasonableness of cell phone allowances to determine the reasonableness of such allowances and limit related costs.

Management Response: Business Services will conduct an evaluation of its cell phone allowance policy and document the outcomes of the evaluation.

Finding No. 11:

Recommendation: The District should establish written procedures for the review of employee and contractor IT access privileges and timely remove any inappropriate or unnecessary access detected.

Management Response: Information Systems & Technology will develop written procedures in accordance with the recommendation.

Finding No. 12:

Recommendation: The District should improve its termination procedures to ensure that the access privileges of former employees are timely deactivated.

Management Response: Information Systems & Technology will coordinate with HR to improve termination procedures in accordance with the recommendation.

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

Finding No. 13:

Recommendation: The District should ensure that access control records are retained as required by the *General Records Schedule*.

Management Response: Information Systems & Technology will ensure that access control records are retained as required by the *General Records Schedule*.

Finding No. 14:

Recommendation: The District should implement a comprehensive security awareness training program to ensure that applicable employees are aware of the importance of preserving the confidentiality, integrity, and availability of data and IT resources. Additionally, the District should require applicable employees to acknowledge in writing their understanding and acceptance of security-related responsibilities on an annual basis.

Management Response: Information Systems & Technology has developed online training in accordance with the recommendation. Implementation will begin December 2012.

Finding No. 15:

Recommendation: The District should improve security controls related to user authentication, protection of workstations, data loss prevention, and monitoring of critical data changes to ensure the continued confidentiality, integrity, and availability of District data and IT resources.

Management Response: The District will address the specific security issues noted by the auditors.

Finding No. 16:

Recommendation: The District should distribute the security incident response plan following Board approval and train designated staff 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.

Management Response: Information Systems and Technology will develop procedures in accordance with the recommendation.

Finding No. 17:

Recommendation: The District should develop a written, comprehensive IT risk assessment to provide a documented basis for managing IT-related risks.

Management Response: Information Systems and Technology will develop procedures in accordance with the recommendation.