

STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

Report No. 2023-080
January 2023

PASCO-HERNANDO STATE COLLEGE



Sherrill F. Norman, CPA
Auditor General

Board of Trustees and President

During the period January through December 2021, Dr. Timothy L. Beard served as President of Pasco-Hernando State College and the following individuals served as Members of the Board of Trustees:

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Alvaro A. Hernandez through 3-25-21, Reappointed on 7-12-21	Pasco
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John Richard Mitten	Hernando
Robin Schneider	Hernando
Dr. Rebecca Schulkowski from 3-26-21	Pasco

^a Trustee position vacant 3-30-21, through 7-11-21.

The team leader was Ruth G. Pennewell, CPA, and the audit was supervised by Anna A. McCormick, CPA.

Please address inquiries regarding this report to Jaime N. Hoelscher, CPA, Audit Manager, by e-mail at jaimehoelscher@aud.state.fl.us or by telephone at (850) 412-2868.

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PASCO-HERNANDO STATE COLLEGE

SUMMARY

This operational audit of Pasco-Hernando State College (College) focused on selected College processes and administrative activities and included a follow-up on findings noted in our report No. 2020-092. Our operational audit disclosed the following:

Finding 1: Contrary to State law, the College disbursed extra compensation payments totaling \$1.3 million to 465 employees and paid \$98,570 for employee benefits associated with those payments.

Finding 2: College textbook affordability procedures continue to need improvement.

Finding 3: College personnel did not always timely record journal entries or complete bank account reconciliations.

Finding 4: Some unnecessary information technology user access privileges existed that increase the risk for unauthorized disclosure, modification, or destruction of finance or human resources information to occur.

Finding 5: As of May 2022, the College had not established a comprehensive disaster recovery plan.

BACKGROUND

Pasco-Hernando State College (College) is under the general direction and control of the Florida Department of Education, Division of Florida Colleges, and is governed by State law and State Board of Education rules. A board of trustees (Board) governs and operates the College. The Board constitutes a corporation and is composed of nine members appointed by the Governor and confirmed by the Senate. The College President serves as the Executive Officer and the Corporate Secretary of the Board and is responsible for the operation and administration of the College.

The College has campuses in Brooksville, Dade City, New Port Richey, Spring Hill, and Wesley Chapel, Florida. Additionally, credit and noncredit classes are offered in public schools and other locations throughout Hernando and Pasco Counties.

FINDINGS AND RECOMMENDATIONS

Finding 1: Extra Compensation

State law¹ prohibits the College from making extra compensation payments to employees after services have been rendered. State law² also provides that any policy, ordinance, rule, or resolution designed to implement a bonus scheme must base the award of a bonus on work performance; describe the performance standards and evaluation process by which a bonus will be awarded; notify all employees

¹ Section 215.425(1), Florida Statutes.

² Section 215.425(3), Florida Statutes.

of the policy, ordinance, rule, or resolution before the beginning of the evaluation period on which a bonus will be based; and consider all employees for the bonus.

On June 15, 2021, the Board approved a non-recurring, one-time payment to full-time employees. The payment was based on 5 percent of each employee's annual salary or a minimum of \$2,500 prorated based on full-time equivalent status. To be eligible for the payment, the employee had to be employed prior to January 1, 2021, and at the time of payment. Full-time employees employed on the date of payment and hired by the College January 1, 2021, through March 31, 2021, were eligible to receive one-half of the non-recurring payment. On July 1, 2021, the College disbursed the extra compensation payments in amounts ranging from \$625 to \$11,996 and totaling \$1.3 million to 465 employees and paid \$98,570 for employee benefits³ associated with the payments.

In response to our inquiries, College personnel indicated that the College decided to distribute non-recurring payments to incentivize future performance and retain employees and was being prudent by not increasing recurring salaries due to the effects the COVID-19 pandemic had on enrollment. Notwithstanding this response, since the payments were made after the employees had rendered services, did not increase the employee's base rate of pay, and were not a bonus pursuant to State law, the payments represent extra compensation prohibited by State law.

Recommendation: The College should abstain from making extra compensation payments to employees after services have been rendered.

Finding 2: Textbook Affordability

State law⁴ requires the College to post prominently in the course registration system and on its Web site, as early as is feasible, but at least 45 days before the first day of class for each term, a hyperlink to lists of required and recommended textbooks and instructional materials for at least 95 percent of all courses and course sections offered at the College during the upcoming term.

According to College personnel and our examination of College records, the College adopted 310 textbooks and instructional materials for 831 course sections for 341 courses during the Summer 2021 Term and 470 textbooks and instructional materials for 1,993 course sections for 504 courses for the Fall 2021 Term. College personnel indicated that textbook and instructional material information was updated on the College Bookstore Web site and the course registration system was linked to that Web site. However, although we requested, College records were not provided to demonstrate the date that the lists of required and recommended textbooks and instructional materials were made available on the Bookstore Web site. In response to our inquiries, College personnel indicated that the system used is not able to provide the date that items were posted to the Web site. Consequently, College records did not evidence the dates that the lists of required and recommended textbooks and instructional materials were posted to the College Bookstore Web site and made available via the link from the course registration system.

³ The employee benefits paid did not include contributions to the Florida Retirement System.

⁴ Section 1004.085(5), Florida Statutes.

Without documentation evidencing timely postings for at least 95 percent of all courses and course sections offered at the College during an upcoming term, the College cannot demonstrate compliance with State law and students may misunderstand course textbook requirements and not have sufficient time to consider textbook purchase options and limit textbook costs. A similar finding was noted in our report No. 2020-092.

Recommendation: To demonstrate compliance with State law, the College should document that a hyperlink to lists of required and recommended textbooks and instructional materials for at least 95 percent of all courses and course sections offered at the College during each term was prominently posted in the course registration system and on the College Web site at least 45 days before the first day of class for each term.

Finding 3: Journal Entries and Bank Account Reconciliations

State law⁵ requires each college to establish and maintain internal controls designed to, among other things, detect fraud, ensure reliability of financial records and reports, and safeguard assets. Effective internal controls require that journal entries be promptly recorded to accurately reflect account transactions and balances in the general ledger. In addition, effective controls ensure that reconciliations of bank account balances to general ledger control accounts be performed on a timely, routine basis with reconciling items properly identified, thoroughly investigated, adequately documented, and resolved.

The College's general ledger cash balance totaled \$17.3 million at June 30, 2022. During the period October 2020 through June 2022 the College maintained three separate bank accounts, including the cash concentration account and the expense and payroll clearing accounts. According to College personnel, the expectation is for staff to promptly (e.g., monthly) record journal entries and complete a monthly, single reconciliation for all three bank accounts by the end of the month following the bank statement date.

As part of our audit, we inquired with College personnel, scanned support for journal entries, and examined College records supporting the 21 bank account reconciliations for the period October 2020 through June 2022. While our audit procedures disclosed that cash recorded in the general ledger was properly supported and reported on the financial statements as of June 30, 2021, and June 30, 2022, according to College personnel, due to challenges associated with the November 2020 implementation of a new enterprise resource planning (ERP) finance application, journal entries were not always recorded promptly and bank reconciliations were not always completed within the month following the bank statement date. Specifically:

- In August 2021, College personnel initially detected that the ERP finance application was not automatically recording certain cash transactions as intended and, during July 2021 through September 2021, 8,500 cash transactions totaling \$11.2 million were not automatically recorded. After significant efforts by College personnel to ensure that transactions would match bank information, the transactions were manually recorded through 533 journal entries during May 2022 through August 2022, over 7 months after the transactions occurred.
- Because of challenges with the ERP finance application and the untimely journal entries, 8 bank account reconciliations for November 2020 through June 2021 were not completed until 1 to

⁵ Section 1010.01(5), Florida Statutes.

6 months, or an average of 3 months, following the bank statement dates and 12 reconciliations for July 2021 through June 2022 were not completed until August 2022 (i.e., 1 to 12 months late).

Absent effective procedures for timely recording journal entries and preparing bank account reconciliations, there is an increased risk that any cash transaction errors or fraud that may occur will not be timely detected, general ledger financial information will be unreliable throughout the fiscal year, and the Board's ability to effectively monitor the College's financial position will be diminished.

Recommendation: The College should ensure that journal entries are promptly recorded in the general ledger and that reconciliations of bank account balances to general ledger account balances are timely performed on a routine basis with reconciling items promptly identified, thoroughly investigated, adequately documented, and promptly resolved.

Finding 4: Information Technology User Access Privileges

Access controls are intended to protect data and information technology (IT) resources from unauthorized disclosure, modification, or destruction. Effective access controls provide IT users access to IT resources based on a demonstrated need to view, change, or delete data and restrict IT users from performing incompatible functions or functions outside of their areas of responsibilities. Proper assignment and periodic evaluations of assigned IT access privileges help ensure that IT users cannot access or modify IT resources that are unnecessary or incompatible with their assigned duties.

From November 2020 through January 2021, the College implemented ERP software applications designed to manage and integrate the College core business activities relating to finance, human resources (HR), and payroll systems and operations. As part of our audit procedures, in February 2022 we examined College records supporting the access privileges of 30 selected IT users from the 175 IT users with IT access privileges to critical functions. We found that the College had assigned:

- 9 College personnel (2 Finance, including Payroll Department personnel; 4 HR Department personnel; and 3 Management Information Services Department personnel) unnecessary access to functions in both the payroll and HR applications that did not promote an appropriate separation of duties. For example, these employees had the ability to process payroll and add a new employee or change an employee's profile information, including an employee's pay rate, bank, and address information.

In response to our inquiries, College personnel indicated that during the transition to the new ERP software applications, the software's preset IT access profiles did not prevent incompatible functions. College personnel also indicated that, due to the limitations of the IT access profiles in the system, they have put compensating controls in place to provide a more rigorous approval process for transactions and the automatic creation of a report when certain changes are made, like changes to bank account information, that is automatically sent to the Senior Vice President and Chief Financial Officer (CFO) for review.

- The CFO and Comptroller unnecessary systemwide access to complete tasks in the College Finance and HR applications. In response to our inquiry, College personnel indicated that both employees were granted this access to assist in the implementation of the new ERP software. However, once the Finance and HR application implementation was completed in January 2021, the access was no longer necessary.

Although the College had certain controls (e.g., payroll and other expense processing controls) that somewhat mitigated the unnecessary access, the existence of unnecessary access privileges increases the risk of unauthorized disclosure, modification, or destruction of College data and IT resources may occur and not be timely detected.

Recommendation: The College should prioritize the customization of IT access profiles that permit personnel to complete their assigned duties without also being assigned access to incompatible functions or functions outside their areas of responsibilities. Such efforts should include timely and effective evaluations to identify and remove any IT user access privileges that are unnecessary or incompatible with employee assigned duties.

Finding 5: Disaster Recovery Plan

Disaster recovery planning is an important element of information technology (IT) controls established to manage the availability of valuable data and IT resources in the event of a processing disruption. The primary objective of disaster recovery planning is to provide the entity a plan for continuing critical operations in the event of a major hardware or software failure. A disaster recovery plan should identify key recovery personnel and critical applications, provide for backups of critical data sets, and provide a step-by-step plan for recovery. In addition, once established, the plan should be periodically tested.

Although the College had a cloud-based IT infrastructure for their finance and HR applications, the College did not, as of May 2022, have a comprehensive plan detailing key components for maintaining and restoring core IT infrastructure and services including the recovery and restoration of various College records and services, identifying and documenting disaster recovery team members and their respective roles and responsibilities for all areas of operation at the College, and appropriate steps for periodically testing the plan.

In response to our inquiries, College personnel indicated the preparation of the disaster recovery plan was delayed due to the demands placed on College staff during the transition to the new ERP system which included various unexpected complications. The lack of a comprehensive disaster recovery plan increases the risk that the College may not promptly and effectively resume IT operations, or maintain availability of IT data and resources, in the event of a disaster or other service interruption.

Recommendation: The College should develop a comprehensive disaster recovery plan. The plan should include detailed procedures for maintaining and restoring core IT infrastructure and services, identify key recovery personnel and critical applications, provide for backups of critical data sets, provide a step-by-step plan for recovery, and be periodically tested.

PRIOR AUDIT FOLLOW-UP

The College had taken corrective actions for findings included in our report No. 2020-092 except as noted in Finding 2.

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 March 2022 through August 2022 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.

This operational audit focused on selected College processes and administrative activities. For those areas, our audit objectives 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. 2020-092.
- 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 areas included within the scope of the audit, weaknesses in management's internal controls significant to our audit objectives; 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; identifying and evaluating internal controls significant to our audit objectives; 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 the selection and examination of transactions and records, as well as events and conditions, occurring during the 2021 calendar year audit period, and selected College 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 applicable laws, rules, College policies and procedures, and other guidelines, and interviewed College personnel to obtain an understanding of applicable processes and administrative activities and the related requirements.
- Evaluated College procedures for maintaining and reviewing employee access to information technology (IT) data and resources. We examined access privileges to the database and finance and human resources applications during the audit period for 30 of the 175 total users to determine the appropriateness and necessity of the access based on the employees' job duties and user account functions and the adequacy with regard to preventing the performance of incompatible duties. We also examined 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, managed, and monitored.
- Evaluated College procedures that prohibit former employees' access to College IT data and resources. From the population of 92 employees who separated from College employment during the audit period, we examined the access privileges for 30 selected former employees to determine whether their access privileges had been timely deactivated.
- Evaluated the appropriateness of the College comprehensive IT disaster recovery plan effective during the audit period and determined whether it had been recently tested.
- Evaluated College procedures for protecting sensitive personal information of students, including social security numbers (SSNs). We examined College records supporting the access privileges granted to the 53 employees who had access to student SSNs during the audit period to determine the appropriateness and necessity of the access privileges based on the employees' assigned job responsibilities.
- From the population of 310 textbooks and instructional materials for 831 course sections for 341 courses during the Summer 2021 Term and 470 textbooks and instructional materials for 1,993 course sections for 504 courses for the Fall 2021 Term, requested for examination College records supporting textbook adoptions to determine whether the College textbook affordability procedures complied with Section 1004.085, Florida Statutes.
- Determined whether the College's unencumbered balance in the general fund was below the threshold established in Section 1011.84, Florida Statutes.
- Inquired with College personnel, scanned support for journal entries, and evaluated the timeliness of certain transactions manually recorded during May 2022 through August 2022.
- Examined the 21 bank account reconciliations for the October 2020 through June 2022 bank statements to determine whether the reconciliations were accurate, timely, and evidenced supervisory approval.
- Examined College records to determine whether student receivables were properly authorized, adequately documented, and properly recorded. Specifically, from the population of 1,086 student receivables totaling \$768,371 and recorded as of December 31, 2021, we

examined documentation relating to 30 selected student receivables totaling \$80,975 and evaluated the adequacy of the College's collection efforts and whether restrictions on student records and holds on transcripts and diplomas were appropriate and enforced for students with delinquent accounts in accordance with Board policies established pursuant to Section 1010.03, Florida Statutes.

- From the population of 8,163 students assessed in-State tuition during the Summer 2021 and Fall 2021 Terms, examined College records for 45 selected students to determine whether the College documented Florida residency and correctly assessed tuition in compliance with Sections 1009.21, 1009.22, and 1009.23, Florida Statutes, and State Board of Education Rules 6A-10.044 and 6A-14.054, Florida Administrative Code.
- From the population of all 9,359 students (assessed in-State and out-of-State tuition) who registered for courses during the Summer 2021 and Fall 2021 Terms, examined College records for 19 students to determine if the correct tuition rate was assessed for the student residency type.
- Examined College records supporting extra compensation totaling \$1.3 million paid for 465 employees on July 1, 2021, to determine whether the payments were in accordance with Section 215.425, Florida Statutes.
- From the population of payments coded as non-recurring distribution payments totaling \$95,545 made to 96 employees from July 15, 2021, through December 31, 2021, selected payments totaling \$12,730 made to 11 employees and examined College records supporting the payments to determine the reasonableness of the distributions, the eligibility of employees, and whether the College reviewed, approved, and properly notified all employees of the bonus scheme before the period on which the bonuses were based.
- Examined College records to determine whether the Board had prescribed by rule, pursuant to Section 1004.70(3)(b), Florida Statutes, the conditions with which the direct-support organization (DSO) must comply in order to use College property, facilities, and personal services and whether the Board documented consideration and approval of anticipated property, facilities, and personal services provided to the DSO and the related costs.
- Examined College records supporting the acquisition of an ERP system and related services, with expenses totaling \$3.5 million, to determine whether the College evaluated the effectiveness and suitability of the ERP system prior to purchase, the purchases were made through a competitive vendor selection process, and deliverables were monitored by the College to ensure that the vendor met the contract terms and conditions.
- From the population of 374 industry certifications reported for performance funding that were attained by students during the 2020-21 fiscal year, examined 30 industry certifications to determine whether the College maintained documentation for student attainment of the industry certifications.
- Inquired whether the College had any expenses or entered into any contracts under the authority granted by a state of emergency, declared or renewed during the audit period.
- 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

Section 11.45, Florida Statutes, requires that the Auditor General conduct an operational audit of each College on a periodic basis. 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.

A handwritten signature in blue ink that reads "Sherrill F. Norman". The signature is fluid and cursive, with the first name being the most prominent.

Sherrill F. Norman, CPA
Auditor General

MANAGEMENT'S RESPONSE



THE OFFICE OF THE PRESIDENT

December 20, 2022

Sherrill F. Norman, CPA
Auditor General
State of Florida
Claude Pepper Building, Suite G74
111 West Madison Street
Tallahassee, Florida 32399-1450

Dear Ms. Norman:

The following is the College's response to the preliminary and tentative findings to the operational audit conducted

Finding 1: Contrary to State law, the College disbursed extra compensation payments totaling \$1.3 million to 465 employees and paid \$98,570 for employee benefits associated with those payments.

College Response:

In reference to Florida Statute 215.425, the College acknowledges that the approval of the criteria for the distribution of the one-time compensation was obtained after the majority of the service had been rendered; however, the non-recurring payments were distributed to incentivize future performance and retain employees and was being prudent by not increasing recurring salaries due to the effects the COVID-19 pandemic had on enrollment.

College Corrective Action:

In the future, the College when adopting the salary schedules and budget for a fiscal year will obtain the district board of trustees approval subsequent to July 1 of the fiscal year to apply the schedule for payment of all services rendered, including non-recurring distributions, in compliance with Florida Statute 215.425(3) as noted below:

Any policy, ordinance, rule, or resolution designed to implement a bonus scheme must:

- (a) Base the award of a bonus on work performance;
- (b) Describe the performance standards and evaluation process by which a bonus will be awarded;
- (c) Notify all employees of the policy, ordinance, rule, or resolution before the beginning of the evaluation period on which a bonus will be based; and
- (d) Consider all employees for the bonus.

Finding 2: College textbook affordability procedures need improvement.

College Response:

The College agrees with the audit finding during the audit period noted. The situation was due to a transition and turn over in staff responsible for the posting and recording process.

College Corrective Action:

The College operates its own bookstore and utilizes Nebraska Book Company's (NBC) website and point of sale system. The College is in the process of implementing a new updated version of the NBC website and point of sale system in January of 2023 that will capture when book lists are loaded to the website.

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Finding 3: College personnel did not always timely record journal entries or complete bank account reconciliations.

College Response:

The College agrees with the audit finding during the audit period noted. The situation was due to the ERP system automated bank reconciliation process that was not operating correctly and could not be switched to manual.

College Corrective Action:

The college worked with the ERP company over an extended period to resolve the issue with the finance system automated bank reconciliation process and we are completing all journal entries and bank account reconciliations in a timely manner.

Finding 4: Some unnecessary information technology user access privileges existed that increase the risk for unauthorized disclosure, modification, or destruction of finance or human resources information to occur.

College Response:

The College agrees with the audit finding during the audit period noted. The situation was due to the limitations within the new ERP system implemented.

College Corrective Action:

The College worked with the ERP vendor to improve the access security roles within the finance and human resource systems, however, the CFO and Comptroller can't perform the needed roles within the system without full systemwide access due to the limitations of the Microsoft Dynamics 365 security role access design. In addition, the ERP vendor is unable to produce the requested auditing reports for review to provide compensating controls. The College has contracted with a vendor to implement a new ERP system in Summer 2023 which will provide us with the ability to correct implement appropriate controls.

Finding 5: As of May 2022, the College had not established a comprehensive disaster recovery plan.

College Response:

The College agrees with the finding during the audit period. Demands on the College MIS staff during the transition to a new cloud-based ERP resulted in the delay of the disaster recovery plan (DRP) development. The failed implementation resulted in the unplanned return to the mainframe student system. Currently, the College has a cloud based IT infrastructure with the ERP company for the finance and HR applications and has contracted a cloud-based managed service for the Student system. Plans are in place to combine the three applications into one cloud-based system provided by a new ERP company.

College Corrective Action:

The College is developing a comprehensive disaster recovery plan for final review and approval. The DRP will include detailed procedures for maintaining and restoring core IT infrastructure and services, identifying key recovery personnel and critical applications, providing for backups of critical data sets, and providing a step-by-step plan for recovery, which IT will be periodically testing to reveal issues followed by corrective action. The DRP will also be part of the College business continuity plan (BCP).

If you have any questions regarding our response, please contact Mr. Brian Horn, Senior Vice President, Chief Financial Officer at 727.816.3458

Sincerely,



Timothy L. Beard, Ph.D.,
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