

**STATE OF FLORIDA AUDITOR GENERAL**

**Operational Audit**

Report No. 2017-091  
January 2017

**PASCO COUNTY  
DISTRICT SCHOOL BOARD**



Sherrill F. Norman, CPA  
Auditor General

## **Board Members and Superintendent**

During the 2015-16 fiscal year, Kurt S. Browning served as Superintendent of the Pasco County Schools and the following individuals served as School Board Members:

	<u>District No.</u>
Allen Altman, Vice Chair from 11-17-15	1
Joanne Hurley, Vice Chair to 11-16-15 Chair from 11-17-15	2
Cynthia Armstrong	3
Alison Crumbley	4
Steve Luikart, Chair to 11-16-15	5

The team leader was Anna A. McCormick, CPA, and the audit was supervised by Eric Davis, CPA. For the information technology portion of this audit, the team leader was Joseph D. Garcia, and the supervisor was Heidi G. Burns, CPA, CISA.

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# PASCO COUNTY DISTRICT SCHOOL BOARD

## ***SUMMARY***

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This operational audit of the Pasco County School District (District) focused on selected District processes and administrative activities and included a follow-up on findings noted in our report No. 2014-073. Our operational audit disclosed the following:

**Finding 1:** The District needs to document independent, supervisory review and approval of cost center administrator time recorded as worked and leave taken.

**Finding 2:** The Board had not established a date for submission of school internal funds audit reports to the Board. We noted that the 2013-14 fiscal year and 2014-15 fiscal year school internal funds audit reports were submitted to the Board more than 15 months after fiscal year-end.

**Finding 3:** District construction monitoring efforts did not always document the competitive selection of subcontractors.

**Finding 4:** The District inadvertently awarded an \$8,256 Florida Best and Brightest Scholarship Award to one ineligible recipient based on the college entrance exam scores for another individual.

**Finding 5:** District procedures for canceling purchasing card privileges could be enhanced.

**Finding 6:** Some unnecessary or inappropriate information technology (IT) access privileges were granted to District employees and accounts or groups that increased the risk that unauthorized disclosure, modification, or destruction of District data and IT resources may occur.

**Finding 7:** District security controls related to user authentication and logging and monitoring of system activity need improvement to ensure the continued confidentiality, integrity, and availability of District data and IT resources.

## ***BACKGROUND***

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The Pasco County School District (District) is part of the State system of public education under the general direction of the Florida Department of Education, and is governed by State law and State Board of Education rules. Geographic boundaries of the District correspond with those of Pasco County. The governing body of the District is the Pasco County District School Board (Board), which is composed of five elected members. The elected Superintendent of Schools is the executive officer of the Board. During the 2015-16 fiscal year, the District operated 79 elementary, middle, high, and specialized schools; sponsored 9 charter schools; and reported 69,611 unweighted full-time equivalent students.

This operational audit of the District focused on selected processes and administrative activities and included a follow-up on findings noted in previous audit reports including our report No. 2014-073. The results of our audit of the District's financial statements and Federal awards for the fiscal year ended June 30, 2016, was presented in our report No. 2017-082.

## ***FINDINGS AND RECOMMENDATIONS***

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### **Finding 1: Payroll Processing – Time Records**

Effective internal controls require supervisory approval of time worked and leave used by employees to ensure that compensation payments are appropriate and leave balances are accurate. Board policies<sup>1</sup> require principals and department heads to submit accurate payroll records in accordance with established time schedules and procedures.

The District pays administrative contracted employees (e.g., cost center administrators such as area superintendents, department directors, supervisors, and principals) on a payroll-by-exception basis whereby the employees are paid a fixed authorized gross amount for each payroll cycle unless the amount is altered. A payroll-by-exception methodology assumes, absent any payroll action to the contrary, that an employee worked or used available accumulated leave for the required number of hours in the pay period. According to District personnel, time sheets are maintained to document time worked and leave taken for each employee, administrative contracted employees review and approve time sheets for their respective cost centers, and timekeepers input leave taken from time sheets into the District payroll system.

During the 2015-16 fiscal year, the District's 115 cost center administrators were compensated a total of \$9.2 million. However, our examination of District records and discussions with District personnel disclosed that there was no documented independent, supervisory review and approval of cost center administrator time sheets. In response to our inquiry, District personnel indicated that supervisory staff approve administrative contracted employee leave use by e-mail or by completed leave forms. However, since such approvals are not entered into the payroll system and timekeepers input employee leave use from time sheets, the approvals have limited value as they do not impact employee compensation or leave balances.

Without documented independent, supervisory review and approval, there is limited assurance that cost center administrator services are provided consistent with Board expectations and the risk of incorrect administrator compensation and inaccurate leave balances is increased. District personnel indicated that, as of November 2016, new software was being installed to require all administrative contracted employees time worked and leave taken to be independently reviewed and approved.

**Recommendation: The District should continue efforts to require independent, supervisory review and approval of cost center administrator time recorded as worked and leave taken be documented and utilized in the payroll and leave balance record-keeping processes.**

### **Finding 2: Audits – School Internal Funds**

School internal funds provide an accounting for various school club and class activities. State Board of Education (SBE) rules<sup>2</sup> require an annual audit of the school internal funds by a certified public accountant (CPA) or qualified internal auditing staff employed by the Board. The rules also provide that

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<sup>1</sup> Board Policy 6480 – Payroll Expenditures.

<sup>2</sup> SBE Rule 6A-1.087, Florida Administrative Code.

the “auditor shall submit a signed, written report to the school board covering internal funds which shall include any notations of any failure to comply with requirements of Florida Statutes, SBE rules, and policies of the school board, and commentary as to financial management and irregularities.” State law<sup>3</sup> requires the District to provide for an audit of its financial statements to be completed within 9 months after fiscal year-end. As school internal funds are an integral part of the District’s financial reporting entity, it is important that the school internal funds audits are available for consideration during the District financial statements audit.

The District employs internal auditing staff to audit its school internal funds. At June 30, 2016, the District reported school internal funds assets and liabilities of \$8.3 million for the District’s 75 schools. However, based on discussions with District personnel, the Board had not established a date for submission of school internal funds audit reports to the Board.

Our examination of school internal funds audit reports for the 2013-14 fiscal year disclosed that the audit report for 31 of the 75 schools was submitted to the Board on June 21, 2016, and the report for the other 44 schools was submitted on September 13, 2016, or 23 and 26 months, respectively, after fiscal year-end. For the 2014-15 fiscal year, the audit report for 21 of the 75 schools was submitted to the Board on October 18, 2016, or 15 months after fiscal year-end. District personnel indicated that submission of 3 audit reports for the remaining 54 schools is planned for December 2016, or 17 months after fiscal year-end. In response to our inquiry, District personnel indicated that in the future all internal account audits would be completed by December following fiscal year-end to allow for consideration of the audits during the District financial statements audit.

School internal funds audit reports submitted timely to the Board enhance the relevance and usefulness of the reports for evaluating internal controls over school internal funds and District compliance with laws, rules, and Board policies relating to school internal funds. Timely submitted reports also allow for consideration of the audits during the District financial statements audit.

**Recommendation: The Board should establish a date for submission of school internal funds audit reports to the Board. In doing so, the Board should consider the benefits of completing the school internal funds audits within a time frame that:**

- **Enhances the relevance and usefulness of the audits for evaluating internal controls over school internal funds and District compliance with laws, rules, and Board policies relating to school internal funds.**
- **Allows for consideration of the audits during the District financial statements audit.**

### **Finding 3: Subcontractor Selection**

Pursuant to State law,<sup>4</sup> the Board may contract for the construction or renovation of facilities with a construction management entity (CME). Under the CME process, contractor profit and overhead are contractually agreed upon and the CME is responsible for all scheduling and coordination in both design and construction phases. The CME is also generally responsible for the successful, timely, and economical completion of the construction project. The CME may be required to offer a guaranteed

<sup>3</sup> Section 218.39, Florida Statutes.

<sup>4</sup> Section 1013.45(1)(c), Florida Statutes.

maximum price (GMP), which allows for the difference between the actual cost of the project and the GMP amount, or the net cost savings, to be returned to the District. As such, a GMP contract requires District personnel to closely monitor subcontractor bid awards and other construction costs.

During the 2015-16 fiscal year, the Board entered into 17 contracts totaling \$106.9 million with 11 CMEs for new construction, remodeling and renovations, repairs, and site improvement projects, including 9 GMP contracts totaling \$96.1 million. As part of our audit procedures, we requested for examination documentation related to two GMP contracts totaling \$58.5 million with the same CME for a new high school project (project) and evaluated District construction administration procedures. During the 2015-16 fiscal year, the District incurred expenditures totaling \$24.6 million for the project.

Our examination of District records disclosed that the District followed the competitive selection process prescribed by State law<sup>5</sup> for selection of the CME for the two GMP contracts. District records also disclosed that District personnel compared CME pay requests, prior to payment, with corresponding subcontractor invoices and related contracts to verify that invoiced amounts complied with contract provisions. District records further indicated that, as part of the CME monitoring efforts, District personnel attended subcontractor bid openings related to the project and received a signed letter from the CME attesting to their attendance. Utilizing the results of the bids, the CME prepared GMPs for the project and provided the District with summary GMP reports that included copies of all bid tabulations that were incorporated into the GMP contracts. Our examination also disclosed that, although District personnel indicated that the District had established procedures to require District comparisons of subcontractor bid awards per bid tabulation sheets with CME subcontractor contracts, District personnel did not follow these procedures for this project.

According to District records, the CME awarded contracts for 44 types of subcontractor services such as plumbing, heating, ventilation and air conditioning (HVAC), and electrical services for the project. However, our examination of bid tabulation sheets, subcontractor contracts, and related correspondence disclosed certain inconsistencies between low bidders listed on the bid tabulation sheets, subcontractors identified for selection on the tabulation sheets, and the subcontractors actually awarded the contracts. For example, we noted that:

- The CME separately solicited plumbing and HVAC subcontractor services and eventually awarded a combined plumbing and HVAC contract totaling \$9 million to a subcontractor that was not, according to the tabulation sheets, the low bidder for either service. We also noted that, based on the tabulation sheets, the CME awarded seven other subcontracts totaling \$6.2 million that exceeded the amount of the low bidder by a total of \$278,971. Specifically, the awarded subcontracts ranged from \$5,000 to \$101,600 more than the lowest bid amount. Although we requested, District records were not initially available to justify the basis for awarding the contracts to subcontractors who were not the low bidder.
- One bid tabulation sheet for electrical services included an adjustment to increase the low bid by \$850,000 to “add labor sufficient to meet schedule” and another adjustment to lower the highest bid by \$105,000 for a “scope review modification.” As a result, the original high bid was adjusted to be the lowest and the CME awarded the subcontractor a \$7.3 million contract. However, although we requested, District records, such as payroll records to substantiate the additional \$850,000 in labor costs and details of what constituted the \$105,000 in scope modification

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<sup>5</sup> Section 287.055, Florida Statutes.

reductions, were not initially available to justify the adjustments and to demonstrate District personnel approval of the adjustments.

- The CME awarded seven contracts totaling \$5.4 million to subcontractors other than the ones recommended on the applicable bid tabulation sheet. One of the subcontractors receiving a contract was not listed on the applicable tabulation sheet. Although we requested, District records were not initially available to demonstrate the basis upon which the seven contracts were awarded.
- Twelve of the 44 bid tabulation sheets indicated that the subcontractor was “TBD” (to be determined) although several bids were listed on the tabulation sheet. Although we requested, District records were not initially available to justify the selection process delay associated with these 12 bid tabulation sheets or whether subcontractors were ultimately competitively selected.

In response to our inquiries, District personnel indicated that, in most cases, bid tabulation sheets only reflected the apparent low bidder and that it was not until CMEs thoroughly vetted subcontractor bids and related services that the lowest responsible bidder was selected. Subsequent to our inquiries, District personnel requested and obtained from the CME documented explanations for subcontractor selections demonstrating the competitive selection process. The documented explanations included, for example, statements that additional CME and subcontractor negotiations occurred after the CME’s review of the initial bids and that bid submissions were rejected because the bids included products and materials that did not conform to project specifications.

Based on the documented explanations obtained from the CME, District personnel believed the CME exercised due diligence on behalf of the District. However, without District procedures to document verification of the CME subcontractor competitive selection process, there is an increased risk that subcontractor services may not be obtained at the lowest cost consistent with acceptable quality and maximum cost savings under GMP contracts may not be realized.

**Recommendation: The District should enhance procedures to verify that CMEs select subcontractors using a competitive process. Such procedures should require that:**

- **Comparisons of subcontractor bid awards listed on the bid tabulation sheets with subcontractor contract amounts be performed and documented by District personnel.**
- **District personnel document verification of the propriety of the CME’s selection process, including the basis for selecting other than the lowest bidder.**

#### **Finding 4: Florida Best and Brightest Teacher Scholarship Program**

The Florida Legislature established the Florida Best and Brightest Teacher Scholarship Program (Program)<sup>6</sup> to reward teachers who achieved high academic standards during their own education. Pursuant to General Appropriations Act proviso language,<sup>7</sup> to be eligible for a scholarship, a teacher must have scored at or above the 80<sup>th</sup> percentile on a college entrance exam based on the percentile ranks in effect when the teacher took the assessment and have been evaluated as highly effective pursuant to State law,<sup>8</sup> or if the teacher is a first-year teacher who has not been evaluated pursuant to State law, must have scored at or above the 80<sup>th</sup> percentile on a college entrance exam based on the percentile

<sup>6</sup> Section 1012.731, Florida Statutes (2016).

<sup>7</sup> Chapter 2015-232, Specific Appropriation 99A, Laws of Florida.

<sup>8</sup> Section 1012.34, Florida Statutes.

ranks in effect when the teacher took the assessment. To demonstrate eligibility for a scholarship award, an eligible teacher must submit to the District an official record of his or her college entrance exam score demonstrating that the teacher scored at or above the 80<sup>th</sup> percentile based on the percentile ranks in effect when the teacher took the assessment. Additionally, District procedures require teachers to complete and submit scholarship qualification forms. On the forms, teachers must certify that they are submitting official documentation of college entrance exam scores at or above the 80<sup>th</sup> percentile. Pursuant to State law,<sup>9</sup> once a classroom teacher is deemed eligible by the District, including teachers deemed eligible in the 2015-16 fiscal year, the teacher shall remain eligible as long as he or she remains employed by the District as a classroom teacher at the time of the award and receives an annual performance evaluation rating of highly effective.

District personnel are responsible for determining teacher eligibility for scholarship awards and annually submitting the number of eligible teachers to the Florida Department of Education (FDOE). The FDOE disburses scholarship funds to the District for each eligible classroom teacher to receive a scholarship as provided in the applicable General Appropriations Act.

During the 2015-16 fiscal year, the District awarded Program scholarships totaling \$1.9 million to 233 teachers. Our examination of District records supporting scholarship awards totaling \$214,663 to 26 selected teachers disclosed that 1 ineligible teacher was inadvertently awarded an \$8,256 scholarship based on the college entrance exam scores for another individual. We extended our audit procedures to include an examination of District records for scholarship awards totaling \$115,588 to 14 additional teachers and did not identify any other ineligible recipients.

In response to our inquiries, District personnel indicated that they established a requirement that several staff members review each application to verify scholarships are paid only to eligible employees. Further, the District notified the ineligible scholarship recipient to reimburse the award and that the individual will not be eligible for the scholarship in the 2016-17 fiscal year unless appropriate documentation is provided. Absent effective verification procedures, the risk increases for scholarships to be awarded to ineligible recipients.

**Recommendation:** The District should ensure that Program scholarships are awarded only to eligible recipients. The District should also continue efforts to recover the award paid to the ineligible scholarship recipient and refund the award to the FDOE.

#### **Finding 5: Purchasing Cards**

The District uses purchasing cards (P-cards) to expedite the purchase of selected goods and services. Purchases made with P-cards are subject to the same rules and regulations that apply to other District purchases and are subject to additional requirements in the P-card Manual. The P-card Manual requires cost center administrators to collect P-cards assigned to employees who plan to separate from District employment and submit termination forms to the P-card administrator for cancellation.

For the 2015-16 fiscal year period, the District had P-card expenditures totaling \$26.3 million and, as of June 30, 2016, 1,062 P-cards were assigned to employees. To determine whether the District promptly canceled applicable P-cards, we examined District records for 29 of the 49 cardholders who separated

<sup>9</sup> Section 1012.731(3)(b), Florida Statutes (2016).



from District employment during the period. We found that the District did not timely cancel the P-cards for 10 of the 29 former employees as the cards were canceled 7 to 111 days, or an average of 39 days, after the employees' separation dates.

In response to our inquiries, District personnel indicated that the untimely P-card cancellations were due to delays by cost center administrators in submitting termination forms to the P-card administrator. While the agreement between the District and the bank that administers the P-card program allows the District 60 days to dispute charges, and our examination of P-card activity for the 29 former employees disclosed that no purchases were made after the individuals separated from District employment, untimely cancellation of P-card privileges increases the risk that such privileges could be misused by former employees or others and may limit the District's ability to satisfactorily resolve disputed charges.

**Recommendation:** The District should strengthen procedures to ensure that P-card privileges are timely canceled upon a cardholder's separation from District employment.

### **Finding 6: Information Technology – Access Privileges**

Access controls are intended to protect District data and information technology (IT) resources from unauthorized disclosure, modification, or destruction. Effective access controls include granting 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 their areas of responsibility.

Our review of the District's Enterprise Resource Planning (ERP) system finance and human resources (HR) applications and the database management system (DBMS) disclosed that some access privileges permitted employees to perform incompatible functions or were unnecessary for their assigned job duties. Specifically:

- Our test of the one role<sup>10</sup> within the finance application that allowed update access privileges to most finance functions, including accounts payable, purchasing, general ledger, and system administration, resulted in our review of the 3 accounts assigned to the role. One of the 3 accounts was assigned to a Systems Analyst and provided the Systems Analyst the ability to update critical finance transactions, including creating purchase requisitions, posting journal entries, setting up and processing electronic funds transfers and manual checks. Collectively, these abilities are contrary to an appropriate separation of ERP system technical support and application end-user responsibilities. In addition, the Systems Analyst could update user access profiles and permissions that were unnecessary for her assigned responsibilities. In response to our audit inquiry, District management indicated that the Systems Analyst's access privileges had been removed.
- Our test of four default network administrator system groups<sup>11</sup> that allow complete access to network resources resulted in our review of 11 of the 12 accounts and the one user group

<sup>10</sup> Roles are assigned to accounts. Access to finance functions (e.g., accounts payable or purchasing) is granted to users by assigning users to roles within the application. Each role is assigned one or more menus (e.g., functions) and associated submenus where users perform these functions. Certain roles serve as prerequisites that users must have in order to perform certain critical functions.

<sup>11</sup> Default network administrator system groups are provided by the IT environment vendor and provide the ability to perform functions such as systemwide configurations and settings, installation and maintenance of all software, security administration, and the application of operating system service packs and updates to the IT environment depending the functions defined by the vendor for each vendor-delivered system group.

assigned to the four default network administrator system groups. Our review of the network administrator access privileges granted disclosed that the user group<sup>12</sup> had administrator access privileges within the District's network domain<sup>13</sup> which were unnecessary for District operations. Administrator access privileges are typically limited to employees who are responsible for performing network administration duties that require complete access to network resources. Subsequent to our audit inquiry, District management removed the user group.

- Our review of the 10 accounts, the one system group, and the one user group granted database administrator access privileges to the District's DBMS disclosed that the system group had unrestricted authority over the DBMS, including access to update all data in the finance and HR database, in addition to having administrative privileges within the District's network domain. The combination of these access privileges were contrary to an appropriate separation of database administration and network administration responsibilities. In response to our inquiry in November 2016, District management indicated that they intend to remove the system group's access privileges from the DBMS.

Inappropriate or unnecessary IT access privileges increase the risk that unauthorized disclosure, modification, or destruction of District data and IT resources may occur.

**Recommendation: We recommend that District management remove any inappropriate or unnecessary access privileges and ensure that the IT access privileges granted are necessary and enforce an appropriate separation of duties.**

#### **Finding 7: Information Technology – Security Controls – User Authentication and Logging and Monitoring of System Activity**

Security controls are intended to protect the confidentiality, integrity, and availability of District data and IT resources. Our audit procedures disclosed that certain District security controls related to user authentication and the logging and monitoring of system activity need 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. A similar finding related to user authentication was communicated to District management in connection with our report No. 2014-073.

Without adequate security controls related to user authentication and logging and monitoring of system activity, the risk is increased that the confidentiality, integrity, and availability of District data and IT resources may be compromised.

**Recommendation: We recommend that District management improve security controls related to user authentication and the logging and monitoring of system activity to ensure the continued confidentiality, integrity, and availability of District data and IT resources.**

### ***PRIOR AUDIT FOLLOW-UP***

Except for Finding 7, which was also noted in prior audit report No. 2014-073, as Finding No. 12, the District had taken corrective actions for the findings included in our report No. 2014-073.

<sup>12</sup> A user group is a collection of user accounts.

<sup>13</sup> A domain is a form of a computer network in which all, or a portion of, user accounts, computers, printers, and other IT resources are centrally clustered together to facilitate centralized administration and maintenance of the IT resources.

## ***OBJECTIVES, SCOPE, AND METHODOLOGY***

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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 May 2016 to November 2016 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 safeguarding of assets, and identify weaknesses in those controls.
- Determine whether management had taken corrective actions for findings included in our report No. 2014-073.
- 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, weaknesses 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.

As described in more detail below, 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.

Our audit included transactions, as well as events and conditions, occurring during the 2015-16 fiscal year audit period, and selected District actions taken prior and subsequent thereto. 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 management, staff, and vendors, and as a consequence, cannot be relied upon to identify all instances of noncompliance, fraud, waste, abuse, or inefficiency.

In conducting our audit we:

- Reviewed the District's information technology (IT) policies and procedures to determine whether the policies and procedures addressed certain important IT control functions, such as security, systems development and maintenance, network configuration management, system backups, and disaster recovery.
- Reviewed District procedures for maintaining and reviewing access to IT resources. We tested selected access privileges to the District's Enterprise Resource Planning (ERP) system to determine the appropriateness and necessity of the access based on employees' job duties and user account functions and whether the access prevented the performance of incompatible duties. We also examined the administrator account access privileges granted and procedures for oversight of administrative accounts for the network, operating systems, database, and applications to determine whether these accounts had been appropriately assigned and managed. Specifically we:
  - Tested the one role that allowed update access privileges to selected critical ERP system finance application functions resulting in the review of the appropriateness of access privileges granted for 3 accounts.
  - Tested the four default network administrator system groups that allow complete access to network resources resulting in the review of the appropriateness of administrator access privileges granted to 12 accounts.
  - Tested the default server administrator group that allows complete access to the server and all administrative accounts for the operating systems that support the ERP system application server and database server resulting in the review of the appropriateness of 16 administrative accounts.
  - Tested the 10 accounts and the one system group and the one user group granted database administrator access privileges to the District's database management system.
  - Tested the appropriateness of the 3 accounts granted security administrator access privileges for the ERP system applications.
- Reviewed District supporting documentation to determine whether authentication controls were configured and enforced in accordance with IT best practices.
- Reviewed District procedures and reports related to the capture and review of system activity that were designed to ensure the appropriateness of access to and modification of sensitive or critical resources.
- Evaluated the District's security policies and procedures governing the classification, management, and protection of sensitive and confidential information.

- Determined whether a comprehensive IT disaster recovery plan was in place, designed properly, operating effectively, and had been recently tested.
- Evaluated IT procedures for requesting, testing, approving, and implementing changes to the District's business system for the audit period.
- Evaluated the District data center's physical access controls to determine whether vulnerabilities existed.
- Determined whether a fire suppression system had been installed in the District's data center.
- Evaluated Board, committee, and advisory board minutes to determine whether Board approval was obtained for policies and procedures in effect during the audit period and for evidence of compliance with Sunshine law requirements (i.e., proper notice of meetings, meetings readily accessible to the public, and properly maintained meeting minutes).
- Examined District records to determine whether the District had developed an anti-fraud policy and procedures to provide guidance to employees for communicating known or suspected fraud to appropriate individuals. Also, we examined District records to determine whether the District had implemented appropriate and sufficient procedures to comply with its anti-fraud policy.
- Analyzed the District's General Fund total unassigned and assigned fund balances at June 30, 2016, to determine whether the balances were less than 3 percent of the fund's projected revenues, as specified in Section 1011.051, Florida Statutes. We also performed analytical procedures to determine the ability of the District to make its future debt service payments.
- From the population of \$136.2 million total expenditures and \$39.2 million total transfers made during the audit period from nonvoted capital outlay tax levy proceeds, Public Education Capital Outlay funds, and other restricted capital project funds, examined documentation supporting 30 selected expenditures totaling \$16.6 million and all transfers from these funds, to evaluate District compliance with the restrictions imposed on the use of these resources.
- Examined supporting documentation for 28 selected salary payments totaling \$47,878 and 2 other payments totaling \$3,739 from the population of \$1.5 million total workforce development fund expenditures for the audit period to determine whether the District used the funds for authorized purposes (i.e., not used to support K-12 programs or District K-12 administrative costs).
- For the 26 industry certifications reported for performance funding that were attained by students during the 2014-15 and 2015-16 fiscal years, examined the certifications to determine whether the District maintained documentation for student attainment of the industry certifications.
- From the population of 1,610 adult general education instructional students reported for 158,072 contact hours during the audit period, examined District records supporting 2,153 reported contact hours for 30 selected students to determine whether the District reported the instructional contact hours in accordance with Florida Department of Education (FDOE) requirements.
- Examined the District Web site to determine whether the 2015-16 fiscal year proposed, tentative, and official budgets were prominently posted pursuant to Section 1011.035(2), Florida Statutes.
- Examined District records to determine whether the District established an audit committee and followed prescribed procedures to contract for audit services pursuant to Section 218.391, Florida Statutes, for the 2013-14 and 2014-15 fiscal years.
- Examined supporting documentation to determine whether required internal funds audits for the 2013-14 and 2014-15 fiscal years were timely performed pursuant to State Board of Education (SBE) Rule 6A-1.087, Florida Administrative Code (FAC), and whether the audit reports were presented to the Board.

- Examined District records supporting the population of payments and transfers totaling \$15,033 made during the audit period from the District to its direct-support organization to determine the legal authority of such transactions.
- Reviewed District policies and procedures and evaluated controls over the Transportation Department and Warehouse inventories for the audit period to determine the adequacy of District controls for safeguarding inventory items.
- Examined nine employee contracts to determine whether severance pay provisions complied with Section 215.425(4), Florida Statutes.
- From the population of 12,443 employees compensated a total of \$261.9 million during the audit period, examined District records supporting compensation payments totaling \$36,546 to 30 selected employees to determine the accuracy of the rate of pay and whether supervisory personnel reviewed and approved employee reports of time worked and leave used.
- Examined District records for the audit period to determine whether the Board adopted a salary schedule with differentiated pay for both instructional personnel and school administrators based on District-determined factors, including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties in compliance with Section 1012.22(1)(c)4.b., Florida Statutes.
- Examined District policies and procedures to determine whether the District had developed adequate performance assessment procedures for instructional personnel and school administrators based on student performance and other criteria in accordance with Section 1012.34(3), Florida Statutes, and determined whether a portion of each selected instructional employee's compensation was based on performance in accordance with Section 1012.22(1)(c)4., Florida Statutes.
- Examined District records for 20 selected employees and 10 selected contractors from the population of 13,208 employees and 3,534 contractors to assess whether personnel who had direct contact with students were subjected to the required background screenings.
- Examined District policies, procedures, and related records for school volunteers to determine whether the District for the audit period searched prospective volunteers' names against the Dru Sjodin National Sexual Offender Public Web site maintained by the United States Department of Justice, as required by Section 943.04351, Florida Statutes.
- Examined District records supporting the eligibility of 40 selected employees from the population of 233 employees who received Florida Best and Brightest Teacher Scholarship Program awards totaling \$1.9 million during the audit period.
- From the population of 86 payments totaling \$36,355 paid to employees for other than travel and payroll payments during the audit period, examined District records supporting 10 selected payments totaling \$11,460 to determine whether such payments were reasonable, adequately supported, for valid District purposes, and were not contrary to Section 112.313, Florida Statutes.
- Reviewed District procedures for acquiring health insurance to determine compliance with Section 112.08, Florida Statutes. We also evaluated the procedures for acquiring other types of commercial insurance to determine whether the basis for selecting insurance carriers was documented in District records and conformed to good business practice.
- From the population of expenditures other than salaries totaling \$451.3 million during the audit period, examined District records supporting 30 selected expenditures totaling \$1 million to determine whether the expenditures were reasonable, correctly recorded, adequately documented, for a valid District purpose, properly authorized and approved, and in compliance with applicable State laws, rules, contract terms and Board policies.

- From the population of 17 construction contracts with 11 construction management entities totaling \$106.9 million, of which 9 were guaranteed maximum prices (GMP) contracts totaling \$96.1 million, we selected two significant construction projects composed of 2 GMP contracts totaling \$58.5 million to determine compliance with District policies and procedures and provisions of State laws and rules. Also, for these projects, we:
  - Examined records to determine whether the construction manager was properly selected.
  - Evaluated District procedures for monitoring subcontractor selection and licensure and examined records to determine whether subcontractors were properly selected and licensed.
  - Examined records to determine whether the architects were properly selected and adequately insured.
  - Determined whether the District established written policies and procedures addressing negotiation and monitoring of general conditions costs.
  - Examined records supporting selected five payments totaling \$3.2 million to determine whether District procedures for monitoring payments to the construction manager were adequate and payments were sufficiently supported.
- From the population of purchasing card (P-card) transactions totaling \$26.3 million during the audit period, examined District records supporting 31 selected transactions totaling \$380,792 to determine whether P-cards were administered in accordance with District policies and procedures. We also determined whether the District timely canceled the P-cards for 29 former employees who had been assigned P-cards and separated from District employment during the audit period.
- Determined whether rebate revenues for the P-card program totaling \$366,103 for the audit period were allocated to the appropriate District funds.
- Reviewed District policies and procedures related to electronic funds transfers (EFTs) to determine whether an appropriate separation of duties existed. We also reviewed agreements related to nine institutions to determine whether such agreements set forth the responsibilities of each party and included the manual signatures of the Board Chair, Superintendent, and employee authorized to initiate EFTs in accordance with SBE Rule 6A-1.0012, FAC. From the population of 353 EFTs and payments totaling \$577.1 million during the audit period, we examined 12 selected transfers and payments totaling \$122.2 million to determine whether the EFTs and payments were adequately supported, properly authorized, and complied with SBE Rule 6A-1.0012, FAC.
- For the one charter school that was not renewed or was terminated in the current or 2 preceding fiscal years, evaluated District procedures to determine whether applicable funds and property appropriately reverted to the District and whether the District did not assume debts of the school or center, except as previously agreed upon by the District.
- Evaluated the sufficiency of District procedures for the audit period to determine whether District charter schools were required to be subjected to an expedited review pursuant to Section 1002.345, Florida Statutes.
- Evaluated the sufficiency of District procedures for the audit period to determine whether the District monitored charter schools for any loans or transfers made to the charter schools' parent corporations.
- From the population of contractual services payments totaling \$23.1 million during the audit period, examined supporting documentation, including the contract documents, for 30 selected contractual services payments totaling \$2.2 million related to 30 contracts to determine whether:
  - The District complied with competitive selection requirements.

- Contracts clearly specified deliverables, time frames, documentation requirements, and compensation.
- Records documented satisfactory receipt of deliverables before payments were made.
- Payments complied with contract provisions.

Also, we examined supporting documentation to determine whether the District complied with Section 112.313, Florida Statutes, and had not contracted with its employees for services provided beyond those in their salary contracts.

- Determined whether the District used supplemental academic instruction and research-based reading instruction allocations to provide, to the applicable schools pursuant to Section 1011.62(9), Florida Statutes, an additional hour of intensive reading instruction to students every day, schoolwide during the audit period. Also, pursuant to the 2015 General Appropriations Act, we determined whether the District appropriately reported to the FDOE the funding sources, expenditures, and student outcomes for each participating school.
- Evaluated the adequacy of District Virtual Instruction Program (VIP) policies and procedures.
- Examined student records and District procedures for the audit period to determine whether the District ensured eligible VIP students who did not already have computing resources in their home were provided resources necessary for program participation as required by Section 1002.45(3)(c) and (d), Florida Statutes.
- Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.
- Prepared and submitted for management response the findings and recommendations that are included in this report and which describe the matters requiring corrective actions. Management's response is included in this report under the heading **MANAGEMENT'S RESPONSE**.

## **AUTHORITY**

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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.



Sherrill F. Norman, CPA  
Auditor General



## MANAGEMENT'S RESPONSE

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# Pasco County Schools

Kurt S. Browning, Superintendent of Schools  
7227 Land O' Lakes Boulevard • Land O' Lakes, Florida 34638

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December 16, 2016

Sherrill F. Norman, CPA  
Auditor General  
Claude Pepper Building  
111 West Madison Street  
Tallahassee, FL 32399-1450

Dear Ms. Norman:

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

The following paragraphs enumerate various actions the District will take and provides clarification applicable to certain findings and recommendations listed in the preliminary and tentative audit finding letter dated November 28, 2016:

### **Finding 1: Payroll Processing – Time Records**

Currently, administrators' leave taken is approved by their immediate supervisors via email or a completed leave form. The hard copy documentation for approvals is not entered into the MUNIS system; therefore, neither the leave taken nor time worked is electronically approved by their immediate supervisor. The District is in the beginning stages of installing new software that would require all administrators to fill out an electronic time sheet which will include leave time taken. The electronic time sheet would then be routed to the appropriate supervisor for approval before the electronic file is submitted for payroll processing.

### **Finding 2: Audits – School Internal Funds**

The audit schedule has been revised to ensure timely completion of School Internal Accounts audits to enhance the relevance and usefulness of the audits for evaluating internal controls and to allow for consideration of the audits during the District financial statements audit.

### **Finding 3: Subcontractor Selection**

District personnel will perform an analysis of the bids submitted by subcontractors and compare the amount of the apparent low bidder to the amount of the subcontract submitted by the Construction Management Entity (CME). Any discrepancies between these two amounts will be investigated with documentation prepared, identifying a just cause for the difference.

District personnel will verify and document the fairness and propriety of the CME's selection process. In the event that the apparent low bidder has been determined not to be the most Responsive and Responsible bidder, the District, along with the CME, will provide verifiable justification why this bidder was not qualified to be awarded the contract.

### **Finding 4: Florida's Best and Brightest Teacher Scholarship Program**

Once the District was made aware of the error, the District immediately took steps to notify the ineligible recipient to reimburse the award and the District will provide the refund to the Department of Education. Procedures have been established for multiple level review to prevent this from happening again.

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**Finding 5: Purchasing Cards**

Procedures have been enhanced to include a weekly report which is reviewed to identify employees who have terminated employment. Once identified as terminated, the employee's p-card privileges will be immediately suspended and the p-card will be permanently closed.

**Finding 6: Information Technology – Access Privileges**

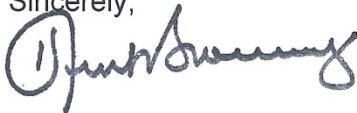
Inappropriate or unnecessary IT access privileges have been removed and the District will continue to monitor IT access privileges for appropriateness.

**Finding 7: Information Technology – Security Controls – User Authentication and Logging and Monitoring of System Activity**

The District has enabled certain security control solutions to address specific findings identified during the audit. The District continues to work with vendors regarding any remaining security control solutions that conflict with effective operation of key systems.

We appreciate the opportunity to respond to these findings. After reviewing our response, please advise me if you need further clarification or any additional action on our part.

Sincerely,



Kurt S. Browning  
Superintendent of Schools