

# THE SCHOOL DISTRICT OF OSCEOLA COUNTY, FLORIDA

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## SCHOOL BOARD MEMBERS

- District 1 – Teresa “Terry” Castillo – Chair  
407-577-5022
- District 2 – Julius Melendez – Vice Chair  
321-442-2862
- District 3 – Jon Arguello  
407-433-9082
- District 4 – Clarence Thacker  
407-870-4009
- District 5 – Robert Bass  
407-870-4009



Superintendent of Schools  
Dr. Debra P. Pace

## AGENDA

### **Audit Advisory Committee Meeting Monday, August 1, 2022 2:00 - 4:00 P.M.**

1. Call to order
2. Approval of the June 20, 2022, Meeting Minutes
3. Internal Audit Update
  - a. Purchasing Operations – Competitive Solicitations
  - b. FY 2022-23 Risk Assessment Update and Proposed Internal Audit Plan
4. Next Meeting Date: TBD

**Audit Advisory Committee Meeting  
Minutes**

**June 20, 2022**

**Members Present:** James Mantia, Javier Paz, Kevin Crawford, and Terry Castillo (WebEx)

**Members Absent:** Mark Cross, Lori Giambrone

**Others/Guests:** SDOC - Debra Pace, Sarah Graber, Angela Barner, Frank Kruppenbacher, Tammy Otterson, Peter Thorne, and Diana Cruz  
CRI - Jennifer Christensen  
RSM - Jennifer Murtha, Laura Manlove, Weiss Campbell, Ava Doraisamy and Liz Norton (WebEx)

- **Call to Order**  
Ms. Castillo called the meeting to order at 2:00 p.m.
- **Introductions**  
Ms. Castillo opened the meeting by asking all members and guests to introduce themselves.
- **Approval of the Minutes for the January 20th, 2022, Meeting**  
The minutes were approved with all ayes.
- **School Internal Accounts Audit**  
Ms. Jennifer Christensen (CRI) gave an overview of the internal accounts audit, the timing, and the scope of work for this engagement. Ms. Christensen also asked the committee standard fraud questions.
- **Internal Audit Update**  
RSM presented the results of the IT Internal and External Penetration Testing Audit results. Because of the confidential nature of this audit, members of the committee were asked to contact the auditors individually to address any concerns.  
  
RSM also presented the Human Resources Onboarding, Employment Changes & Offboarding Audit results, and Mrs. Tammy Otterson addressed management's action plan.
- **External Audits**  
Mrs. Angela Barner stated that the audit reports for Bellalago Educational Facilities Benefit District and Flora Ridge Educational Facilities Benefit District have been issued, emailed to the committee, and are uploaded to the School District's website. Mrs. Barner explained that both EFBDs received a clean audit with no comments or recommendations.
- **Next Meeting Date: TBD**

**The meeting was adjourned at 3:48 p.m.**



*School District of*  
**OSCEOLA COUNTY**  
FLORIDA

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# School District of Osceola County Internal Audit of Purchasing – Competitive Solicitations

July 21, 2022

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## TRANSMITTAL LETTER

July 21, 2022

Audit Advisory Committee  
School District of Osceola County, FL  
817 Bill Beck Blvd.  
Kissimmee, FL 34744

Pursuant to our executed Internal Audit Services agreement dated February 15, 2022, and as approved by the Audit Advisory Committee in the fiscal year (“FY”) 2021-22 internal audit plan, we hereby present our Internal Audit of Purchasing - Competitive Solicitations report. This report will be presented at the next regularly scheduled Audit Advisory Committee meeting on August 1, 2022. Our report is organized in the following sections:

<b>Executive Summary</b>	This provides a high-level overview and summary of the observations noted in our internal audit over the competitive solicitation processes.
<b>Background</b>	This provides an overview of the Purchasing Department, as well as relevant background information.
<b>Objectives and Approach</b>	The internal audit objectives are expanded upon in this section, as well as a review of the various phases of our approach.
<b>Observations Matrix</b>	This section includes a description of the observations noted during our internal audit and recommended actions, as well as management’s response including responsible party, and estimated completion date.
<b>Additional Consideration</b>	This section includes a description of the items noted during our internal audit that are for consideration purposes only, and do not require management’s response.
<b>Appendix</b>	This section provides additional supporting documentation relevant to the internal audit.

We would like to thank the staff and all those involved in assisting our firm with this internal audit.

Respectfully Submitted,

**RSM US LLP**

## EXECUTIVE SUMMARY

### Background

The Purchasing, Property Records, and Warehouse (“Purchasing”) Department manages the competitive solicitation process for the School District of Osceola County (“District”). The department mission statement is “To provide for the fair and equitable treatment of all persons involved in public purchasing by the District, to maximize the purchasing value of public funds, and to provide safeguards for maintaining a procurement system of quality and integrity.”

Purchasing consists of one (1) Department Director, one (1) Purchasing Supervisor, one (1) Secretary, one (1) Contracts Services Secretary, one (1) Bookkeeper, six (6) Senior Buyers, and one (1) Buyer.

Purchasing performs the centralized purchasing function for all of the District’s departments and schools under the authority of the School Board. Purchasing utilizes a number of different tools to aid the schools and the departments in their procurement of goods and services. All purchases exceeding \$50,000 in cost are subject to a formal, competitive solicitation process. Purchases in the category which do not exceed \$50,000 but are more than \$3,000 shall obtain three written vendor quotes.

Purchasing is responsible for adhering to the Purchasing rules, regulations, and statutes established by the School Board, the Department of Education and the State of Florida. Policies and procedures governing the District’s purchasing program are designed with the goal of providing the highest quality goods and services, at the best value, while protecting the integrity of District funds.

### Overall Summary / Highlights

For each observation, we discuss the relevant risks, which may include financial, operational, and / or compliance, as well as public perception or ‘brand’ risks. We further provide recommendations and best-practice guidance for the School District of Osceola County.

Fieldwork was performed March 2022 through May 2022.

***We would like to thank all School District of Osceola County team members who assisted us throughout this internal audit.***

### Objectives and Scope

The primary objective of our internal audit was to assess the adequacy of internal controls surrounding competitive solicitation processes.

The first phase consisted primarily of inquiry to obtain an understanding of the key personnel, risks, processes, and controls relevant to the objective outlined above. We conducted interviews and walkthroughs with key personnel to obtain a detailed understanding of the District’s operating policies and procedures, and roles/responsibilities as they relate to competitive solicitation.

The second phase assessed the design and control structure of the competitive solicitation process, and we performed testing of source documents to validate compliance with established policies, procedures, and other regulations.

Our procedures addressed the following:

- Evaluated if there are adequate controls to identify and monitor related party transactions in the competitive solicitation process;
- Evaluated system user access controls and segregation of duties within the competitive solicitation process;
- Evaluated whether there are adequate records and documentation for competitive solicitations to establish an audit trail and verify that policies and procedures are appropriately followed; and
- Performed data analytics around the District vendor pool based on data type and availability.

Our audit period was July 1, 2020, through January 31, 2022. We performed detailed testing of awarded solicitations within this audit period.

At the conclusion of our audit, we summarized our findings into this written report and conducted exit conferences with Purchasing management, the Chief Financial Officer, General Counsel, and the Superintendent.

### Summary of Observation Ratings

*(See page 11 for risk rating definitions)*

	High	Moderate	Low
Purchasing Internal Audit	1	3	-

## EXECUTIVE SUMMARY (CONTINUED)

### Observations Summary

There were five (5) observations identified during this internal audit of competitive solicitations. Below is a listing of the observations that were identified. Detailed observations are included in the Observations Matrix section of the report.

Summary of Observations	
Observations	Rating
1. User Access Controls	High
2. Competitive Solicitation Documentation	Moderate
3. Manual Competitive Solicitation Monitoring	Moderate
4. Purchasing Procedures Manual	Moderate

### Additional Considerations

There was one (1) additional consideration identified during this internal audit.

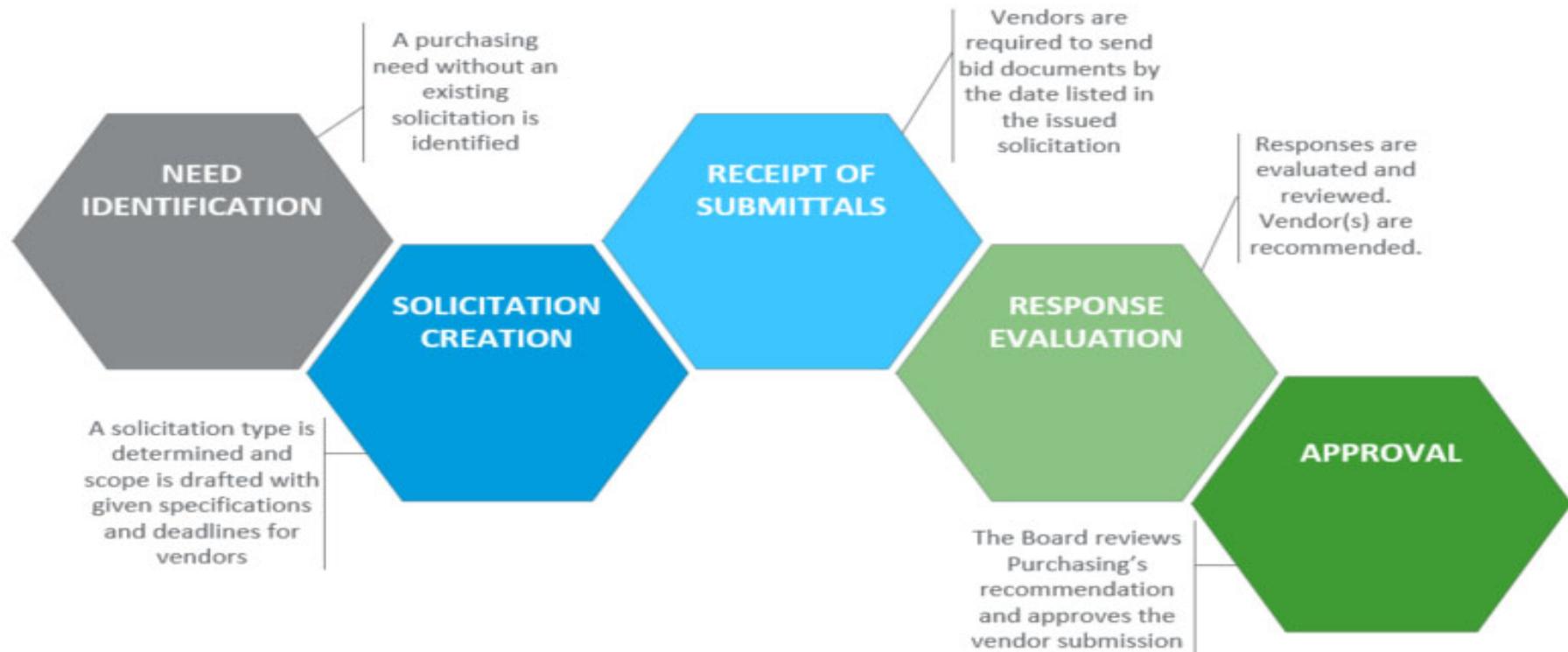
Summary of Additional Considerations	
Observations	
Written Quote Thresholds	

## BACKGROUND

### Overview

The Purchasing Department is organized into three branches: Purchasing, Contract Services, and Warehouse. All District purchase requests made with budgeted funds are submitted through Purchasing. The purchase of goods or services is categorized as either “Competitive” or “Non-Competitive” dependent on the gross sum of the purchase. For all purchases in excess of \$50,000, competitive solicitations are to be used except for the purchase of items where the competitive solicitation process may be waived as outlined by Florida Statute. For all purchases in excess of \$50,000, Board approval shall be required before a purchase order can be issued. Purchasing is responsible for ensuring resources are managed properly and used in compliance with laws and regulations; programs are achieving their objectives; and services are being provided efficiently, effectively, and economically.

Purchasing organizes the procurement of goods by commodity category, with each Buyer assigned specific categories to manage. Buyers do not rotate categories. When a need is identified by a District end-user, the corresponding Buyer determines whether the need is covered through an existing vendor agreement and/or whether modifications to an existing agreement could address the need. If no awarded bid or contract exists for the commodity needed, the solicitation process is initiated. The end-user communicates the specific need and coordinates with Purchasing to develop the solicitation scope. Once the scope of the solicitation has been developed, it is confirmed by the end-user, and reviewed by the Purchasing Manager. Florida Statute requires that any competitive solicitation be made available simultaneously to all vendors and must include the time and date for the receipt of bids, proposals, or replies. Currently, the District uses VendorLink, an internet portal where businesses can register to receive email notification of upcoming solicitations as they become available.



## BACKGROUND (CONTINUED)

### Overview (Continued)

The District uses competitive solicitation types outlined by Florida Statute and described below. The solicitation type is determined by the scope of the goods or services being solicited, and is determined in coordination between the Buyer, end-user, and Purchasing Manager. Over our audit period, we identified 129 total competitive solicitations issued by the District. The chart to the right illustrates the distribution of competitive solicitations awarded by solicitation type.

#### ❖ Invitation to Bid (“ITB”)

An assigned Buyer will utilize an ITB for the purchase of commodities and/or services when the scope of work for which a contractual service is required is capable of establishing precise specifications defining the actual commodity or group of commodities required. Cost should be the sole determining factor in awarding the ITB to a responsive, qualified vendor(s).

#### ❖ Request for Proposal (“RFP”)

An assigned Buyer will utilize a Request for Proposal for commodities and/or services that cannot be fully defined, or the District is requesting that a responsible vendor propose a commodity or contractual service to meet the specifications of the solicitation document. Each RFP should evaluate multiple criteria from responsive, qualified vendors prior to award. The District utilizes a selection committee to evaluate vendor proposals.

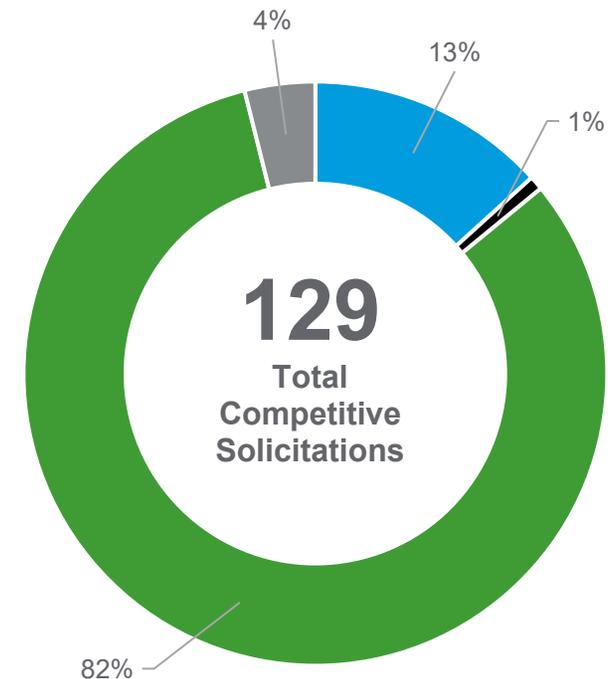
#### ❖ Invitation to Negotiate (“ITN”)

An assigned Buyer will utilize an Invitation to Negotiate where an ITB or an RFP are not practicable and will not result in the best value to the District. Responsive vendors are evaluated against all evaluation criteria set forth in the ITN to establish a competitive range of replies reasonably susceptible of award. The District utilizes a selection committee to evaluate vendor proposals. The agency may select one or more vendors within the competitive range with which to commence negotiations.

#### ❖ Request for Qualification (“RFQ”)

An assigned Buyers will utilize a RFQ for commodities and / or services for which price is not a determining factor. An RFQ is chosen when definite specifications cannot be written or there may be unknown areas where additional competition from qualified firms are required. The District utilizes a selection committee to evaluate vendor proposals.

### TOTAL DISTRICT COMPETITIVE SOLICITATIONS



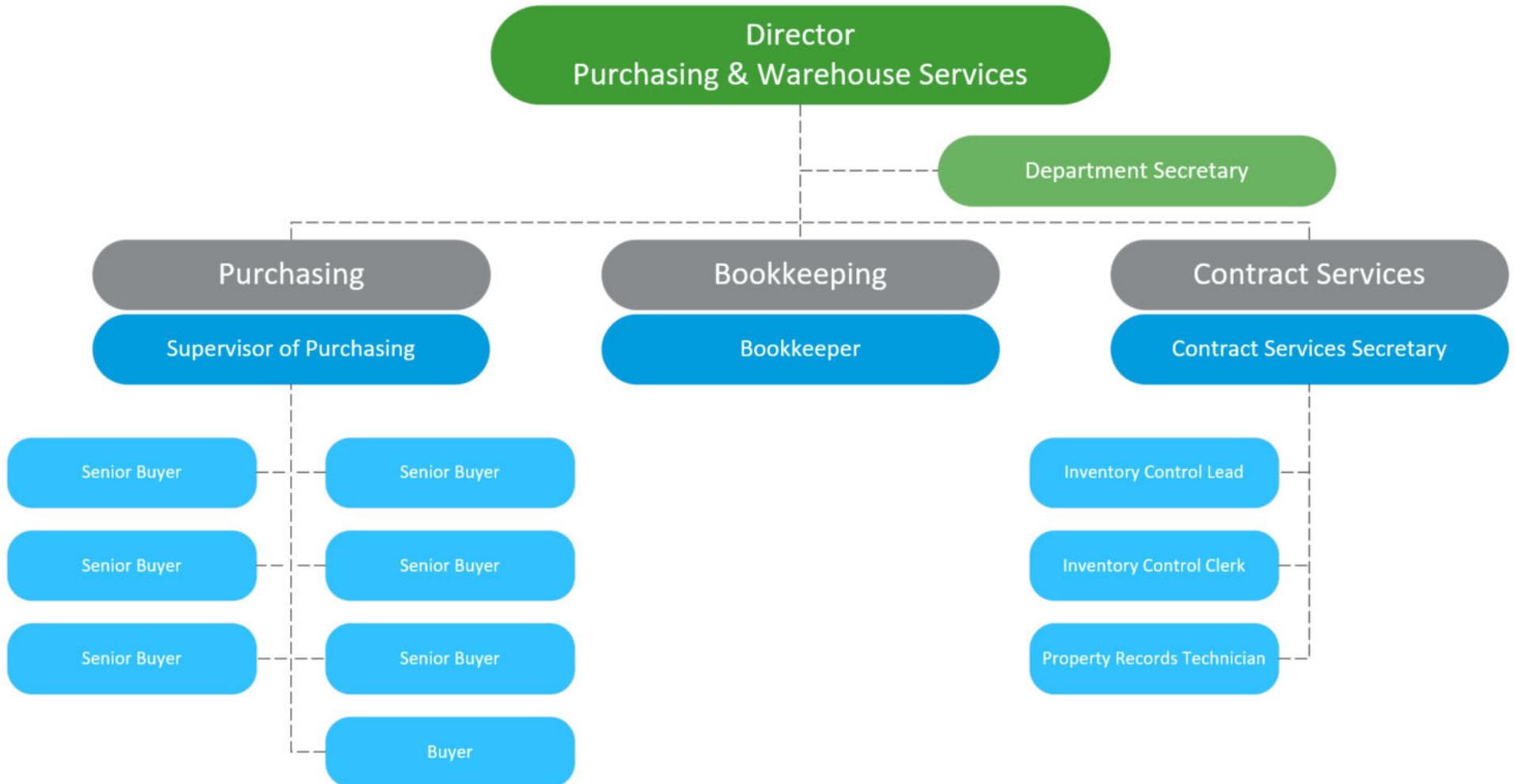
■ RFQ ■ ITN ■ ITB ■ RFP

Audit period: July 1, 2020 – January 31, 2022

## BACKGROUND (CONTINUED)

### Organizational Structure

The Purchasing branch's organizational structure is illustrated below:



## BACKGROUND (CONTINUED)

### Competition Requirements & Thresholds

Specific requirements exist based on the nature of the procurement, which includes the value of the commodities/services requested, the subsequent procurement type, competition requirements, and approval requirements. The illustration to the right outlines some of the differences in competition and approval requirements based on the value of the commodities/services procured.

### Selection Committee

RFPs utilize a selection committee to evaluate bid responses. After the solicitation responses are received, Purchasing reviews the RFP responses for compliance. The responses are then distributed to the selection committee members for independent evaluations. Each selection committee is comprised of a cross-functional team of District employees that are appointed by the Purchasing Director. In some cases, when community input is needed, non-District employees are appointed to a selection committee. The Purchasing Department staff facilitates the selection committee meetings, trains new members on their responsibilities, and ensures that the evaluation process is conducted in a fair and equitable manner. All selection committee meetings are considered to be public meetings and are posted to the Purchasing website.

As required by Florida Statute 287.017, selection committee members attest in writing that they are independent of, and have no conflict of interest in, the entities evaluated and selected.

### Document Retention

Currently, Purchasing is in the process of implementing an electronic filing system for all solicitation documentation to facilitate a migration from physical paper folders to virtual documentation. This process will serve to improve centralization of solicitation documents and streamline documentation. Currently, the district utilizes secure, locked filing cabinets to protect applicable sensitive information included in its solicitation documents per venter request. Access to these documents is restricted by lock and key, which is controlled by the Purchasing Manager.



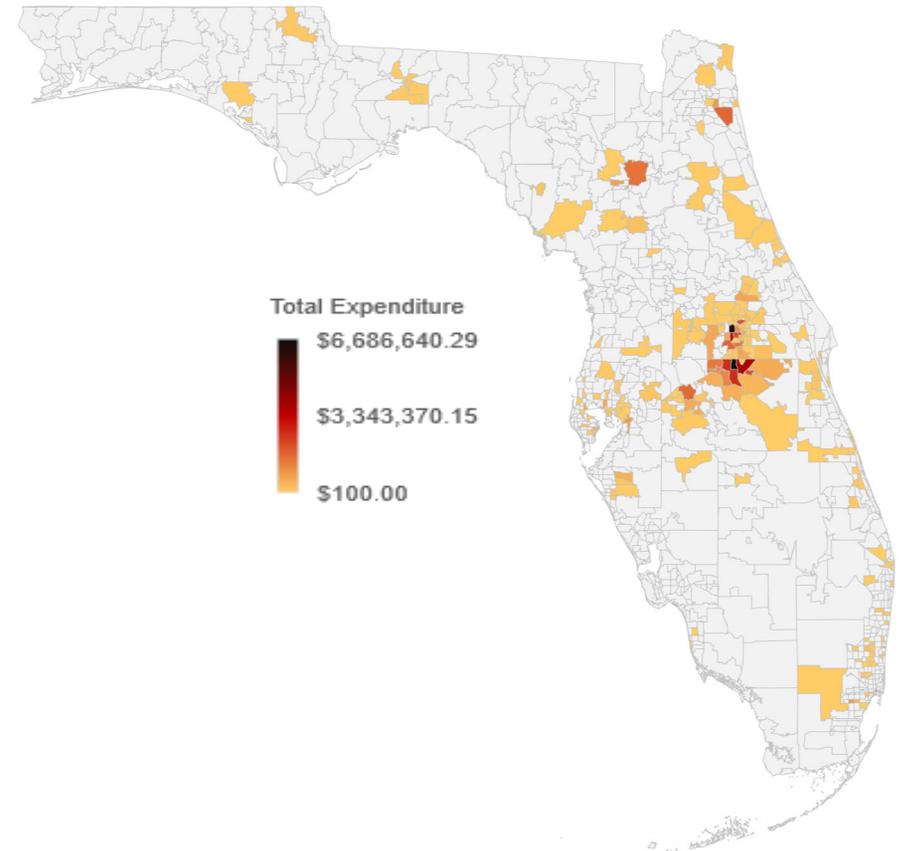
## BACKGROUND (CONTINUED)

### Overview (Continued)

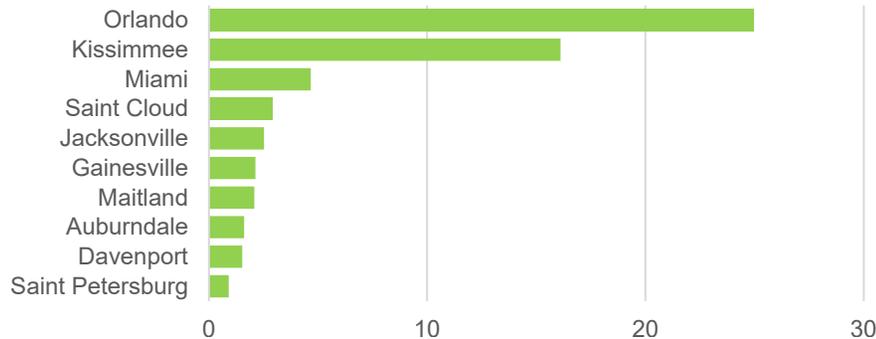
From July 1, 2021, through January 31, 2022, the District had total expenditures of \$110,197,742 across 5,068 purchase orders, representing an average purchase order dollar amount of \$21,743. These expenditures include both competitive and non-competitive purchases. Within the United States, the District has procured goods and/or services from vendors in 43 states. In total, purchases were made from 877 distinct vendors.

The chart below represents a relative heat map of District expenditures within Florida. Higher concentration of expenditures exist in proximity to the District, with sporadic expenditure primarily expressed in major metropolitan areas around the state.

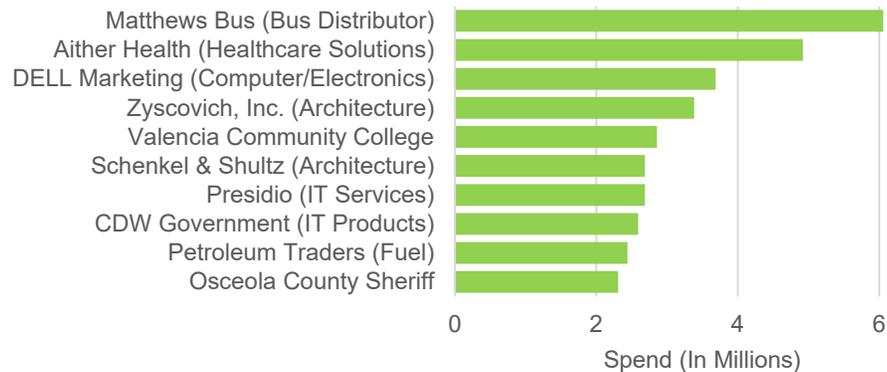
### TOTAL VENDOR SPEND BY ZIP CODE



### TOP 10 VENDOR SPEND - BY CITY



### TOP 10 VENDOR SPEND



## BACKGROUND (CONTINUED)

### Laws and Guidelines

Purchasing is subject to State of Florida laws and regulations, as well as internal policies. These guidelines include, but are not limited to, the following:

#### Florida Statutes

- F.S. 112.313 – Standards of conduct for public officers, employees of agencies, and local government attorneys
- F.S. 112.3148 – Reporting and prohibited receipt of gifts by individuals filing full or limited public disclosure of financial interests and by procurement employees
- F.S. 119.0701 – Contracts; public records; request for contractor records; civil action
- F.S. 119.071 – General exemptions from inspection or copying of public records
- F.S. 120.57(3) – Additional Procedures Applicable to Protests to Contract Solicitation or Award
- F.S. 218 – Local Government Prompt Payment Act
- F.S. 255.0516 – Bid protests by educational boards
- F.S. 274 – Tangible Personal Property Owned by Local Governments
- F.S. 286.011 – Public meetings and records; public inspection; criminal and civil penalties
- F.S. 287.055 – Acquisition of professional architectural, engineering, landscape architectural, or surveying and mapping services; definitions; procedures; contingent fees prohibited; penalties
- F.S. 287.056 – Purchases from purchasing agreements and state term contracts
- F.S. 287.057 – Procurement of commodities or contractual services
- F.S. 287.084 – Preference to Florida Businesses
- F.S. 287.087 – Preference to businesses with Drug-Free Workplace programs
- F.S. 287.133 – Public entity crime; denial or revocation of the right to transact business with public entities
- F.S. 1010.04 – Purchasing

#### State Board of Education Rules

- State Board of Education Rule 6A-1.012 – Purchasing Policies
- State Board of Education Rule 6A-1.013 – Pool Purchases
- State Board of Education Rule 6A-1.091 – Purchases for Internal Funds

#### School Board Policies

- School Board Policy 6.301 – Conflict of Interest in Purchasing
- School Board Policy 6.27 – Professional Ethics
- School Board Policy 7.32 – Internal Funds
- School Board Policy 7.70 – Purchasing and Competitive Solicitations
- School Board Policy 7.74 – Lease and Lease-purchase of Land, Facilities and Equipment
- School Board Policy 7.71 – Selecting Professional Services
- School Board Policy 7.78 – Gifts

## OBJECTIVES AND APPROACH

### Objectives

The primary objective of our internal audit was to assess the adequacy of internal controls surrounding the competitive solicitation process, including adherence to policies, procedures, state laws and regulations.

### Approach

Our approach consisted of the following phases:

#### Understanding and Documentation of the Process

The first phase consisted of inquiry and review of policies, procedures and Florida Statute, in an effort to obtain an understanding of the key personnel, risks, processes, and controls relevant to the objective outlined above. The following procedures were conducted as part of this phase:

- Conducted interviews and walkthroughs with key personnel to obtain a detailed understanding of the District's operating policies and procedures, and roles/responsibilities as they relate to the competitive solicitation processes within our scope;
- Performed data analytics around the District vendor pool based on data type and availability;
- Developed a work plan for the evaluation of the operating effectiveness of processes and controls, based on the information obtained through our review, inquiry, and walkthrough procedures.

#### Evaluation of the Design and Effectiveness of Process and Controls

The purpose of this phase is to test compliance and internal controls. Our fieldwork testing was conducted utilizing sampling and other auditing techniques to meet our audit objectives outlined above. Procedures included, but the following:

- Evaluated the design of the key processes and controls identified in the previous phase through industry benchmarking, best practices and comparable client experience;
- Evaluated the design and control structure including adherence to competitive solicitation policies and procedures and Florida Statute;
- Evaluated if there are adequate controls to identify and monitor related party transactions in the competitive solicitation process;
- Evaluated access controls and segregation of duties within the competitive solicitation process;
- Evaluated whether there are adequate records and documentation for competitive solicitations to establish an audit trail and verify that policies and procedures are appropriately followed;
- Judgmentally selected a sample of ten (10) ITBs from a population of 77, a sample of two (2) RFPs from a population of two (2), and a sample of three (3) RFQs from a population of nine (9) based on commodity type, department, and Buyer;
- Performed review and testing of the solicitation scope and solicitation type selected for a sample of competitively procured goods/services for compliance with applicable District policies and Florida Statute, including documentation of solicitation approval, public advertisement, and timeliness of issuance and receipt;
- Performed review and testing for completeness of solicitation documentation of a sample of competitively procured goods/services for completeness with documentation requirements as described by the advertised solicitation, including conflict of interest, bid documentation, and addenda;

## OBJECTIVES AND APPROACH (CONTINUED)

### Evaluation of the Design and Effectiveness of Process and Controls - continued

- Performed review and testing of a sample competitively procured goods/services for compliance with vendor evaluation, scoring, and selection requirements; and
- Reviewed a sample competitively procured goods/services to verify that any deviations from standard contract templates were reviewed and approved by the General Counsel.

### Reporting

Based on the results of our analysis and testing, we developed recommendations for process and control modification / addition / deletion for any design gaps or non-compliance issues identified. We summarized our findings into this written report and conducted exit conferences with Management. We have incorporated Management's response into this report. Provided below are the observation risk rating definitions for the detailed observations starting on the following page.

Observation Risk Rating Definitions	
Rating	Definition
<b>Low</b>	Observation presents a low risk (i.e., impact on financial statements, internal control environment, brand, or business operations) to the organization for the topic reviewed and/or is of low importance to business success/achievement of goals.
<b>Moderate</b>	Observation presents a moderate risk (i.e., impact on financial statements, internal control environment, brand, or business operations) to the organization for the topic reviewed and/or is of moderate importance to business success/achievement of goals. Action should be in the near term.
<b>High</b>	Observation presents a high risk (i.e., impact on financial statements, internal control environment, brand, or business operations) to the organization for the topic reviewed and/or is of high importance to business success/achievement of goals. Action should be taken immediately.

## OBSERVATIONS MATRIX

Observation	1. User Access Controls
<p style="text-align: center;"><b>High</b></p>	<p>Key duties such as the creation of vendors, initiation of purchase requisitions, and approval of purchase requisitions should be properly segregated to prevent a single user from having the ability to perform all of these process steps within the purchasing system. Currently, the District uses Total Enrollment and Resource Management System (TERMS) to manage its vendor and purchase requisition functions. Within TERMS, users of the system are granted access to either create and edit requisition entries or view only entries. Users with view only privileges cannot create or edit requisitions.</p> <p>We obtained a listing of TERMS users and reviewed the associated system privileges related to creating and approving vendors and requisitions. Of the users with access to TERMS, we identified four (4) users with the ability to create, edit, and approve a single requisition without a secondary approval. This was communicated to Management upon discovery and Management immediately remediated the access issues for these individuals. We performed audit procedures and confirmed that the inappropriate access for the four (4) identified users was remediated. Furthermore, we reviewed requisitions in TERMS associated with these four (4) users during the audit period and noted that none of them had created and approved the same requisition(s).</p> <p>Segregation of duties is a key internal control intended to minimize the occurrence of errors or fraud. Without appropriate user access controls, segregation of duties controls are weakened, increasing the risk of fraudulent or inappropriate activity.</p>
<p><b>Recommendation</b></p>	<p>We recommend the District analyze its current process of annual TERMS user access review to look for opportunities to strengthen its monitoring procedures to identify and remove any inappropriate roles. The current annual TERMS user access review is the catch-all for any errors or required changes in the access privileges. This review should be designed to identify varying user access concerns including; if terminated users weren't removed, whether incorrect privileges were assigned, or identify role changes where access to key functions is no longer required.</p>
<p><b>Management's Action Plan</b></p>	<p><b>Response:</b> The district performs an annual review process where each administrator reviews a list of TERMS users within their facility. If no changes are necessary, a response is provided to the Information Services Department documenting that the annual review process has been completed. If necessary changes are identified, the administrator submits the changes at that time.</p> <p>The individuals identified as having the ability to create, edit, and approve a single requisition without a secondary approval was a result of cloning the TERMS requisition process to create the Budget Amendment for Position (BAP) process. The select administrators in the Humans Resources and Budget &amp; Finance Departments use the BAP process for automation of the district's position control system. The access for these employees was only established for this legitimate purpose and not intended to allow for the ability to create, edit, and approve a single requisition. As stated in the auditor's observation, there is no evidence that any employee has created and approved the same requisition.</p> <p>Information Services staff will research options to remove this access from the requisition process while maintaining the employees' ability to perform their necessary functions as related to the Budget Amendment for Position process.</p> <p><b>Responsible Party:</b> Chief Information and Technology Officer</p> <p><b>Estimated Completion Date:</b> December 31, 2022</p>

## OBSERVATIONS MATRIX (CONTINUED)

Observation	2. Competitive Solicitation Documentation
<p><b>Moderate</b></p>	<p>To evaluate the completeness of District solicitation packages, we selected a judgmental sample of 15 competitive solicitations; including; ten (10) District ITB solicitations, two (2) RFP solicitations, and three (3) RFQ solicitations. We obtained all required supporting documentation for each solicitation sampled. Through our testing, we noted the following:</p> <p><u>Invitation to Bid (“ITB”):</u></p> <p>Of the 10 sampled ITBs, RSM noted the following:</p> <ul style="list-style-type: none"> <li>• We identified two (2) instances where awarded vendors did not provide evidence of the specific insurance coverages required by the solicitation terms and conditions. We noted that insurance information had been provided that did not conform to the requirements set forth in the ITB. Purchasing noted that in these situations they will confer with the Risk Management department to decide whether to accept such insurance support or not. Purchasing states that is what occurred in these two (2) ITBs however no documentation was available for us to review that this process occurred. According to the solicitation package, to be considered an eligible responsive bidder, all terms and conditions set forth by the solicitation package must be adhered to, including the provision requiring vendors to provide certificate of insurance or proof of insurability in the coverage types and amounts indicated by the ITB.</li> <li>• We identified one (1) instance where awarded vendors did not sign and return addenda to the solicitation package. Through discussions with management, we noted that Purchasing operates with discretion when determining whether the absences of any addenda constitutes a material change to the bid, requiring signature and return by bidders to be considered “responsive”. No evidence was provided to demonstrate that the lack of addenda was identified and considered in determining whether the specific vendor would be considered responsive.</li> <li>• We identified one (1) instance where purchasing did not maintain evidence of the time receipt, such as a time stamp, for an awarded vendor’s bid package. Without evidence of the time the bid was received, we are unable to verify that submission was timely to be considered a qualifying bid.</li> </ul> <p>Non-compliance with the terms and conditions of the bid solicitation may result in selection of unqualified or underinsured vendors, leading to risk to the District as vendor protest of award and financial risk.</p> <p><u>Request for Proposal (“RFP”):</u></p> <p>Of the two (2) RFPs executed during our audit period, we noted the following:</p> <ul style="list-style-type: none"> <li>• Per FS 287.057 (1)(b)(1), “<i>Before issuing a Request for Proposal, the agency must determine and specify in writing the reasons that procurement by invitation to bid is not practicable.</i>” During our detailed testing, we noted that no written justification was included in the solicitation package for either RFP package tested. The District RFP solicitation template does not provide in writing the justification for why an ITB was not practicable. As a result, we could not identify written justification for the RFP solicitation type selection, as required by Florida Statute.</li> </ul>

## OBSERVATIONS MATRIX (CONTINUED)

Observation	2. Competitive Solicitation Documentation (Continued)
<p><b>Recommendation</b></p>	<p><u>Risk Management</u>: We recommend that Purchasing continue to consult with Risk Management on contractual matters subjective in nature and formally document the results of those discussions. We also recommend that Purchasing review the language on insurance requirements in their ITB template to ensure that it reflects the intent of the process and allows the District to use discernment when appropriate.</p> <p><u>Addenda</u>: We recommend Purchasing require all responsive bidders to sign and return all addenda. Any deviations should be documented, properly approved, and retained as part of the solicitation documentation.</p> <p><u>Time Stamp</u>: We recommend all time stamps be included on the response and retained as part of the solicitation documentation.</p> <p><u>Checklists</u>: Purchasing currently utilizes a checklist to assist Buyers in consistency and completeness in performing all required steps of competitive solicitation. We recommend Purchasing enhance their current Buyer checklist to include additional steps such as the justification of RFP vs. ITB, commodity codes, etc. Purchasing could also implement a 'peer review' process where Buyers review each other's solicitation checklists for completeness on a defined, periodic basis.</p> <p>These procedures should be formally documented in the Purchasing Procedures Manual (see Observation #4).</p>
<p><b>Management's Action Plan</b></p>	<p><b>Response:</b></p> <ul style="list-style-type: none"> <li>• Staff will revise the language on insurance requirements in the solicitation documents to reflect the intent of the process and allow for discernment when appropriate. In addition, Purchasing will continue to consult with Risk Management on contractual matters subjective in nature and formally document the results of those discussions.</li> <li>• Procedures will be implemented to ensure all addenda are required to be signed and returned on each solicitation. In the instance identified through this audit, it was a time extension addendum that was issued after the respondent had submitted their response. Purchasing used discretion in determining that the vendor did not need to submit the additional addendum subsequent to their submittal, however, we will clarify district procedures to require all addenda and not allow for staff discretion.</li> <li>• Staff will be reminded of the requirement to always retain a documented time stamp on bid packages. For the instance identified through this audit, it is believed that the exterior envelope was time stamped and then not retained as it needed to be.</li> <li>• Procedures will be implemented to ensure compliance with F.S. 287.057 (1)(b)(1), "Before issuing a Request for Proposal, the agency must determine and specify in writing the reasons that procurement by invitation to bid is not practicable."</li> </ul> <p><b>Responsible Party:</b> Director of Purchasing, Property Records, and Warehouse</p> <p><b>Estimated Completion Date:</b> September 30, 2022</p>

## OBSERVATIONS MATRIX (CONTINUED)

Observation	3. Manual Competitive Solicitation Monitoring
<p><b>Moderate</b></p>	<p>Through discussions with Management, we noted that informal procedures exist requiring Buyers to manually monitor their respective commodities; independently tracking all awarded solicitations, and monitoring the aggregate spend for each awarded solicitation against approved amounts. Prior to approving a purchase order, Buyers are expected to manually perform many key controls, including the following:</p> <ol style="list-style-type: none"> <li>1. Evaluate total vendor spend to determine whether spend is in excess of the competitive solicitation threshold of \$50,000. If so, a competitive solicitation process is initiated, as required by Florida Statute 287.057.</li> <li>2. If the purchase requisition is associated with an awarded solicitation with a defined contract amount, the Buyer will evaluate total spend incurred to verify that vendor spend remains in line with predetermined contract amounts.</li> </ol> <p>Through testing, no issues were identified related to the existence of a competitive solicitation when required by Florida Statute 287.057. Further, no issues were identified regarding vendor spend compliance with approved contracted amounts. However, while manual preventative controls are in place, the performance of these controls are not documented. Additionally, we were unable to confirm the existence of detective controls designed to provide ongoing oversight of these two controls.</p> <p>Currently, the AS400 system does not capture the awarded solicitation number, if applicable, associated with each purchase order. As a result, no centralized system is in place that integrates vendor payments, purchase orders, and awarded solicitations. This system limitation prevents Management from efficiently monitoring the effectiveness of the controls in place to evaluate contract overspending or identify vendors with spend in excess of \$50,000, without an awarded competitive solicitation.</p> <p>Due to the manual nature of the procedures performed, there is an inherent risk of human error, which may result in inaccurate issuance of competitive solicitations. Without detective controls in place to enhance oversight, Purchasing management may not be able to efficiently determine the ongoing effectiveness of the manual procedures performed by Buyers.</p>
<p><b>Recommendation</b></p>	<p>We recommend the District assess system capabilities for capturing and linking awarded solicitation numbers with associated purchase orders in AS400. If system limitations prevent the tracking of these data points, we recommend the Purchasing Department implement formal procedures to manually track vendor spend, identifying those exceeding 50k in spend and the associated awarded solicitations. Formal monitoring procedures should be performed on a periodic basis by reviewing vendor spend in excess of \$50,000 to confirm compliance with competitive solicitation requirements and approved contract amounts. These procedures should be formally documented in the Purchasing Procedures Manual to promote consistency in oversight across all Buyers.</p>
<p><b>Management's Action Plan</b></p>	<p><b>Response:</b> While the Purchasing Department does monitor vendor spend to ensure compliance with statutory thresholds and no instances of non-compliance were identified, we acknowledge that our monitoring process is not documented and is an area of opportunity for enhanced procedures and controls. Staff will evaluate the need to implement procedures to formally document the tracking of vendor spend exceeding \$50,000 and associated awarded solicitations, to include oversight and secondary approval.</p> <p><b>Responsible Party:</b> Director of Purchasing, Property Records, and Warehouse</p> <p><b>Estimated Completion Date:</b> September 30, 2022</p>

## OBSERVATIONS MATRIX (CONTINUED)

Observation	4. Purchasing Procedures Manual
<p><b>Moderate</b></p>	<p>Through discussions with management, we noted that updates to the Purchasing Procedures Manual are proposed and made on an as needed basis. The District's Purchasing Procedures Manual was most recently revised on April 26, 2017. Upon review of the approved manual, we identified that some current, key Purchasing procedures were not included as part of the updated manual. Formalized guidance should include, but is not limited to, the following processes and procedures in addition to the existing processes and procedures currently outlined:</p> <p><u>Vendor Management</u></p> <p>Written procedures do not document vendor management procedures, including specification of authorized vendor representative guidance, active and inactive vendor management procedures, vendor application processes, vendor updates, and ongoing monitoring of current vendors.</p> <p><u>Contract Administration</u></p> <p>Contract administration involves those activities that begin after the award of the contract. Its purpose is to verify that the contractor's and agency's performance is in accordance with the terms and conditions of the contract.</p> <p><u>Addenda Procedures</u></p> <p>The addenda provide clarification to any changes in scope/specifications. Procedures should define the process and timeline for issuing addenda's ahead of a posted solicitation due date. Additionally, written procedures should describe requirements for approving all proposed addendums and timely communicating to prospective vendors.</p> <p><u>Purchasing Procedures Manual Review</u></p> <p>Currently, the Purchasing Procedures Manual is reviewed and approved on an annual basis per standard District operating procedures. However, this review is not documented at a department level. Review, subsequent modification, and approval of the standard operating procedures should be documented and updated.</p> <p><u>Competitive Solicitation Checklist</u></p> <p>The District currently uses a Buyer checklist which could be enhanced to capture additional steps such as justification of RFP vs. ITB, and selection of commodity codes. Procedures should be documented to formalize the required use and retention of the checklist with the solicitation package.</p>

## OBSERVATIONS MATRIX (CONTINUED)

Observation	4. Purchasing Procedures Manual – continued
<p><b>Recommendation</b></p>	<p>We recommend the Purchasing Department document their review and revisions to the Purchasing Procedures Manual on an as-needed basis. The Purchasing Procedures Manual should be reviewed to provide updated and accurate guidance that fully communicates the expectations and requirements of Purchasing. Any revisions deemed necessary should be formally documented and approved and communicated to the appropriate personnel through training. The review date and reviewer, along with any revisions, should be evidenced within the document in a revision page.</p> <p>We recommend Purchasing include language in the manual to encompass the areas noted above: Vendor Management, Contract Administration, Addenda Procedures, Procedures Manual Review, and Competitive Solicitation Checklist.</p>
<p><b>Management's Action Plan</b></p>	<p><b>Response:</b> Annual review of the Purchasing Procedures Manual will be documented regardless of whether or not any revisions are made to the document. Staff will review the areas identified in this observation for consideration as additions to our documented procedures.</p> <p><b>Responsible Party:</b> Director of Purchasing, Property Records, and Warehouse</p> <p><b>Estimated Completion Date:</b> September 30, 2022</p>

## ADDITIONAL CONSIDERATION

### 1. Written Quote Thresholds

Florida State Statute 287.057 requires that “if the purchase price of commodities or contractual services exceeds \$35,000, purchase of commodities or contractual services may not be made without receiving competitive sealed bids, competitive sealed proposals, or competitive sealed replies.” Through our review, in addition to the competitive solicitation requirements of Statute we noted that the District Purchasing Manual requires any purchase in excess of \$3,000 to obtain three (3) written vendor quotes. This is good practice to ensure that the District is procuring goods and services at fair prices. However, it can be time consuming to solicit vendors, manage vendor quotations, and perform any additional follow up that may be required, to obtain useful price quotes.

We have noted various practices among other Florida school districts for balancing available resources to obtain quotes and mitigate risk. The District could consider adjusting its current quotation practices to increase purchasing operational efficiencies if desired.

The illustration below provides a comparison to similar Florida school districts regarding thresholds and requirements for requiring written vendor quotes.

School District of Osceola County	Brevard Public Schools	School District of Lee County	Seminole County School District
COMMODITIES/ SERVICES PURCHASE THRESHOLD	COMMODITIES/ SERVICES PURCHASE THRESHOLD	COMMODITIES/ SERVICES PURCHASE THRESHOLD	COMMODITIES/ SERVICES PURCHASE THRESHOLD
COMPETITION REQUIREMENTS	COMPETITION REQUIREMENTS	COMPETITION REQUIREMENTS	COMPETITION REQUIREMENTS
< \$1,000	< \$5,000	< \$10,000	< \$10,000
No Competition Requirement	No Competition Requirement	No Competition Requirement	No Competition Requirement
\$1,001 - \$3,000	\$5,001 - \$15,000	\$10,001 - \$35,000	\$10,001 - \$25,000
1 Written Quote	2 Written Quotes	3 Written or Verbal Quotes	3 Written Quotes Recommended
\$3,001 - \$50,000	\$15,001 - \$50,000	\$35,001 - \$50,000	\$25,001 - \$50,000
3 Written Quotes	3 Written Quotes	3 Written Quotes	3 Written Quotes Required



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*School District of*  
**OSCEOLA COUNTY**  
FLORIDA

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# School District of Osceola County, Florida

## Risk Assessment to Develop Proposed Fiscal Year 2022-23 Internal Audit Plan

July 26, 2022

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## TRANSMITTAL LETTER



July 26, 2021

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Pursuant to our Statement of Work dated June 21, 2022, we hereby submit the risk assessment for the development of the proposed internal audit plan for the School District of Osceola County, Florida ("District") for fiscal year 2022-23 ("FY23").

We performed the risk assessment by applying a broad-based, business view of risk, linked to the annual budget, financial reports, and operations. We reviewed recent board meeting minutes and various media sources to understand the District's current environment. We conducted interviews with District School Board Members, Superintendent, and other members of management to gain an understanding of "What keeps them up at night?" and narrow in on their objectives and identified risks. For the purpose of this risk assessment, 'risk' focuses on financial, strategic, performance/operational, and compliance risk, as well as the general effect of public perception with regard to District-wide activities and initiatives. During the interviews, we discussed and identified areas of high risk, opportunities, and vulnerabilities. As a result, we are presenting the Proposed Top 10 High Risk Areas for Internal Audit ("Proposed Top 10"). These are on-line real-time and are labeled as proposed because it is a living document. As factors change and situations arise, the Proposed Top 10 can and will change.

In connection with the performance of these services, we have not performed any management functions, made management decisions, or otherwise performed in a capacity equivalent to that of an employee of the District. We would like to thank the District's School Board, Superintendent, members of leadership, as well as the various departments and staff involved in assisting with the risk assessment process.

Respectfully Submitted,

*RSM US LLP*

**INTERNAL AUDITORS**

## RISK ASSESSMENT

The objective of this assessment is to identify and develop a proposed internal audit plan: Top 10 high-risk areas of focus, the purpose of which is to identify those areas determined as having a relatively high-risk profile or that otherwise require audit attention for various reasons, for the Board’s consideration. This document is on-line real-time and labeled as proposed because it is a living document. As factors change and situations arise, the proposed Top 10 can and will change. As part of this assessment, ‘risk’ focuses on various factors such as: financial, strategic, performance/operational, and compliance risk, as well as the general effect of public perception related to District-wide activities and initiatives.

Our approach is based on the widely accepted Committee of Sponsoring Organizations (“COSO”) guidance on monitoring Internal Control Systems. Our analysis of high-risk areas considers ‘inherent risk’, which is the risk of a function in an environment void of controls. Therefore, functions with inherently high-risk are included in the proposed internal audit plan. Their inclusion does not mean ‘issues’ or concerns currently exist, but rather that the high-risk nature of the function is such that a higher potential exists for issues to develop. The high-risk areas of focus is a point-in-time depiction and should be considered a living document. As factors change and situations inevitably arise, the risks identified can and will change.

The chart below illustrates the exposure environment for positioning the District’s risks and evaluating the desired response based upon the likelihood of occurrence and priority of risk concerns. A proposed internal audit plan generally focuses on areas or functions that are high exposure and high priority (the upper right quadrant).

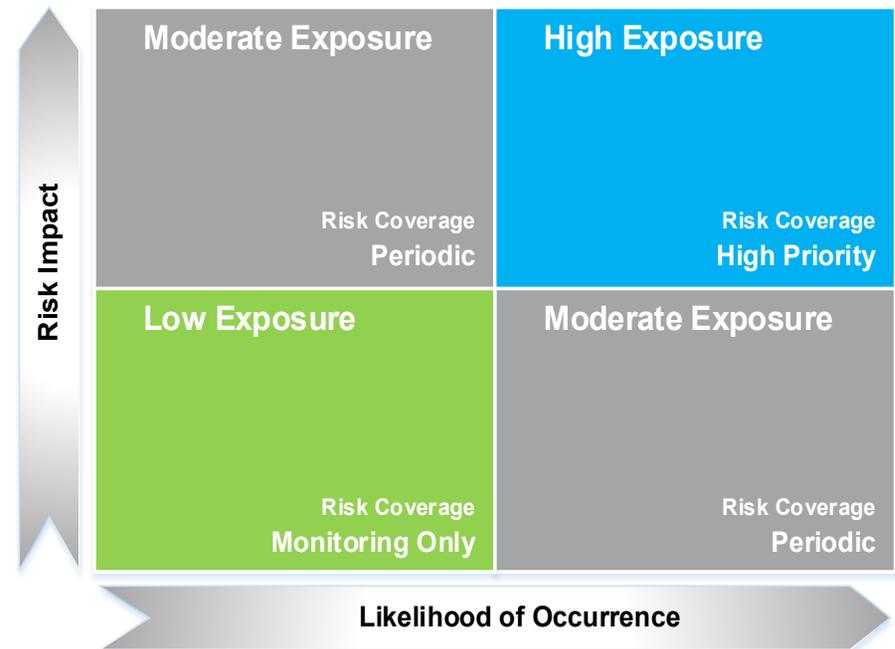
### Inherent Risk

- Risk of an occurrence before the effect of any existing controls.
- If you were building this process, what would you be concerned about?
- What can we not prevent?

### Residual Risk

- Risk remaining after the application of controls.
- Potentially reduced impact or likelihood.

Our risk assessment was conducted utilizing a broad-based business view of risk. We conducted interviews with District School Board members to gain an understanding of their perspective of risk at the District, focusing on their objectives in order to identify potential risks. We also conducted interviews with the Superintendent and other members of upper management to identify risks, vulnerabilities, and potential opportunities. We reviewed recent media coverage, as well as recent School Board meeting agendas, minutes, and other available documentation.



## RISK ASSESSMENT - CONTINUED

Our approach primarily defines ‘Risk’ in a government entity as Financial and Compliance-related risk, as well as Public Perception risk. Strategic, Performance and Operational risks are also considered. We evaluated the level of risk present in each area / function, across a standard spectrum of industry-accepted risk categories as follows:

<b>CONTROL ENVIRONMENT</b>	Describes the overall tone and control consciousness of the process / function. It involves the integrity, ethical values, and competence of personnel as well as management philosophy and operating style.
<b>CHANGE</b>	Addresses the extent to which change has impacted or is expected (in the near term) to impact the process / function, including changes in key personnel, statutes, the organization, its products, services, systems, or processes.
<b>PROCESS RISK</b>	Addresses the inherent risk of the activities performed by the process / function, including the assets managed or in the custody of the process / function. Process risk addresses the extent of support the process / function provides to vital the District functions, including the threat to continuity of the District caused by failures or errors: the probability of failure due to the amount of judgment, academic, or technical skill required to manage the unit or perform key activities.
<b>EXTERNAL FACTORS</b>	Describes the environment in which the process / function operates and the type and amount of external interaction in which the process / function engages. Factors to consider include overall the District and regulatory environment, the level of interaction with stakeholders and success in satisfying their requirements, the financial reporting environment, and results of regulatory compliance audits.
<b>REVENUE SOURCE / MATERIALITY</b>	Describes resources available and expended by the process / function. Factors to consider include the originating source of funds for a process / function, function budget, function spend, availability and use of other resources, and significance of impact to the overall operation of the District.

The internal audit function should include a balance of all types of internal audits and reviews. As such, an internal audit plan should include: Overall Audit Functions, Cycle Audits, District-wide Audits, Individual Function Audits, and may include Special Requests. We have included the Proposed Top 10 from which the School Board can prioritize a potential internal audit plan for fiscal year 2023. This includes an overview for each process as well as a summary of the internal audit strategy for each audit, subject to modification during the initial planning stages and scoping of each audit and subsequent discussions with management.

## RESULTS

The following is a summary of identified risks. *We would like to re-iterate, as previously noted in this document, that the inclusion of a proposed high-risk area of focus does not mean 'issues' or concerns currently exist, but rather that the high-risk nature of the function is such that a higher potential exists for issues to develop.*

### Proposed Internal Audit Plan: Top 10 High-Risk Areas of Focus

1. Cybersecurity & Privacy – Penetration Testing
2. Cybersecurity & Privacy – Incident Response Playbook
3. Cybersecurity & Privacy – Social Engineering
4. Operations – Maintenance Services and Work Order Processes
5. Business & Fiscal Services – Stimulus Funding
6. Business & Fiscal Services – Property Control
7. Business & Fiscal Services – Payroll
8. Operations – White Fleet Operations
9. Districtwide – Contract Compliance
10. Business & Fiscal Services – Purchase Cards (“P-Cards”)

In addition to the auditable areas above, we will also perform annual follow-up testing. We will perform follow up testing procedures on open, identified observations from previously issued audit reports. The objective of follow-up testing will be to determine whether established management action plans to remediate identified risks and observations have been successfully implemented, and effectively mitigate the risks identified.

## PROPOSED TOP 10 HIGH RISK AREAS FOR INTERNAL AUDIT

The objective of the risk assessment is primarily for the development of a proposed internal audit plan for FY23. The Proposed Top 10 will assist the District in creating an internal audit plan with sufficient and continuous internal audit coverage of those areas judged as having a relatively high-risk profile or that otherwise require internal audit attention for various reasons.

### 1. Cybersecurity & Privacy – Penetration Testing

Cybersecurity is an important priority within the public sector. Threats are constantly changing and evolving, thus this area is inherently high-risk. Organizations like the District are under constant attack from external attackers. The prospect of finding that an attacker has penetrated the District's defenses and is able to steal data from the District's network keeps most leaders up at night. As threats to data and systems have evolved, so have the requirements for safeguarding user, student, and District information. Likewise, it is important to measure the security of technology assets to understand the ability to defend against threats. We last performed penetration testing in June 2022 and we recommend the District perform this testing annually.

#### Internal Audit Strategy

The objective of *internal* penetration testing is to assess current security controls in an effort to determine the actionable impact from an attacker gaining access to the internal network. The objective of *external* penetration testing is to assess current security controls in an effort to determine the actionable impact from an attacker attempting to bypass perimeter security controls and accessing the internal network or sensitive data. The focus of penetration testing is not to prove that the network is free of all vulnerabilities; rather, the focus is to validate the organization's security posture and configuration standards through assessing the resiliency of the internal network against a determined attacker. This level of testing relies heavily on techniques and toolsets favored by real-world threat actors in order to closely simulate an attack scenario, and leverages both manual and automated testing methods.

## PROPOSED TOP 10 HIGH RISK AREAS FOR INTERNAL AUDIT – CONTINUED

### 2. Cybersecurity & Privacy – Incident Response Playbook

Organizations like the District are under constant attack from external attackers. The prospect of finding that an attacker has penetrated the organization's defenses and is able to steal data from the organization's network keeps most leaders up at night. As threats to data and systems have evolved, so have the requirements for safeguarding user, student, employee, and District information. The processes and people that support the security of technology are the key components in protecting these valuable business assets. Likewise, it is important to measure the security of technology assets to understand the ability to defend against threats.

To keep up with a myriad of cybersecurity threats, organizations need to have a formal plan to assist in responding to a cyber-incident. Regardless of the level of planning and preparation, no organization is completely safe against cyberattacks. Hence, organizations need an incident response playbook ("IRP") that identifies possible cyberattacks and the District's step-by-step plan how to respond. Performance of tabletop exercises during this process will enable the District to verify their IRP is well rounded. The District's IS Department is currently exploring the development of an IRP. Given the increasing complexity and number of cybersecurity incidents occurring within school districts across the country, the risks of harm to the District's reputation and finances is increasing.

Inherent risks may include: Undetected threats and attacks to District systems; Loss or manipulation of critical data; Systems and applications are not configured appropriately to support proper maintenance and monitoring (closed-loop feedback); District data is not being stored securely; Outdated, inappropriate, or incomplete response plans to ransomware/malware attacks, business email compromises (i.e. phishing or social engineering emails), and/or data thefts; Monetary losses resulting from the cyberattack or litigation subsequent to the cyberattack; and Time and resources may be inefficiently spent manually analyzing threats to District systems.

#### **Internal Audit Strategy**

This internal audit would include a review of the District's current IRP and evaluate the effectiveness and maturity of their Incident Response ("IR") program. This includes reviewing documents referenced in the IRP surrounding notification and escalation procedure, impact and prioritization methods, disaster recovery and business continuity plan documentation, backup restoration procedures, detection and response mechanisms, and tactical incident handling instructions.

## PROPOSED TOP 10 HIGH RISK AREAS FOR INTERNAL AUDIT – CONTINUED

### 3. Cybersecurity & Privacy – Social Engineering

Social engineering is a technique that relies on weaknesses in human nature, rather than weaknesses in hardware, software, or network design. Attacks are successful because they target basic human nature. While systematic controls may exist, there is still a reliance on human controls. Humans are susceptible to persuasion and manipulation through various methods.

Organizations are becoming increasingly aware that traditional technical security approaches, such as vulnerability and penetration testing, are not sufficient alone. Attackers are moving away from the purely technological attack and including an organization's personnel as a way to penetrate that organization. Social engineering tests a company's security awareness and employee compliance with the existing security policy. The purpose is to gain a better understanding of the nontechnical security posture of an organization. Social engineering enables companies to evaluate their environment's defenses when faced with complex threats that are the source of data breaches. Social engineering typically applies to using deception and testing methods to gain access to data, systems, and applications. Techniques used with this approach press people into unknowingly performing actions or divulging confidential information on behalf of an attacker.

#### Internal Audit Strategy

A social engineering review could occur in person or remotely, and via technical and nontechnical approaches. A variety of social engineering techniques could be employed to gain information that can be used to compromise an organization. Examples of the social engineering services that could be deployed include:

- Email – We send a variety of email messages to select personnel to see if they will reply to messages of a questionable nature. These can include malicious attachments, spam filter checks, pharming and phishing.
- Walk-in impersonation – A RSM security consultant impersonates one of a variety of business services personnel, such as a telecommunication technician or copier repair person, to gain access to your facility.
- Call-in impersonation – Performed over the telephone, this test is best used for larger organizations where personnel do not know all employees. As with the email tests, the caller attempts to obtain information over the phone or have it sent via email or other means. Pretexting phone calls or SMS phishing or pharming techniques can also be used.
- Malicious website – This test involves email and a website. Targeted personnel are sent an electronic message instructing them to visit the malicious or harvesting website (for example, your organization is conducting a survey). Employees are asked to log on to the website using their internal network credentials. The website then counts the number of people who connect and counts who logs in. We can also perform a social networking site inspection.

## PROPOSED TOP 10 HIGH RISK AREAS FOR INTERNAL AUDIT - CONTINUED

### 4. Operations – Maintenance Services and Work Order Processes

The District's Maintenance Department is responsible for sustaining a safe, sanitary, and functional environment for the students and employees of the District. The function oversees the repair and upkeep of District grounds, buildings, and equipment. Timely repair and preventative maintenance of these assets will prolong their useful life and potentially reduce the future cost of renovation, repair and / or replacement. Although many preventative and repair functions are performed with in-house labor, the size and scope of maintenance throughout the District requires the use of third-party vendors for certain services. Work orders are used to manage, organize, and track the work performed. A critical piece of the maintenance process is control around accumulating and properly allocating the maintenance expenditures, such as employee time spent, and inventory / parts used for specific projects.

Inherent risks include: Outdated, inadequate or undocumented policies and procedures; non-compliance/improprieties with Florida Statutes and District policies for solicitation and procurement; unreported conflicts of interest; non-compliance with vendor contract terms; failure to meet select contract provisions; vendor favoritism; non-performance of vendors; inaccurate accumulation or allocation of time and materials to work orders; ineffective monitoring and reconciliation of the work order system; inadequate monitoring of work order distribution, production and / or overtime; untimely response to and priority of work orders and needs of the District; and inadequate monitoring of key performance indicators, such as work order turnaround, employee productivity, and parts utilization.

#### **Internal Audit Strategy:**

This audit will be designed to assess whether the system of internal controls is adequate and appropriate within the Maintenance Department for promoting and encouraging the achievement of management's objectives in the categories of compliance with applicable laws, administrative rules, and other guidelines. The review may focus on the Maintenance Department's process for procurement of goods and services; management and administration of vendors and contracts; monitoring processes; work identification and prioritization; work completion and review; utilization of work order system; and internal performance monitoring.

## PROPOSED TOP 10 HIGH RISK AREAS FOR INTERNAL AUDIT - CONTINUED

### 5. Business & Fiscal Services – Stimulus Funding

To address the impact COVID-19 on schools, federal funding was provided to direct support to state education agencies (SEA) and local education agencies (LEA). This funding was directed and subsequently expanded through the following acts of congress:

1. The Elementary and Secondary School Emergency Relief (ESSER) Fund was established as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act in March 2020, and provided \$13.5 billion in ESSER funding to SEAs and LEAs to address the impact of COVID-19 on elementary and secondary schools.
2. In December 2020, ESSER funding was expanded through the enactment of the Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act. This funding provided an additional \$54.3 billion for the ESSER Fund and were provided to safely reopen and sustain the safe operation of schools and continue to address the impact of the COVID-19 pandemic on the nation's students.
3. In March 2021, a third round of funding was added to the ESSER Fund through the enactment of the American Rescue Plan (ARP) Act. The ARP ESSER package included \$122 billion for the ARP ESSER Fund. Funding was provided to direct aid to LEAs to help safely reopen schools and accelerate learning and mitigate learning loss. ARP ESSER allows LEAs broad discretion in determining those needs and encourages building long-term systems of support to modernize and sustain school improvements and address the impact of COVID-19.

The District is responsible for maintaining an efficient and effective system for monitoring the stimulus funding received and expended. General guidance is provided by the Department of Treasury outlining the permitted uses of stimulus funds, as well as documentation requirements in place for substantiating expenditures approved using stimulus funding. The design and operating effectiveness of key internal controls (i.e., review and approval procedures, determination of expenditure appropriateness, accounting procedures, etc.) is imperative to remaining in compliance with the evolving regulatory requirements, especially as the District is projected to receive a significant increase in grant funding as a result of the COVID-19 pandemic.

Inherent risks include: Non-compliance with state and federal regulations; misuse of funding resulting from inappropriate expenditures; inability to accurately forecast non-recurring and recurring costs associated with stimulus funds; inability to accurately and timely report expenditures; lack of appropriate evidence to support the eligibility and approval of expenditures; insufficient document retention procedures; reputational damage resulting from ineffective oversight of funding.

#### **Internal Audit Strategy:**

The primary objective of this review would be to evaluate the system in place for managing stimulus funding including key internal controls such as review and approval procedures, documentation requirements, accounting procedures, and other relevant procedures in place for maintaining compliance with regulatory guidelines.

## PROPOSED TOP 10 HIGH RISK AREAS FOR INTERNAL AUDIT - CONTINUED

### 6. Business & Fiscal Services – Property Control

Effective property control practices are critical to ensure accurate records are maintained to capture and track all relevant asset information. The mission of the Property Records Department is to establish and promote measures that will enable the District to adequately safeguard and account for all of its property and comply with all applicable state, federal, and School Board rules, regulations, and procedures. This involves coordinating the annual physical inventory, recording acquisitions, deletions, and other changes into the Terms Asset Management database files in a timely and appropriate manner; managing the transfer and disposition of surplus property; and providing the appropriate property related information and training to School District departments and schools.

Inherent risks include: Outdated, inadequate, or undocumented policies and procedures; Inadequate controls to detect fraud, waste, and abuse; Inadequate segregation of duties; Non-compliance and inconsistencies with policies and procedures; and Ineffective accounting and administrative controls over tracking, recording, monitoring, and reporting of District property.

#### **Internal Audit Strategy:**

The primary objectives of the audit will be to analyze the current asset records, with a focus on design and effectiveness of the processes and internal controls designed to add and remove assets from the property record, accurately record the value of assets, physically safeguard assets, perform inventories of assets on a periodic basis, and the retirement and disposition of assets.

### 7. Business & Fiscal Services – Payroll

A primary objective of the Payroll Department is to provide for the accurate and timely payment to employees while complying with state and/or federal laws. The District employs over 7,300 employees across its various schools and departments. A significant portion of the District's budget is comprised of payroll costs and the related taxes and benefits. These salaries and benefits comprise approximately 64.2% of the total estimated operating budget.

Inherent risks include: Outdated, inadequate, or undocumented policies and procedures; Inadequate controls to detect fraud, waste, and abuse; Inadequate segregation of duties; Non-compliance and inconsistencies with policies and procedures; Employees paid for time not worked or approved; Potential for human error; Inadequate documentation and retention of timekeeping records; and Ineffective accounting and administrative controls over tracking, recording, monitoring, and reporting.

#### **Internal Audit Strategy:**

The primary objective of this audit would be to evaluate and assess whether the internal control structure of time recording, monitoring, and reporting is appropriately designed and operating effectively to pay employees timely and accurately. An audit of Payroll processes would cover the procedures performed after the time is entered and submitted by the Departments through payout to the employees.

## PROPOSED TOP 10 HIGH RISK AREAS FOR INTERNAL AUDIT - CONTINUED

### 8. Operations – White Fleet Operations

The District manages many types of vehicles which include busses, vans, trucks, cars, and equipment. The fleet of vehicles utilized by District employees, for the purpose of District responsibilities, are referred to as the “white fleet.” The Transportation Department is responsible for managing and monitoring the District white fleet.

Inherent risks include: Operational disruption or failure; financial loss; reputational damage; inability to meet strategic District growth goals; inadequate segregation of duties, inadequate safeguarding of vehicles, non-compliance with policies and procedures.

#### **Internal Audit Strategy**

The primary objective of this audit would be to evaluate fleet management processes and internal control structure to assess the efficiency and effectiveness of fleet management processes including, but not limited to; vehicle purchases, vehicle assignment, vehicle retirement, and maintenance procedures.

### 9. Districtwide – Contract Compliance

Contract compliance encompasses all contractual agreements, including but not limited to vendor agreements. It includes those activities performed from the time a contract is executed until the work has been completed and accepted, payment has been made, and disputes have been resolved. Although certain aspects of the purchasing function are centralized within Purchasing, many of the high-risk areas like contract administration and monitoring are decentralized to the individual departments/contract owners.

Inherent risks include: Inappropriate spending due to non-compliance with contract terms, potential conflicts of interest, and failing to meet select contract provisions. These factors and the materiality of vendor contracts make this process high risk from a financial, compliance and public perception perspective.

#### **Internal Audit Strategy**

This audit would be designed to assess whether the system of internal controls is adequate and appropriate for effective contract compliance, with selected provisions of the contract as it relates to payment for goods/services, and assess the District’s monitoring processes for opportunities for improvement. We will select a sample of high-risk contracts to test in detail for compliance with the effective agreement terms and conditions, including pricing and invoicing to the District, as well as adherence to any right to audit clauses and required insurance coverage, and other potential risks to the District as appropriate.

## PROPOSED TOP 10 HIGH RISK AREAS FOR INTERNAL AUDIT - CONTINUED

### 10. Business & Fiscal Services – Purchase Cards (“P-Cards”)

A P-Card is a form of a charge card that allows goods and services to be procured without using a traditional purchasing process. They are typically issued to employees who make low dollar, high volume transactions. By using a P-Card, the District’s purchasing teams can focus their efforts on more strategic high value transactions. A P-Card program is designed to enable the District to make purchases quickly and efficiently, thereby reducing the volume of invoices and request for checks being processes. There can be significant risks with P-Cards if the policies and procedures are not established correctly and are not functioning as designed.

Inherent risks include: Outdated, inadequate, or undocumented policies and procedures surrounding employee usage, supervisor review/approval, vendor payments, inventory of P-Cards, etc.; insecure access to P-Cards and inadequate P-Card monitoring; inability to identify duplicative payments for vendor invoices; controls or segregation of duties for approving, furnishing and reconciling P-Cards are not adequate; reconciliation of invoices is not being performed timely; and fraudulent spending and use of P-Cards.

#### **Internal Audit Strategy**

The objective of this review will be to determine whether internal controls in place are adequate surrounding the P-Card program. This audit will be designed to evaluate the adequacy of and compliance with policies and procedures regarding P-Card usage and monitoring. This includes assessing controls in regards to the physical and use security over P-Cards, as well as segregation of duties for approving, furnishing and reconciling P-Cards for accuracy. As part of this audit, we will review whether goods and services that are paid for were properly authorized, ordered and received in accordance with accounts payable and disbursement policies. Lastly, we will evaluate whether card holder setup and maintenance, monthly reconciliation and general monitoring of the program are functioning as designed.



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