

**INDIAN RIVER COUNTY
DISTRICT SCHOOL BOARD**

Operational Audit



BOARD MEMBERS AND SUPERINTENDENT

Board members and the Superintendent who served during the 2011-12 fiscal year are listed below:

	<u>District No.</u>
Karen Disney-Brombach	1
Jeffrey Pegler, Chair from 11-22-11	2
Matthew McCain, Chair to 11-21-11	3
Carol Johnson, Vice Chair	4
Claudia Jiménez	5

Frances J. Adams, Ed.D, Superintendent

The audit team leader was Clare Waters, CPA, and the audit was supervised by Tim L. Tucker, CPA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Manager, by e-mail at gregcenters@aud.state.fl.us or by telephone at (850) 487-9039.

This report and other reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 487-9175; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

INDIAN RIVER 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.

BOARD POLICIES

Finding No. 2: The Board had not adopted written policies and procedures related to electronic funds transfers.

INFORMATION TECHNOLOGY

Finding No. 3: Some inappropriate or unnecessary information technology (IT) access privileges existed indicating a need for an improved review of access privileges.

Finding No. 4: The District did not timely deactivate IT network, operating system, and application access privileges of some former employees.

BACKGROUND

The Indian River 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 Indian River County. The governing body of the District is the Indian River 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 25 elementary, middle, high, and specialized schools; sponsored five charter schools; and reported 17,722 unweighted full-time equivalent students.

The results of our audit of the District's financial statements and Federal awards for the fiscal year ended June 30, 2012, will be presented in a separate report.

FINDINGS AND RECOMMENDATIONS

Personnel and Payroll

Finding No. 1: Compensation and Salary Schedules

Section 1001.42(5)(a), Florida Statutes, requires the Board to designate positions to be filled, prescribe qualifications for those positions, and provide for the appointment, compensation, promotion, suspension, and dismissal of employees, subject to the requirements of Chapter 1012, Florida Statutes. Section 1012.22(1)(c)4.b., Florida Statutes, provides that, for instructional personnel, the Board must provide differentiated pay based 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, the salary schedule provided an additional \$2,000 for instructional personnel at Title I schools based on school demographics. However, neither the salary schedule nor the union contract evidenced differentiated pay based on 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 salary revisions to comply with the statutory differentiated pay requirements were not made due to budgetary constraints. 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. Similar findings were noted in our report Nos. 2011-055 and 2012-036.

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.

Board Policies

Finding No. 2: 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 discusses the use of electronic signatures in electronic transactions between school boards and other entities.

During the 2011-12 fiscal year, the District did not use EFTs to make vendor payments; however, the District regularly made electronic disbursements for its health self-insurance program, debt service payments, and direct deposit of employee pay and other payroll related activity, such as annuity, flexible benefits, and union dues. According to the District’s records, cash and investment balances totaling \$84 million were available for electronic transfer at June 30, 2012. The Board established five bank agreements with one bank and five investment agreements with the State Board of Administration to provide various services, such as EFTs. Also, the District had controls in place to monitor and control EFT transactions, such as written procedures requiring separation of EFT initiation and authorization duties. In addition, our tests of EFTs indicated that transfers were authorized and appropriately documented. However, contrary to Section 1010.11, Florida Statutes, the Board had not, as of October 2012, adopted written policies and procedures prescribing the accounting and control procedures for EFTs. While the District had established controls over EFTs, the lack of specific guidance adopted by the Board increases the risk that EFTs will not be executed in accordance with Board directives and provisions of Chapter 668, Florida Statutes. A similar finding was noted in our report No. 2012-036.

Recommendation: The Board should adopt written policies and procedures related to EFTs, including the use of electronic signatures.

Information Technology

Finding No. 3: Access Privileges

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

To determine the appropriateness of update access privileges, we reviewed selected privileges for finance and human resources (HR) applications. Our review disclosed some inappropriate or unnecessary access privileges existed, indicating a need for improved District review. Specifically:

- Five finance department employees were granted update privileges to add vendors within the finance applications, although these privileges should generally be limited to purchasing department employees. In response to our inquiry, District staff indicated that the District created a new user profile, in August 2012, which restricted vendor update capabilities to only purchasing department staff.
- Four IT department employees were granted update privileges to assist end users when the users experienced problems within finance and HR applications, although these privileges allowed update access to virtually all functions within the applications. In response to our inquiry, in August 2012, the four employees were restricted to read-only screen sharing sessions with end users.

Although the District had controls in place (e.g., management review of change or edit reports and budgetary restrictions) to mitigate some of the risks of the control deficiencies noted above, inappropriate or unnecessary access privileges increase the risk that unauthorized disclosure, modification, or destruction of District data and IT resources may occur without timely detection. Similar findings were noted in our report Nos. 2011-055 and 2012-036.

Recommendation: **The District should continue its efforts to improve its review of access privileges and timely remove any inappropriate or unnecessary access detected.**

Finding No. 4: Timely Deactivation of Access Privileges

Effective IT access controls include provisions for the timely deactivation of employee access privileges when employment terminations occur. As certain critical application systems and confidential or sensitive information stored within individual users' documents are accessible through the District's network, prompt action is necessary to ensure that a former employee's IT access privileges are not misused by the former employee or others to compromise data or IT resources.

The District provided employees the ability to logon to District computers, e-mail, and other information using network accounts, and employees had access to computer operating systems, which enabled them to run application programs on District computers. The District utilized a program that scans the HR system for employment termination dates and automatically removes network account access privileges of former employees. In addition, this program produced a report that was used by the IT department to manually remove operating system and application access privileges from former employees. However, our test of 358 former employees who terminated employment during the 2011-12 fiscal year disclosed that the network access privileges of 4 former employees remained active for 48 to 365 days after termination of employment. Further, the operating system and application access privileges of 4 other former employees remained active for 20 to 267 days after termination of employment.

In response to our inquiry in August 2012, District personnel deactivated the access privileges for the 8 former employees described above. District personnel indicated that termination reports occasionally did not list employees who terminated, resulting in the untimely deactivation of employee access privileges. District personnel additionally indicated that they are working with the District’s software vendor to provide alerts when user accounts are improperly created or untimely deactivated. When access privileges of former employees are not timely deactivated, the risk is increased that access privileges may be misused by the former employees or others. Similar findings were noted in our report Nos. 2011-055 and 2012-036.

Recommendation: The District should continue its efforts to ensure that access privileges of former employees are timely deactivated.

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the District had taken corrective actions for findings included in our report No. 2012-036. The following table provides information on recurring District audit findings:

Current Fiscal Year Finding Numbers	Operational	
	2010-11 Fiscal Year Audit Report and Finding Numbers	2009-10 Fiscal Year Audit Report and Finding Numbers
1	Audit Report No. 2012-036, Finding No. 2	Audit Report No. 2011-055, Finding No. 3
2	Audit Report No. 2012-036, Finding No. 5	NA
3	Audit Report No. 2012-036, Finding No. 6	Audit Report No. 2011-055, Finding No. 8
4	Audit Report No. 2012-036, Finding No. 9	Audit Report No. 2011-055, Finding No. 11

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 June 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 our report No. 2012-036.
- 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) security awareness and training.	Determined whether a comprehensive IT security awareness and training program was in place.
Deactivation of employee IT access.	Reviewed procedures to prohibit former employees' access to electronic data files. Tested access privileges for former employees to determine whether their access privileges had been timely deactivated.
IT program change management controls.	Reviewed IT procedures for requesting, testing, approving, and implementing changes to the District's business system.
IT logical access controls and user authentication.	Reviewed selected operating system, network, and application security settings to determine whether authentication controls were configured and enforced in accordance with IT best practices.
IT access privileges and separation of duties.	Tested selected access privileges over 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.
IT security incident response.	Determined whether the District had developed an adequate security incident response plan.
Board meetings.	Read Board minutes and, for selected meetings, examined supporting documentation evidencing compliance with Sunshine Law requirements.
Charter school audits.	Reviewed the audit reports for the District sponsored charter schools to determine whether the required audits were performed.
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.
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.
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.

**EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY**

Scope (Topic)	Methodology
Earmarked capital project resources.	Applied analytical procedures, tested payments made from nonvoted capital outlay tax levy proceeds, Public Education Capital Outlay (PECO) funds, and other earmarked funds and examined supporting documentation to determine whether the District complied with requirements related to the use of nonvoted capital outlay proceeds, PECO funds, and other earmarked funds.
Construction administration.	For selected construction projects, tested payments and supporting documentation to determine compliance with District policies and procedures and provisions of law and rules. Also, reviewed the construction delivery method procedure.
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.
Restrictions on use of Workforce Development funds.	Applied analytical procedures and tested selected 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).
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.
Compensation for appointed superintendents.	Determined whether the appointed Superintendent's compensation was in accordance with Florida law, rules, and Board policies.
Fingerprinting and background checks.	Tested District records for individuals who had direct contact with students and examined supporting documentation to determine whether the District had obtained required fingerprint and background checks for individuals included in our test.
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.
Bonuses.	Determined whether bonuses paid were in compliance with Section 215.425(3), Florida Statutes.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
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.
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.

EXHIBIT B
MANAGEMENT'S RESPONSE



School District of Indian River County

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Frances J. Adams, Ed.D. - Superintendent

November 19, 2012

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

Dear Mr. Martin:

The purpose of this letter is to respond to the preliminary and tentative audit findings for the School Board of Indian River County as a result of the audit for the fiscal year ended June 30, 2012. The following are the responses as submitted by the appropriate staff.

Finding No. 1:
Compensation and Salary Schedules

The District concurs with the auditor's position that neither the salary schedule nor the union contract evidenced differentiated pay based on level of job performance difficulties and critical shortage areas for instructional personnel. Due to budgetary constraints, the district was unable to provide differentiated pay to instructional personnel based on these criteria outlined in the auditor's finding.

Finding No. 2:
Board Policies – Electronic Funds Transfers

As noted in the auditor's finding the District did have controls in place to monitor and control Electronic Funds Transfers (EFT) transactions, such as written procedures requiring separation of EFT initiation and authorization duties. However, the District concurs with the auditor's finding that there are no formal Board policies related to EFT. The Board is currently in the process of reviewing its policies and will ensure that a policy regarding EFT's and the use of electronic signatures is duly adopted.

"Educate and inspire every student to be successful"

Karen Disney-Brombach
District 1

• Jeffrey Pegler
District 2

• Matthew McCain
District 3

• Carol Johnson
District 4

• Claudia Jiménez
District 5

"To serve all students with excellence"
Equal Opportunity Educator and Employer

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

Finding No. 3:
Access Privileges

The District concurs with the auditor's finding and as noted the access privileges for the employees in question were modified accordingly. The District will continue its efforts to improve our review of access privileges and timely remove any inappropriate or unnecessary access.

Finding No. 4:
Timely Deactivation of Access Privileges

The District concurs with the auditor's finding and as noted the access privileges for the former employees were terminated. The District is currently working with our software vendor to provide alerts when user accounts are improperly created or untimely deactivated.

In closing, I would like to thank the staff from your office for their professionalism and cooperation in the conduct of the aforementioned audit. Please feel free to contact my office if you have any questions concerning this matter.

Sincerely,



Frances J. Adams, Ed.D.
Superintendent

Cc: School Board Members
Superintendent's Leadership Council