12 Cost Control Systems

The district generally has effective cost control systems, but has room to improve. Improvements could be made in internal auditing, asset management, financial management, purchasing, and information systems.

Conclusion

The Polk County District School Board has generally established adequate cost control systems. However, we have identified 9 of the 31 best practices that are not effectively implemented and certain enhancements that could be made to cost control systems that could improve effectiveness. Below are the Auditor General's conclusions on the district's use of each cost control system's best practice.

Is the District Using the Cost Control Systems Best Practices?

Internal Auditing

No. The district has established an internal audit function with its primary mission to provide assurance that the internal control processes in the organization are adequately designed and functioning effectively and where appropriate, offer recommendations and counsel to management that improve its performance.

Although the district has established an internal audit function, we noted that certain improvements could be made to the internal audit function's risk assessment process and independence enhancements that could be made to improve the internal audit function's effectiveness. (page 12-6)

Financial Auditing

Yes. The district obtains an external audit in accordance with governmental auditing standards. (page 12-9)

Yes. The district provides for timely follow-up to findings identified in the external audit. (page 12-9)

Asset Management

Yes. The district segregates responsibilities for custody of assets from record keeping responsibilities for those assets. (page 12-10)

Yes. The district has established controls that provide for effective review and approval of asset acquisitions. (page 12-10)

No. The district has established records that accumulate project costs and other relevant data to facilitate reporting construction and maintenance activities to the board, public, and grantors.

Although the district accumulates project costs, our review determined that the district could more effectively accumulate these costs to provide district personnel with cumulative project data necessary to make informed project management decisions. (page 12-11)

No. The district provides recorded accountability for capitalized assets.

Although the district provides recorded accountability for capitalized assets, district procedures relating to the tagging of equipment and the taking of property inventories should be improved. (page 12-12)

Risk Management

Yes. The district has an adequate process to set objectives for risk management activities, identify and evaluate risks, and design a comprehensive program to protect the district at a reasonable cost. (page 12-13)

Yes. The district has comprehensive policies and procedures relating to purchasing and reviewing insurance coverage. (page 12-14)

Yes. The district regularly monitors and evaluates its self-insurance program to ensure the feasibility of its self-insured coverages. (page 12-15)

Financial Management

No. District management communicates its commitment and support of strong internal controls.

Although the district has generally established adequate control systems and practices, the communication of its commitment to and support of strong internal controls could be enhanced by developing and maintaining detailed procedures manuals relative to all of the district's financial operations. (page 12-15)

No. The district records and reports financial transactions in accordance with prescribed standards.

Although the district's accounting system permits the district to record and report financial transactions in accord with prescribed standards, it does not effectively do so. The district should place a high priority on either upgrading or replacing its current accounting system to promote greater effectiveness and efficiency.
(page 12-19)

Yes. The district prepares and distributes its financial reports timely. (page 12-21)

Yes. The district has a financial plan serving as an estimate of and control over operations and expenditures.

Even though the district has established budgets and has procedures for monitoring these budgets, the procedures would be more effective if

information relating to the availability of budgeted funds could be determined in a more timely manner.
(page 12-21)

No. The district has adequate controls to provide recorded accountability for cash resources.

By not providing for timely bank reconciliations, the district's controls over the recorded accountability for cash resources are significantly reduced.
(page 12-22)

Yes. The district has an investment plan that includes investment objectives and performance criteria and specifies the types of financial products approved for investment. (page12-23)

Yes. The district has established controls for recording, collecting, adjusting, and reporting receivables. (page 12-24)

Yes. The district has established controls that provide accountability for employees' compensation and benefits pursuant to an approved compensation plan.
(page 12-24)

Yes. The district has procedures for analyzing, evaluating, monitoring, and reporting
debt financing alternatives. (page 12-24)

Yes The district adequately monitors and reports grant activities. (page 12-25)

Purchasing

Yes. The district segregates purchasing responsibilities from the requisitioning, authorizing, and receiving functions. (page 12-25)

Yes. The district has established controls for authorizing purchase requisitions.

Even though the district has established controls, greater efficiencies can be realized
if all users were required to use the established on-line requisitioning system and if purchase cards were used for small purchases. (page 12-26)

Yes. The district has established authorization controls to ensure that goods are acquired at prices that are fair, competitive, and reasonable, and consistent with acceptable quality and performance. (page 12-28)

Yes. The district has established controls to ensure that goods are received and meet quality standards.

Even though controls have been established, greater efficiencies could be realized if on-line receipting features could be used. (page 12-28)

Yes. The district has established controls for processing invoices to ensure that quantities, prices, and terms coincide with purchase orders and receiving reports. (page 12-29)

Yes. The district has established controls to ensure that disbursements are properly authorized, documented, and recorded. (page 12-30)

Although controls are generally effective, they could be enhanced for the stocks of blank checks used for check writing.

Yes. The district has established controls to ensure that payables/encumbrances (obligations) are properly authorized, documented, and recorded. (page 12-31)

Information System

No. The district segregates duties to prevent unauthorized transactions by appropriately limiting access to data systems processes and functions.

The district does not adequately segregate duties to prevent unauthorized transactions by appropriately limiting access to data systems processes and functions. (page 12-32)

No. The district's user controls ensure authorization prior to processing transactions and ensure all output represents authorized and valid transactions.

The district's user controls do not either adequately ensure authorization prior to processing transactions or adequately ensure that all output represents authorized and valid transactions. (page 12-34)

Yes. The district has established appropriate data controls between the user and the data system department. (page 12-36)

No. The district has established general controls designed to provide physical security over terminals, limit access to data programs and data files, and to control risk in systems development and maintenance.

Enhancements to the district's general controls could be made by providing for a formal electronic data processing steering committee, establishing and maintaining a policies and procedures manual and enhancing the disaster recovery plan and year 2000 plan. (page 12-37)

Fiscal Impact of Recommendations————————————

Most of the recommendations in the cost control systems section will improve district performance but are minimal in terms of their fiscal impact.

District personnel have advised us that they have discontinued their in-house efforts to develop a new accounting system and are currently evaluating the purchase of a vendor developed accounting system. Initial start-up costs for this system will be significant. However, after the initial start-up costs, the district should enjoy the cost benefits of a fully integrated system with historical data and enhanced report-generating capabilities. If properly implemented, such a system should reduce labor intensive tasks and provide better business services to users. Over time, these benefits should offset any initial start-up costs incurred by the district.

Background ————————————————————————

The district's major cost control systems are separated into seven subsections.

- Internal Auditing
- Financial Auditing
- Asset Management
- Risk Management
- Financial Management
- Purchasing
- Information Systems

The board, as provided in s. 230.03(2), F.S., is required to operate, control, and supervise all free public schools in the district. Laws, rules, regulations, and grantor restrictions applicable to the district's activities define, among other matters, the purposes for which resources may be used and the manner in which authorized uses shall be accomplished and documented. Section 230.23(3), F.S., provides that the responsibility for the administration of the district is vested with the superintendent as the secretary and executive officer of the board, as provided by law. To assure the efficient and effective operation of the district in accordance with good business practices and with applicable legal and contractual requirements, effective cost control systems must be established and maintained.

The superintendent is responsible for establishing and maintaining effective cost control systems. The objectives of efficient and effective cost control systems are to

- provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition;
- ensure that transactions are executed in accordance with the board's authorization;
- ensure that transactions are recorded properly to promote reliable financial data;
- ensure that restricted assets are managed in compliance with applicable laws, regulations, and contracts; and
- within the constraints established by applicable laws and regulations, ensure that operating policies and procedures promote cost-effective and efficient methods of operation.

At the Polk County District School Board, significantly all of the responsibilities for ensuring efficient and effective cost control systems rest with the Business Services function, which is the responsibility of the assistant superintendent for Business Services. Additionally, the district employs an internal auditor, who reports directly to the board**.**

Are the Best Practices for Internal Auditing Being Observed?———————————

Goal: The district has an adequate internal auditing function.

1 Has the district established an internal audit function with its primary mission to (1) provide assurance that the internal control processes in the organization are adequately designed and functioning effectively, and (2) where appropriate, offer recommendations and counsel to management that improve their performance?

No. Polk County District School Board has employed a senior internal auditor whose function is defined in a charter that has provisions consistent with this best practice. However, we noted certain improvements that could be made to the risk assessment process and independence enhancements that could be made to improve the internal audit function's effectiveness.

Section 11.45(3)(a)1., F.S., permits school districts to employ internal auditors to perform ongoing financial verification of the financial records of a school district and requires that internal auditors hired pursuant to this law must report directly to the board or its designee. Such an internal audit function can provide a school district assurance that internal control processes in the organization are adequately designed and functioning effectively and can evaluate the manner in which organizational units comply with board and administrative policies and procedures, as well as with state and federal guidelines. Additionally, an internal audit function can provide a school district with an effective internal performance and evaluation system. Used this way, an internal audit function can be an effective element of management and internal control.

In addition to funds received at the district level, the individual schools also receive funds for club and class activities. These funds are deposited in the school's accounts, which are commonly referred to as school internal funds. State Board of Education Rule 6A-1.087, F.A.C., requires school districts to provide for annual audits of the school internal funds. Internal auditors employed pursuant to s. 11.45(3)(a)1., F.S., may also be assigned the responsibility for auditing the school internal funds.

At Polk County District School Board, the internal auditor reports directly to the board. There is also an internal audit committee that acts in an advisory capacity to the internal auditor. This committee consists of the superintendent, the board chairman, and seven community members selected by the board members and the board chairman. Community members must meet specified qualifications in order to be a member of the committee. Both the internal auditor and the internal audit committee have charters that include purpose/mission statements that are consistent with the best practices for internal auditing.

Risk Assessment Processes Should Be Improved

The internal auditor prepares an annual audit plan that identifies the planned audits and reviews to be performed for that year. The plan is reviewed by the board and approved by the board chairman. According to the internal auditor, he performs a risk assessment that he uses to provide a basis to determine the audits included on the annual plan. Our review of the annual plan for the current fiscal period disclosed that many of the planned activities do appear to be of areas that could be considered to be higher risk. However, the actual risk assessment process was not documented.

Additionally, the internal auditor stated that his risk assessment was based on his knowledge of the district and other input received from various board members, employees, and others. For a risk assessment to be effective, it needs to include more formal, documented input from all financial management staff and other management, including school principals. This process could be accomplished through the distribution of questionnaires or surveys to appropriate employees so that they can provide written responses as to what district operations they consider to be high risk. Once these responses are received, the internal audit committee can review them and assist the internal auditor in ranking the assessments received in order of highest perceived risk. From this ranking a long-range audit plan can be developed from which short-range (annual) audit plans can be developed. We recommend that the risk assessment process used by the internal auditor be improved to include documented risk assessments from all appropriate management employees and that such assessments be considered when preparing the annual audit plan.

Independence of Internal Auditor Should Be Enhanced

Under the present organizational structure, the internal auditor reports directly to the board. Under this structure, the function of the internal audit committee is that of an advisory body, with little or no direct control over the operations of the internal auditor. While it is commendable that the internal auditor reports to the board rather than to administrative staff, the internal auditor's independence would be enhanced if additional organizational changes were made so that the internal auditor reported to a board-established internal audit committee.

The internal audit committee should establish a process for reviewing all risk assessments and requests for internal audit services. These assessments and requests could then be evaluated by the committee and ranked by risk and by correlation to the mission of the internal audit function. The internal audit committee could then provide input and direction to the internal auditor in the development of the long- and short-range audit plans. This process, by providing an additional "buffer" for the internal auditor, would enhance the internal audit function's independence.

Recommendations ———————————————————————

- • *The risk assessment process used by the internal auditor should be improved to include documented risk assessments from all appropriate management employees and such assessments should be considered when preparing the annual audit plan.*

- *Enhance the internal audit function's independence by making organizational changes to cause this function to report to the internal audit committee instead of the board.*
- *Action Plan 12–1 provides the steps needed to implement these recommendations.*

Action Plan 12–1

Internal Auditing

Recommendation 1	
Strategy	Document risk assessments that include input from financial and school based management. Consider these risk assessments when preparing long-range and short-range (annual) audit plans.
Action Needed	Develop and maintain detailed risk assessment procedures.
Who Is Responsible	Internal auditor and Internal Audit Committee
Time Frame	May 2000
How to Evaluate	Annual audit plan supported by ranking of audit concerns developed from risk assessments received from financial and school based management
Financial Impact	This can be implemented with existing resources.
Recommendation 2	
Strategy	Enhance the independence of the internal audit function.
Action Needed	Approve organizational changes that would require the internal auditor to report to the internal audit committee.
Who Is Responsible	Internal auditor and Internal Audit Committee
Time Frame	May 2000
How to Evaluate	Board approval of organizational changes
Financial Impact	This can be implemented with existing resources.

Are the Best Practices for Financial Auditing Being Observed? ————————

Goal: The school district ensures that it receives an annual external audit and uses the audit to improve its operations.

1 Does the district obtain an external audit in accordance with government auditing standards?

Yes. Annual audits are conducted by the Auditor General who performs such audits in accordance with government auditing standards.

Pursuant to s. 11.45(3)(a)1., F.S., the district annually receives a financial audit by the Auditor General. A financial audit is defined in s. 11.45(1)(b), F.S., and states, in part, that financial audits must be conducted in accordance with generally accepted auditing standards and government auditing standards. While performing the financial audit, the Auditor General performs an examination to determine whether district operations are properly conducted in accordance with legal and regulatory requirements. Because of the district's significant federal funding sources, the Auditor General's audits include a review of the district's federal programs as required by the United States Office of Management and Budget's *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.*

2 Does the district provide for timely follow-up on findings identified in the external audit?

Yes. The district provides written responses for findings included in each audit report indicating corrective actions that will be taken. Our review of past reports indicates that the district has generally addressed issues noted in these reports.

Pursuant to s. 11.45(7)(d), F.S., the Auditor General is required to provide the district with a list of adverse findings which may be included in the audit report. This section of law also provides that the district shall submit to the Auditor General, within 30 days of receipt of the adverse findings, a written statement of explanation or rebuttal concerning all of the findings, including therein corrective actions to be taken to prevent a recurrence of all adverse findings.

Our review of past reports indicates that, with the exception of repeat findings related to computer consultant contracts, the district has generally addressed issues noted in these reports. These repeat findings addressed payments to consultants assisting the district in its in-house efforts to develop a new accounting system. District personnel have advised us

that the in-house project was placed on hold in January 1999 and that the district is currently investigating the purchase of an accounting system.

Are the Best Practices for Asset Management Being Observed?

Goal: District management has established controls for effective management of capital assets.

1 Does the district segregate responsibilities for custody of assets from record keeping responsibilities for those assets?

Yes. Employees responsible for asset custody are functionally separate from employees maintaining accounting records for these assets.

The district has established control accounts that are used to accumulate the district's total investment in property and maintains property records that establish accountability for individual property items. The responsibility for maintaining these records has generally been delegated to employees within the Business Services division. The responsibility for asset custody has been delegated to the numerous departments and cost centers throughout the district.

2 Has the district established controls that provide for proper authorization of asset acquisitions?

Yes. The district has established policies and procedures that provide for effective review and approval of asset acquisitions.

As discussed under the Purchasing goal of this section (page 12-25), the district has established a defined purchasing function with controls over requisitioning, authorizing, and receiving functions. Asset acquisitions are subject to these same controls. In addition, written board approval is required for all significant capital asset projects or acquisitions.

3 Has the district established records that accumulate project costs and other relevant data to facilitate reporting construction and maintenance activities to the board, public, and grantors?

No. The district has established records that accumulate project costs and other relevant data to facilitate reporting construction and maintenance activities to the board, public, and grantors. However, our review determined that district records could be enhanced to provide historical life-to-date cost data for construction projects.

Capital Construction Project Records Generated from the Accounting System Show Only Current Year Activity

Construction projects generally occur over more than one fiscal year. Accordingly, in order to determine the total costs of these projects, it is important that total costs (life-to-date) be accumulated to ensure that cost records for the projects are accumulated accurately. The district's present financial accounting system accumulates only current year financial information relating to construction projects. District personnel have compensated for this deficiency by manually determining the balance remaining in the estimated cost of each project to determine the "budget" for each project for a given fiscal year. Although this practice assists the district in preventing expenditures in excess of budget, it does not provide district personnel with life-to-date information on projects. Consequently, historical life-to-date information generated from the accounting system is not maintained. District staff have tried to compensate for these deficiencies by producing manually prepared spreadsheets to keep track of information necessary for financial reporting of general fixed assets. For example, Facilities staff maintain spreadsheets of certain financial project data and, when requested, accounting personnel will manually accumulate project information for each fiscal year so that life-to-date information is available. These labor-intensive tasks can result in errors and tend to discourage the accumulation of needed cumulative project cost records or in-depth analysis of these records.

District personnel have advised us that they are attempting to purchase a new accounting system.
A new system that will offer full integration features and historical data files for analysis purposes should correct the problems associated with this finding.

Recommendation ———————————————————————

- *District personnel should ensure that the new accounting system that is purchased includes full integration features and historical data files for analysis purposes. Such enhancements should provide needed life-to-date project cost information for capital construction projects. Action Plan 12-4 addresses the implementation of the new accounting system.*

4 Does the district provide recorded accountability for capitalized assets?

No. The district has provided recorded accountability for capitalized assets. However, we noted that district procedures relating to the tagging of equipment and the taking of property inventories should be improved.

Section 274.02, F.S., provides that each item of property which is practicable to identify by marking shall be marked in the manner required by the Auditor General. This section also requires that a complete physical inventory of all property shall be taken annually and the date inventoried shall be entered on the property record. The inventory shall be compared with the property record and all discrepancies shall be traced and reconciled.

Using Bar Code Scanning Equipment and Tags Would Be More Efficient When Performing Annual Inventories of Tangible Personal Property

District property accounting procedures currently provide that all property is marked as "Property of the School Board of Polk County, Florida" with the corresponding property identification number indicated with either a permanent marker or engraving. While this method of tagging appears to satisfy the legal requirements of the Florida Statutes, it prevents the use of scanning equipment to take required annual inventories. Polk County District School Board has approximately 42,000 tangible personal property items, totaling approximately $68,438,000, and the use of bar code scanners with bar coded metal tags to positively identify tangible personal property during the required annual inventories should result in long-term efficiencies, both in time and money. Although initial capital outlays to purchase scanning equipment (estimated by district personnel to be $11,500) and to tag existing equipment would be required, these costs should be recovered through the cost savings achieved as a result of the increased efficiency with which inventories could be completed.

Recommendations———————————————————————

- *The district should tag all capitalized tangible personal property with bar code tags and purchase and use scanning equipment and software to take required annual physical inventories.*
- *Action Plan 12–2 provides the steps needed to implement this recommendation.*

Action Plan 12–2

Asset Management

Recommendation 1	
Strategy	Improve efficiency in tagging tangible personal property and performing required annual inventories by using current technology.
Action Needed	Purchase computerized bar coding equipment, scanners, and bar coded tags for use on tangible personal property.
Who Is Responsible	Assistant superintendent for Business Services
Time Frame	June 2000
How to Evaluate	Full implementation of bar code system for tangible personal property.
Financial Impact	District personnel estimate that initial outlays for the purchase of bar coding equipment and software to be $11,500. Time and effort will be needed to re-tag all existing capitalized tangible personal property; performing this task while performing the required annual inventory will be the most efficient way of doing this. It is expected that these costs will be offset by future efficiencies in performing the annual inventories of tangible personal property.

Are the Best Practices for Risk Management Being Observed?

Goal: The district has established procedures that identify various risks and provide for a comprehensive approach to reducing the impact of losses.

1 Does the district have an adequate process to set objectives for risk management activities, identify and evaluate risks, and design a comprehensive program to protect the district at a reasonable cost?

Yes. Procedures followed by district Risk Management personnel ensure that the district is appropriately covered for known and anticipated risks and that the required insurance coverages are adequate and are obtained at prices that are fair and reasonable.

The district is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets, errors and omissions; injuries to employees; and natural disasters. Section 230.23(9)(d), F.S., requires a school district to carry insurance on school property, including contents, boilers, and machinery. Section 230.23(10)(h), F.S., requires that

school districts carry insurance (bonds) on all employees who are responsible for school funds. Section 230.23(10)(l), F.S., requires school districts to provide adequate protection against any loss or damage to school property or loss resulting from any liability for which the board or its officers, agents, or employees may be responsible for under law. This section also provides that a school board is authorized to purchase insurance, to be self-insured, to enter into risk management programs, or to have any combination of the above in any area to the extent the board is either authorized or required by law to contract for insurance.

The district has established a policy for risk management. The district's Risk Management Department is charged with the responsibility of implementing the district's risk management policy and ensuring that the district has acquired all insurance coverage required by law. The district has established self-insurance programs for workers' compensation insurance for its employees; comprehensive general liability, fleet liability, professional (errors and omissions) liability, and boiler and machinery; and medical coverage for its regular current employees and retirees. The district employs service agents to manage claims for each of these self-insured plans. To better manage its risk, the district has purchased excess (high deductible) coverage for some of its plans.

2 Does the district have comprehensive policies and procedures relating to purchasing and reviewing insurance coverage?

Yes. Procedures followed by district Risk Management personnel ensure that required insurance coverages are adequate and are obtained at prices that are fair and reasonable.

The majority of the district's risk is managed through self-insurance programs. As such, purchased policies are generally limited to those excess coverage policies associated with self-insurance. Due to the high deductible amounts, the policies are generally inexpensive relative to the overall risk management program. The district has procedures for competitive selection or request for proposals for acquiring excess insurance coverage. The Risk Management director relies on a variety of information sources in evaluating these insurance coverages. As a general rule, the district has a tendency to renew those policies for which the district has been satisfied with the services provided and the premium amounts have not risen significantly. Generally, lack of satisfaction with the insurance services or significant changes in premium costs will result in the district evaluating new providers. For health insurance, the degree of satisfaction is determined by obtaining employee input through surveys. Additionally, the district uses the services of a risk management consultant.

Most of the insurance programs are driven by the number of employees (for example, workers' compensation, employee life and health, etc.). The district has established procedures to determine the amount due to insurance vendors or service providers. These procedures appear to be effective to ensure that only appropriate amounts are remitted to insurance vendors and service providers.

3 Does the district regularly monitor and evaluate its self-insurance program to ensure the feasibility of its self-insured coverages?

Yes. The district has established procedures to monitor and evaluate its self-insurance programs to ensure the feasibility of its self-insured coverages.

See the narrative above. (Risk Management Best Practices No. 1 and 2.)

Are the Best Practices for Financial Management Being Observed?——————

Goal: The district has established controls to ensure that its financial resources are properly managed.

1 Does district management communicate its commitment and support of strong internal controls?

No. The district has established a Business Services function that, as indicated by its organizational structure, provides for effective separation of various business activities to promote an adequate system of internal controls. Responsibilities assigned to various staff members in this function are such that a comprehensive system of internal controls has been established. However, we noticed that the district's communication of its commitment and support of strong internal controls could be enhanced.

Procedures Manuals Detailing Daily Activities Are Not Maintained

The district has established a Business Services function that is responsible for essentially all activities related to financial management. Functional responsibilities within the Business Services function are further segregated into accounting, budgeting, purchasing, information and data processing services, risk management, and food services.

Although district management has achieved a comprehensive system of internal controls, they cannot document that their commitment to and support of strong internal controls has been communicated. Ordinarily, the communication of such commitment and support is done through the establishment and maintenance of comprehensive procedures manuals of its daily financial activities. Although some written procedures documents were available for certain parts of the district's financial operations, they were generally outdated and/or

incomplete. Procedures manuals are necessary to ensure appropriate training of new staff as well as to provide an aid in bridging the transition in the event of loss of key finance-related personnel. The district should develop and maintain detailed procedures manuals relating to all its financial activities. Some suggested procedures that should be included in the manuals include such matters as those noted below.

- Identification and description of the principal accounting records, recurring standard entries, and requirements for supporting documentation. For example, this may include information about the general ledger, source journals, subsidiary ledgers, and detail records for each significant class of transactions.
- Expression of the assignment of responsibilities and delegation of authority including identification of the individuals or positions that have authority to approve various types of recurring and non-recurring entries.
- Explanations of documentation and approval requirements for various types of recurring and non-recurring transactions and journal entries. Documentation requirements, for example, would include the basis and supporting computations required for adjustments and write-offs.
- Instructions for determining an adequate cutoff and closing of accounts for each reporting period.

As such manuals are developed, the board's internal auditor should review them to ensure that the procedures are designed to promote effective internal controls.

Business Services' Cross-Training Activities Should Be Enhanced

As with any organization, some employee turnover occurs. Occasionally employees leave that performed tasks that are considered critical in terms of the need for processing data or are critical to ensure effective internal control. Because they are critical, the continued performance of these tasks while positions are vacant is important. Many organizations attempt to alleviate such problems by cross-training staff so that others can fill in when someone terminates or is on extended leave.

We noted that some district Business Services staff have knowledge of how to perform the tasks for which other employees are responsible. Although it is good that some cross-training has occurred, we noted that a formalized cross-training plan that identifies critical financial processes and provides for the cross-training of individuals in these processes had not been developed. This cross-training plan should provide a process for allotting time to cross-trained staff so that these employees will be able to perform these duties along with their other responsibilities. For example, district bank reconciliations had not been performed for several months when the employee responsible for performing the reconciliations terminated employment. Although other staff were familiar with the bank reconciliation process, workload requirements prevented them from also performing the reconciliations. The district should enhance its cross-training process so that there will be staff available to continue critical financial processes in the event of loss of key finance-related personnel. Procedures manuals implemented as a result of the previous recommendation will also assist in cross-training efforts.

The District Should Develop a Policy for the Reporting of Suspected Improprieties

Another indicator that a district has a strong commitment to internal controls is its ability to promote the feedback of information from employees, particularly information relating to suspected improprieties. It is through this process that an organization becomes aware of internal control weaknesses that may otherwise be overlooked. As a result, it is important that the organization have a policy that promotes the reporting of suspected improprieties. Absent such a policy, it is possible that a work environment can be created in which employees do not believe that it would be advantageous to report such incidents that they have observed. Such a policy is beneficial to the organization because it provides a process that both the employee and the organization should follow. A well-designed policy will help protect the interests of the employee as well as reduce the organization's liability exposure.

The district has not established a policy and a process for the reporting of suspected improprieties. We recommend that such a policy be developed. Some of the features of a well-designed policy include

- a process for ensuring the anonymity of the employee reporting the impropriety;
- a process for reporting back to the employee the results of any investigation of the impropriety;
- a process to ensure that the employee has immunity from reprisals provided that the employee follows the procedures outlined in the policy; and
- if the employee deems it necessary, a process for allowing the employee to report the suspected impropriety to someone other than the employee's direct supervisor. For example, an alternative other than the employee's direct supervisor could be the district's internal auditor.

Recommendations ———————————————————————

- *The district should develop and maintain detailed procedures manuals of all financial operations including daily activities. The board's internal auditor should review procedures manuals and subsequent revisions to ensure that the procedures are designed to promote effective internal controls.*
- *The district should formalize its cross-training practices to develop a plan that identifies critical financial processes, provides for staff to be trained in these processes, and provides cross-trained staff with time to perform these processes in the event of loss of key finance-related personnel.*
- *The district should establish procedures that employees can follow if they suspect that improprieties are occurring. We suggest that such procedures include provisions that allow employees to contact someone other than a direct supervisor (perhaps the internal auditor), anonymity for those reporting such improprieties, feedback to employees who report such improprieties, and immunity from reprisals.*
- *Action Plan 12–3 provides the steps needed to implement these recommendations.*

Action Plan 12–3

Management Control Methods

Recommendation 1	
Strategy	Develop and maintain detailed procedures manuals for all financial management activities.
Action Needed	Distribution of approved manuals to all users.
Who Is Responsible	Assistant superintendent for Business Services
Time Frame	June 2001
How to Evaluate	Issuance of procedures manuals to appropriate personnel
Financial Impact	This can be implemented with existing resources.

Recommendation 2	
Strategy	As procedures manuals are completed and/or revised, the internal auditor should review them to ensure that the procedures are designed to promote effective internal controls.
Action Needed	Inclusion of procedures manual reviews in internal auditor's annual auditing plan
Who Is Responsible	Joint collaboration between the assistant superintendent for Business Services, the Internal Audit Committee, and the internal auditor.
Time Frame	June 2001
How to Evaluate	Internal auditor recommendations relating to procedures manuals
Financial Impact	This can be implemented with existing resources.

Recommendation 3	
Strategy	Identify critical finance processes and develop a cross-training policy.
Action Needed	After critical finance processes are identified, develop a cross-training schedule.
Who Is Responsible	Assistant superintendent for Business Services
Time Frame	June 2001
How to Evaluate	1. Development of a written cross-training plan 2. Periodic testing of cross-training plan to determine its effectiveness 3. Testing of cross-training plan can be correlated to planned absences of employees
Financial Impact	This can be implemented with existing resources.

Recommendation 4	
Strategy	Develop district policy for the reporting of suspected improprieties.
Action Needed	Preparation of and subsequent submission to Board of proposed policy.
Who Is Responsible	Assistant superintendent for Business Services
Time Frame	June 2001
How to Evaluate	Board approval of policy
Financial Impact	This can be implemented with existing resources.

2 Does the district record and report financial transactions in accordance with prescribed standards?

No. Although financial transactions are recorded and reported in accordance with prescribed standards, the district's financial accounting system is not capable of permitting these transactions to be recorded in an efficient manner as described below.

The District Needs to Place a High Priority on Replacing Its Existing Accounting System

Section 237.01, F.S., and State Board of Education Rule 6A-1.001, F.A.C., requires Florida school districts to maintain their financial accounts and records consistent with the requirements of the Florida Department of Education's manual, *Financial and Program Cost Accounting and Reporting for Florida Schools* (Redbook). The district currently uses an in-house developed accounting system that uses field sizes for accounting codes that are not large enough for the codes assigned in the Redbook. To the extent possible, the district uses truncated account numbers that parallel Redbook numbers and a cross-walk can be readily made between the district's accounting system account codes and the Redbook account codes. However, the limitations inherent in the district's present accounting system have created difficulties for district personnel in the assignment of new account numbers.

The district is one of the larger school districts in Florida and during the most recent fiscal year, it expended approximately $450,000,000. The district's in-house developed accounting system, which has been in use for many years, is used to account for all financial transactions. There are a number of deficiencies in this system which created labor-intensive inefficiencies, examples of which are shown below.

- This system has separate components in areas such as payroll, inventory, and accounts payable. These components were not designed to automatically integrate with each other. District personnel achieve integration between system components by manually updating the different components. For example, after the payroll system is updated for current activity, the payroll system generates summary totals. These summary totals are then manually posted by journal entry into the accounting system.

- The system also has limited report-generating capabilities. District personnel have compensated for this weakness by generating manually-prepared spreadsheets to keep track of certain data.

- Another weakness in the system is that it does not have the capability to maintain historical financial data for account categories with activity over several years. For example, major construction contracts may take several years to complete. Construction projects are assigned project numbers and budget and expenditure information is accumulated for each project. In order to determine the total cost of construction activity over all the years the project was in process, district personnel must manually accumulate project information for each fiscal year.

- Remote users lack on-line real-time access to budget/purchasing data. Although recent system modifications allow remote users to input purchase requisitions on-site for electronic transmittal to the Purchasing Department, this

information is not integrated into the system so that they can determine remaining budget balances, etc. After the Purchasing Department processes the requisitions, they are submitted for posting into the accounting system. Only at this time can district personnel determine if sufficient budget exists, and if not, the requisitions are returned to the users to initiate budget modification (amendment) processes. Once budgets are modified, the requisition process must start over again.

These labor-intensive tasks can result in errors and tend to discourage in-depth analysis of financial transactions. Additionally, Business Services personnel are subject to high workload requirements and are often unable to provide more than basic business services to users.

Due to other district needs, upgrading the district's accounting system has not been a high priority. However, the district has now grown to the point where it desperately needs to update its accounting system so that it will have the capability of using Redbook account codes and to provide full automatic integration of the various accounting subsystems. District personnel have advised us that they are currently in the process of evaluating vendor-developed accounting software products with the intent of purchasing a new accounting system. We concur with this decision and we recommend that the district place a high priority on implementing a new accounting system. A fully integrated accounting system would promote greater efficiencies through the reduction of manual processes that could result in the reduction in the need for the performance of some Business Services functions. Some or all of these reductions may be offset by the reallocation of workload responsibilities among existing staff to provide more equal workloads and additional responsibility assignments to provide greater and better business services to users. For example, accounting software that has better reporting capabilities will allow better analyses of transactions which will allow users to make more informed decisions regarding financial activity.

Recommendations————————————————————————

- *The district should establish the implementation of a new integrated accounting system as a high priority.*
- *Action Plan 12–4 provides the steps needed to implement this recommendation.*

Action Plan 12–4

Financial Accounting Information System

Recommendation 1	
Strategy	Establish the implementation of a new integrated accounting system as a high priority.
Action Needed	Establishment of timelines for purchasing and implementation of new accounting system. Establish monitoring process to evaluate progress of implementation efforts.
Who Is Responsible	Board and assistant superintendent for Business Services
Time Frame	June 2001 (for total implementation of new accounting system)
How to Evaluate	Successful implementation of new accounting system.

| Financial Impact | The district has already committed to obtain a new accounting system and has identified resources to acquire the system. The recommendation to ensure that implementation is performed timely can be implemented with existing resources. |

3 Does the district prepare and distribute its financial reports timely?

Yes. The district has established processes that ensure that required financial reports are submitted timely and within reporting deadlines.

The district is governed by various laws, rules, and contract provisions relative to required submission dates for various financial reports. For example, State Board of Education Rule 6A-1.0071, F.A.C., requires the district to have its annual financial report prepared and submitted to the Florida Commissioner of Education no later than September 11 of each year. State Board of Education Rule 6A-1.008, F.A.C., requires the superintendent to submit monthly financial statements to the board in the form prescribed by the board. Additionally, various federal grants and contracts provide for monthly statements of financial activity relating to the grants and generally provide for required submission dates.

These requirements have been in existence for many years. The district has established procedures to ensure compliance with these requirements. Our review of the processes in place to ensure compliance with these requirements indicated that the processes were effective to ensure that the required financial reports were timely submitted.

4 Does the district have a financial plan serving as an estimate of and control over operations and expenditures?

Yes. As required by law, the district prepares annual budgets and follows established rules for subsequent amendments to the budgets as estimates change. Even though the district has established budgets and has procedures for monitoring these budgets, the procedures would be more effective if information relating to the availability of budgeted funds could be determined in a more timely manner.

The district's financial plan serving as an estimate of and control over operations and expenditures is contained in its budget. There are a number of state laws and administrative rules affecting the district relative to budgeting. For example, s. 230.23(10)(g), F.S., requires a school district to implement a system of accounting and budgetary control to ensure that payments do not exceed amounts budgeted. Section 237.031, F.S., requires a school district to establish a budget system. Section 237.041, F.S., requires the board to adopt an annual budget and submit the adopted budget to the Florida Department of Education. State Board of Education Rule 6A-1.006, F.A.C., provides guidelines for amending the budget and State Board of Education Rule 6A-1.007, F.A.C., requires the superintendent to ensure that obligations and expenditures are kept within budgeted income.

The district has established effective procedures to ensure that state requirements for budget preparation and subsequent amendments thereto are timely completed.

Additionally, the district has implemented an encumbrance accounting system to provide a means of comparing budgeted amounts to actual and planned expenditures.

The Availability of Budgeted Funds Should Be Determined in a More Timely Manner

The district's accounting system presently does not have the capability of providing users that make purchase requisitions information on how the requisition will impact their budget at the time they make the requisition. Although some departments and school centers still use manual purchase requisition procedures, all departments and school centers have the ability to make purchase requisitions on-line and to submit these requisitions electronically to the Purchasing Department for processing. The district's current process does not provide users with real-time budget and actual information showing potential commitments (e.g., requisitions in process) as well as encumbrances to show the user the impact of the requisition on the amount of budget available. After processing by the Purchasing and Accounting departments, the approved purchase orders are manually entered into the accounting system by employees responsible for general ledger input. It is only after the purchase orders are input that available budget balances are known. At this point, if it is determined that sufficient budgeted funds do not exist for the purchase, the purchase requisition must be returned to the originating department for corrective action. Once corrective actions have been made, the purchase requisition must be resubmitted and the process repeated.

District personnel are currently in the process of evaluating the purchase of a new accounting system. According to district personnel, the new system will show on-line, real-time information to the user at the time of input that shows budget availability and the impact of any requisitions made on the available budget. Such a system will provide a more timely determination of the availability of budgeted funds and will reduce the incidence of reprocessing purchase requisitions because of insufficient budget.

Recommendations

- *As recommended under the Financial Management Goal relating to the Financial Accounting System best practice (page 12-19), the district needs to place a high priority on implementing a new integrated financial accounting system that will allow for a more timely determination of the availability of budgeted funds.*

5 Does the district have adequate controls to provide recorded accountability for cash resources?

No. Although the district has generally established adequate controls to provide recorded accountability for cash resources, control procedures related to bank reconciliations had not been followed as described below.

The District's Business Services Function Should Ensure That Bank Reconciliations Are Performed Timely

A critical accounting control over the accountability for cash resources is the performance of bank reconciliations on a timely basis by persons independent of the processes for recording cash transactions and the processes that have actual custody for the cash assets. If effectively used, this control provides additional assurance that cash transactions have been properly recorded by providing a mechanism for timely identifying errors in posting or errors made by the bank in posting the district's transactions. It also provides an important control in discouraging attempts to convert these assets for personal use. The district established a process in which an employee independent of the cash recording and cash custody process reconciled the district's bank accounts. District guidelines for the performance of these reconciliations required that they be performed within 30 days of receipt of the bank statements.

At the time of our review, bank reconciliations had not been completed for approximately six months because the employee performing these reconciliations had terminated employment and had not been replaced. Although other employees knew how to perform these reconciliations, the reconciliations had not been done because the workload demands of these employees prevented them from doing so. District personnel informed us that the district has recently assigned an employee to fill this position and bank reconciliations soon will be current. To the extent that the bank reconciliations are not being performed, a critical monitoring control is not being followed and the district's control over cash resources is rendered less effective.

As recommended under the Financial Management Goal relating to the Management Control Methods best practice (page 12-17), the district needs to develop a cross-training program that not only identifies critical financial accounting processes, but includes a plan that provides cross-trained staff the time necessary to perform these tasks.

Recommendations ──────────────────────────────

- *As recommended under the Financial Management Goal relating to the Management Control Methods best practice, the district needs to develop a cross-training program that not only identifies critical financial accounting processes, but includes a plan that provides cross-trained staff the time necessary to perform these tasks. The timely completion of bank reconciliations should be included in the cross-training plan as a critical financial accounting process.*
- *Action Plan 12–3 provides the steps needed to implement these recommendations.*

6 Does the district have an investment plan that includes investment objectives and performance criteria and specifies the types of financial products approved for investment?

Yes. The district has procedures in place to ensure that investments made are consistent with the district's investment policy and to determine the performance of investments made.

The district identifies funds that it considers excess to immediate cash needs. The district invests the majority of its available funds with the State Board of Administration's Local Government Surplus Funds Trust Fund investment pool created by s. 218.405, F.S. This investment pool operates under the investment guidelines established in s. 215.47, F.S. This fund offers highly liquid investments with competitive rates. The district also invests a small portion of its available funds in United States Treasury Securities and Obligations of United States Government Agencies and Instrumentalities, all of which are authorized investments pursuant to s. 236.24(2), F.S.

7 Has the district established controls for recording, collecting, adjusting, and reporting receivables?

Yes. Based on the limited volume and nature of receivables that the district has, its procedures are generally effective to provide for the proper reporting of receivables.

As a service provider that provides free public education to children, the district generally does not have activities that would require that it bill for and attempt collection from others. Other than its risk management activities, essentially all of the district's receivables relate to accounting entries to account for amounts due from other state and local governments.

8 Has the district established controls that provide accountability for employees' compensation and benefits pursuant to an approved compensation plan?

Yes. The district has established salary schedules that provide the basis for compensation of employees. Procedures exist to ensure that employees are properly compensated based on these salary schedules and that applicable benefit costs are determined and/or deducted and remitted to appropriate vendors. Other personnel-related best practices are evaluated in the Personnel Systems and Benefits chapter of this report (Chapter 5).

Section 236.02(4), F.S., and State Board of Education Rule 6A-1.052, F.A.C., require school districts to annually adopt salary schedules for employees that shall be the sole instrument used in determining employee compensation. The district annually adopts and includes in

the board minutes the approved salary schedules for school personnel. Additionally, the district has established procedures to ensure that amounts paid to employees are consistent with the amounts provided in the salary schedules. The district's payroll accounting program provides for the calculation of retirement plan contributions and procedures are in place to ensure that those contributions are timely remitted.

9 Does the district have procedures for analyzing, evaluating, monitoring, and reporting debt financing alternatives?

Yes. When considering debt financing, the district has established a process that ensures that various debt financing alternatives are evaluated, monitored, and analyzed.

The district does not enter into long-term debt financing on a frequent basis. When the district determines that it needs to raise funds to meet district needs, it uses its retained financial advisor who is experienced in the issuance and sale of debt instruments to assist in determining the best financing alternatives given the district's specific needs. Based on the advice of the financial advisor, the district determines the best financing alternatives given the district's specific needs.

10 Does the district adequately monitor and report grant activities?

Yes. The district has established practices to ensure monitoring of grant activities in accordance with grantor requirements. Reporting requirements for grants are determined and procedures are established to ensure that grantor-required reports are submitted within established deadlines.

The district receives significant resources from federal grantors. Most of these resources are derived from recurring grants that have been received by the district for many years. Accordingly, procedures to ensure compliance with these grants are well established. District personnel monitor changes in these grant requirements and, as appropriate, procedural changes are made to meet changing grant requirements. Because of the district's familiarity with federal grants, district personnel know to closely review any new federal grants so that procedures to comply with grant requirements can be established.

Are the Best Practices for Purchasing Being Observed?

Goal: The district has established a defined purchasing function with controls over requisitioning, authorizing, and receiving functions.

1 Does the district segregate purchasing responsibilities from the requisitioning, authorizing, and receiving functions?

> *Yes. The district has segregated purchasing responsibilities from requisitioning and receiving functions.*

Section 237.02(1)(a), F.S., provides that each school district shall develop and adopt policies establishing the plan to be followed in making purchases as may be prescribed by the state board. State Board of Education Rule 6A-1.012, F.A.C., prescribes purchasing requirements for school districts. Generally, school districts must establish purchasing policies and procedures that, at a minimum, meet these requirements. Through their developed policies and procedures, school districts may establish more comprehensive purchasing requirements.

The district has established a Business Services function that is responsible for all financial activities of the district. Within the Business Services function, the district has established a separate centralized Purchasing function. The purpose of the Purchasing Department is to ensure that board-adopted purchasing policies and procedures have been followed. District procedures provide for the decentralized requisitioning and receiving of goods and services and the Purchasing Department is physically and functionally separate from these activities.

2 Has the district established controls for authorizing purchase requisitions?

> *Yes. The district has established controls for authorizing purchase requisitions that generally provide for appropriate levels of review and approval before the requisition becomes a binding commitment of the district. However, more efficient purchasing methods could be established by requiring all users to use the available on-line requisitioning system and by using purchasing cards for small purchases.*

The district has established a comprehensive budgeting process that allocates budget to departmental and cost center (including school) levels. Department heads and principals in charge of activities at these levels are responsible for ensuring that required expenditures are kept within available budget. Consequently, authorization to request the expenditure of budgeted funds is also vested in these employees. As the need arises, the department head or principal submits to the Purchasing Department requisitions for the purchase of goods and services. Depending on the type and amount of the requisition, Purchasing Department employees process the requisitions, and if sufficient budget exists, a purchase order is generated.

The District Should Require that On-Line Requisitioning Capabilities Be Fully Utilized

The decentralized process of requisitioning results in there being authorized personnel at over 170 different cost centers and departments that can submit purchase requisitions.

The district recently implemented an on-line purchase requisitioning system which allows authorized users to electronically submit purchase requisitions to the Purchasing Department. Additionally, employees authorized to request purchases can still use the old process of filling out a purchase requisition form and manually delivering it to the Purchasing Department for processing into a purchase order. At the time of our review, 66 cost centers and departments still manually submitted purchase requisitions even though on-line requisitioning capability was available to them.

There are a number of disadvantages to allowing both methods of requisitioning to exist at the same time. Generally, the manual requisitioning process is much more labor-intensive, involving repetitive tasks (for example, recording purchase information once on the requisition form and then again in the Finance Department when it must be entered into the system) and delivery resources (courier service to transfer requisition forms between departments and cost centers). Additionally, contract information for many commodities is already included in the on-line requisitioning system. Purchase requisitions for items on contract can be expedited because contract information is already included in the system.

District personnel also informed us that some cost centers do not use the on-line requisitioning system because of limitations in that system. Generally these limitations relate to problems in the ability to charge the cost of the items requested to multiple costing areas. For example, construction costs may be charged to multiple revenue sources and projects. District personnel are experiencing problems in charging such costs to these different costing areas with the present on-line requisitioning system.

This system has the benefit of nearly immediate submission of purchase requisitions, thereby allowing Purchasing Department employees to process them sooner. Obviously, those cost centers that must charge costs to multiple cost areas cannot enjoy these benefits.

The district should work towards eliminating the limitations in the on-line requisitioning system. For those cost centers not affected by the limitations in the system, we recommend that the district allow the processing of on-line purchase requisitions only. This recommendation can be achieved by notifying personnel authorized to make purchase requisitions that manually-prepared purchase requisitions will no longer be accepted except in extenuating circumstances.

The District Should Use Purchase Cards for Small Dollar Purchases

During the 1997-98 fiscal year, the Purchasing Department processed approximately 32,000 purchase orders. Of these, approximately 40% were for purchases under $250. The total of these purchases under $250 represented approximately 2% of the total dollar amount of expenditures from budgeted funds. During the 1997-98 fiscal year, total expenditures charged for the operation of the Purchasing Department were approximately $435,000. This equates to approximately $13 in costs to process each purchase order.

There currently exist purchase (credit) card programs with major credit card vendors that permit organizations to allow employees to make purchases on behalf of the organization up to specified amounts. There is a considerable amount of flexibility in purchase options that these programs offer. Some of the more common features include maximum dollar amount for each purchase, maximum dollar amount of purchases made in specified periods (for example, $1,500 in a month), limiting purchases to specified types of vendors, and so on. Additionally, some plans can be tailored so that payment information is provided in machine-readable formats to significantly reduce data entry.

A properly developed purchase card program will significantly reduce resources applied to the processing of small purchases. It should be understood, however, that if the individual purchase maximum for each card is set at $250, it is unrealistic to expect that there would be a 40% reduction in the cost to operate the Purchasing Department. Despite the existence of the purchase cards, some purchases of less than $250 may be made using conventional methods. Additionally, such plans may require additional internal controls, and it is likely that efficiency gains in the actual processing of purchase orders will be offset to some degree by additional processing procedures to verify the validity of the purchases made. The actual amount of reduction is not estimable; however, the efficiency gains achieved by implementing a purchase card program should benefit the district. We recommend that the district consider using a purchase card program for purchases involving small dollar amounts. As the district becomes more familiar with the program, it could then choose the appropriate dollar limits to bring about greater efficiencies while still maintaining an optimum level of control.

Recommendations———————————————————————————

- *The district should require all applicable users authorized to make purchase requisitions to use the on-line requisitioning system and eliminate manual purchase requisitions except in extenuating circumstances.*
- *The district should use purchase cards for purchases involving small dollar amounts.*
- *These recommendations can be implemented with existing resources.*

3 Has the district established authorization controls to ensure that goods and services are acquired at prices that are fair, competitive, and reasonable and consistent with acceptable quality and performance?

Yes. The district has established authorization controls to ensure that goods and services are acquired at prices that are fair, competitive, and reasonable, and consistent with acceptable quality and performance.

In addition to the purchasing requirements set by state law and State Board of Education Rule, the district's policies and procedures have established additional purchasing requirements. For example, written quotations are required for purchases that exceed half of the amount of the established threshold in which competitive bids are required. Additionally, the district has procedures to consolidate and bid recurring purchases when feasible. To determine feasibility, the Purchasing Department conducts surveys to determine their upcoming equipment and supply needs. Detailed specifications are submitted to vendors for all goods and services and district personnel monitor the quality of items purchased and vendor performance on contracts.

4 Has the district established controls to ensure that goods are received and meet quality standards?

Yes. The district has established controls to ensure that goods are received and meet quality standards. However, we noted that greater efficiencies could be made in receipting procedures if the district's financial accounting system could be enhanced so that notification of receipt of goods and services can be made on-line.

The District's Financial Accounting System Should Include Features that Permit the On-Line Acknowledgement of the Receipt of Goods and Services

Under current procedures, individuals acknowledge the receipt of goods and services by manually completing receiving report forms designed for that purpose. At remote user sites, these receiving reports are routed to the accounting office by interoffice mail and courier services. Once they are received in accounting, data is input from the receiving report which indicates on the system that the goods and services noted on the receiving reports have been received.

The district's current on-line requisitioning system includes provisions for on-line acknowledgement of receipt of goods and services. However, this feature is not being used because the on-line requisition system currently does not interface with the accounting system. Data input on this system must be manually input to update the accounting system. Since the receipt of goods and services also has to be input into the accounting system, district personnel have elected to use manually-prepared receiving reports until the system is upgraded or replaced.

The use of an on-line receipting system would reduce labor-intensive tasks and permit greater time efficiencies in the processing of disbursements. District personnel are currently in the process of evaluating vendor-developed accounting software for purchase. We recommend that the district ensure that the new accounting system that it purchases include integrated on-line receipting features.

Recommendations ——————————————————————————

- *District personnel are currently in the process of evaluating vendor-developed accounting software for purchase. We recommend that the district ensure that the new accounting system that it purchases include integrated on-line receipting features.*

5 Has the district established controls for processing invoices to ensure that quantities, prices, and terms coincide with purchase orders and receiving reports?

Yes. The district has established controls for processing invoices to ensure that quantities, prices, and terms coincide with purchase orders and receiving reports.

Within the Business Services function is an accounts payable section that is responsible for processing bills and invoices for payment. The Business Services function has established procedures that provide for invoices to be reviewed and approved for completeness of supporting documents and required clerical checking by accounts payable employees before disbursements are made. If discrepancies exist between the invoices received and the supporting documentation maintained by the district, procedures are in place to ensure timely resolution of these discrepancies. In addition, procedures are in place that ensure accurate account distribution of all entries resulting from invoice processing.

6 Has the district established controls to ensure that disbursements are properly authorized, documented, and recorded?

Yes. The district has established controls to ensure disbursements are properly authorized, documented, and recorded. However, we noted that enhancements should be made in the controls over the safeguarding of blank checks and signature plates and stamps.

District Business Services Personnel Should Improve Controls Over Access to Blank Checks and Signature Plates and Stamps

Most vendor and payroll checks are computer generated and are printed on laser printers using specialized software. In addition to the blank checks stock kept for these checks, district personnel keep a small supply of blank checks so that manual checks can be prepared when necessary. Our review of the controls over both bulk and manually-prepared blank check stocks disclosed the two control weaknesses noted below.

- Blank payroll and deduction checks were kept in a file cabinet in the Payroll Department. The same employee who had access to the blank checks kept in the file cabinet also had keys to operate the manual check signing machine located in the Payroll Department. Since the check signing machine was lockable, the signature plates remained in the machine.

- Blank checks for several of the district's accounts were kept in a locked storage vault in the Accounting Department. Similarly, an employee who had the keys to the storage vault also had custody of rubber stamps that bear the names of both the superintendent and the board chairman, the two signatures required to negotiate district checks.

These control weaknesses increase the risk that district funds could be used for unauthorized purposes. We recommend that key assignments and blank check access privileges be reviewed and responsibilities separated so that the same person does not have the ability to both obtain blank checks and also sign them.

Recommendations ————————————————————————

- *We recommend that district personnel review employee access to blank check and signature plates and stamps and ensure that employees designated as custodian of signature plates and stamps do not also have access to the district's supply of blank checks.*
- *This recommendation can be implemented with existing resources.*

7 Has the district established controls to ensure that payables/encumbrances (obligations) are properly authorized, documented, and recorded?

Yes. The district has established controls to ensure that payables/encumbrances are properly authorized, documented, and recorded.

The district's accounting system includes an encumbrance accounting system. As approved purchase orders are posted, encumbrances are recorded against the appropriate district accounts. Additionally, department and cost center heads are periodically provided with outstanding encumbrance detail to allow for appropriate follow-up if considered necessary.

Are the Best Practices for Information Services Being Observed? ————————————

Goal: The district maintains an information system to provide quality data.

Computer processing is used in significant accounting and administrative applications within the district. The district has an electronic data processing function that is subdivided into two functional areas, both of which report to the assistant superintendent for Business Services. These two areas are Data Processing and Information Services. The staff within Data Processing are organized into four functions—Application Programming; Computer Operations; Systems Network Programming and Services; and Electronic Equipment Repair Service (EERS), including Wide Area Network (WAN) installation services and support, hardware repair, and wiring. These functions support not only the district office, but also the county school sites. The Information Services Department is

responsible for end-user support, including training, help desk, and security administration services. The Information Services Department works with Data Processing to extract management report data in accordance with Florida Department of Education requirements and to provide security administration services.

The Data Processing Department is independent from the accounting and operating departments for which it processes data. User department personnel are responsible for entering and editing their own production data. The Data Processing Department has also segregated the duties of systems development, technical support, and operations.

1 Does the district segregate duties to prevent unauthorized transactions by appropriately limiting access to data systems processes and functions?

No. The district has not adequately segregated duties to prevent unauthorized transactions by appropriately limiting access to data systems processes and functions.

Data Processing Department Employees Have Incompatible Responsibilities and Inappropriate Access to Data Systems

Access to programs and data is generally controlled with software that limits programmer access to production programs, live data files, and job control language. Within the electronic data processing environment, effective access controls must be established so that employees whose duties include systems design and development activities and programming responsibilities do not also have the ability to move modified programs into the production environment. When these incompatible duties are not separated, there is an increased risk that unauthorized modifications may be made to programs without being detected in a timely manner. Our review disclosed that the director of Data Processing, the Application Programming manager, and the Student Information Systems Programming project leader had the capability to create and modify application programs, as well as move those programs into the production environment.

Although the Data Processing Department maintains an on-line log file which provides for a record before and after a program change is made, no documented reviews of this file was made by an independent person. Without a documented review of program changes by an independent person, and in light of the incompatible functions described above, there is an increased risk that unauthorized modifications may be made to programs without being detected in a timely manner. We recommend that district personnel independent of the programming function perform a routine documented review of the on-line log file, with any exceptions being investigated and resolved. These procedures, if effectively implemented, would provide a compensating control for the ability of district employees to perform the incompatible functions described above.

The District's Security Awareness Processes Should Be Enhanced

The district has extensive electronic information resources that are accessible by over 2,200 users throughout the district, many at remote user sites. In this environment, it is

essential that employees be made aware of the importance of security over computer access so as to discourage the misuse of information assets. The district has implemented security measures through the assignment of passwords. The importance of security is mentioned during user systems training performed by Information Services. Additionally, the district has certain personnel policies in place for the EDP function that provide some measure of security enhancement. These policies include: drug testing; fingerprinting; encouraging, but not mandating, vacation time; cross-training of electronic data processing staff; and prior employer reference checks. In addition to these processes, internal controls would be enhanced if employees were also required to sign security statements acknowledging and accepting the responsibility of maintaining the confidentiality and integrity of the system and the data entrusted to them. We recommend that district management require that electronic data processing users sign security statements acknowledging and accepting the responsibility of maintaining the confidentiality and integrity of the systems and data entrusted to them.

Recommendations ─────────────────────────────

- *We recommend that district personnel independent of the programming function perform a routine documented review of the on-line log file, which documents program changes, and investigate any instances in which there are undocumented or unsupported program changes.*

- *We recommend that the district institute a formal security awareness policy whereby the user agrees in writing to preserve the integrity, confidentiality, and availability of the data entrusted to him/her. In assuming this responsibility, each employee should acknowledge his/her understanding of the value of the information; the authorization, removal, and review of access rights and the use and change of passwords associated with those access rights; the consequences of compromising the integrity and security of data by sharing passwords and/or leaving workstations unattended while signed on; and the district's policies regarding software purchase, installation, and licensing.*

- *Action Plan 12–5 provides the steps needed to implement these recommendations.*

Action Plan 12–5

Segregation of Duties

Recommendation 1	
Strategy	Identify those employees who can make changes to production programs and can also move those changes into production.
Action Needed	Step 1: Reassign duties as necessary so that the same employees who make program changes can not also move these changes into production.
	Step 2: For those employees for which it is not practical to reassign these incompatible duties, personnel independent of the programming function should be assigned the responsibility of reviewing the on-line log files of programming changes, with any exceptions being investigated and resolved.
	Step 3: Assign personnel independent of the programming function,

	for example, the new database administrator, the responsibility of moving new and modified programs and job control language into the production environment.
Who Is Responsible	Assistant superintendent for Business Services
Time Frame	June 2000
How to Evaluate	Review responsibility reassignments. Review evidence of on-line log file review and follow-up efforts. Review access rules to production programs and job control language.
Financial Impact	This can be implemented with existing resources.
Recommendation 2	
Strategy	Establish and implement a formal Security Awareness program.
Action Needed	Development of procedures and forms to be signed by all employees given access rights to electronic data processing systems.
Who Is Responsible	Director of Data Processing
Time Frame	December 1999
How to Evaluate	Review established procedures and signed security awareness forms.
Financial Impact	This can be implemented with existing resources.

2 Do the district's user controls ensure authorization prior to processing transactions and ensure that all output represents authorized and valid transactions?

No. While the district has defined the user departments as the functional owners of its data and made them responsible for transaction authorization prior to input and for determining the validity of the resulting output, security administration and access control procedures should be improved.

The district uses a tiered approach to securing its application systems and data files and restricting access to authorized employees. Network users must be assigned network user IDs and passwords. Additional security is required for users of mainframe (administrative system) applications. Users of mainframe applications must be assigned a valid user ID and password in addition to the network user ID and password. Users who also require access to the menus and transaction screens of administrative applications accessible through the Total Educational Resources Management System (TERMS) main menu are required to have a TERMS password.

Administrative System Security Should Be Improved

Certain administrative system security features are not used to adequately restrict terminal access and data entry to authorized employees. Our review disclosed the following deficiencies:

- The system prompts the user to change his/her administrative system password 60 days following the previous change. However, the system is not set to maintain a password history. As a result, the user is not prevented from immediately reusing the same password. The security software does not compare the new password entered by a user against previous passwords used by that user. Absent a password history check, the same password may be used continuously even though the system issues prompts to change it.

- The system does not automatically revoke a user ID that has been unused for a lengthy period. If the user ID is not timely revoked by a security administrator, an unauthorized person could change the related password and sign on with the user ID after the original owner of the user ID had terminated.

- The system is not set to respond to terminal inactivity with an automatic transaction time-out and user sign-off. The inability of a terminal session to time out when a terminal is not in use or unattended may leave data vulnerable to compromise, the nature and extent of which may be untimely discovered and remedied.

- A security reporting event mechanism is not in place for monitoring invalid access attempts and other security violations (security events). When security events are not monitored, there is an increased risk that unauthorized access attempts or instances of data file manipulation may not be investigated.

Our review disclosed that the district's security system provides for controls that would correct some of the above deficiencies but they are not being used. In an environment such as that described above, the district is exposed to a higher than necessary risk that the integrity of established security measures could be compromised. To further enhance security, we recommend that the district implement controls to correct the deficiencies described above.

We also noted that written authorizations for access to the administrative systems were not kept on file until 1998. While files are currently being created for those users for whom access authorization requests are received, there are still users for whom no written access authorization exists. We recommend that the security administrators continue the process they have begun of determining whether long-time users are valid. We further recommend that they obtain authorizations from the appropriate principals and supervisors for all current users specifying the systems, screens, and cost centers to which they should have access.

Recommendations ———————————————————————

- *We recommend that the administration systems security features be changed to include:*

    verification that passwords are actually changed every 60 days;

    a setting that provides for a time-out following a defined interval (of 30 minutes or less) of terminal inactivity;

    the automatic revocation of any user ID that has not been used for four months; and

    a security event reporting mechanism and implement procedures for review of security-related activities.

- *We recommend that the district obtain written access authorizations for all current users.*
- *Action Plan 12–6 provides the steps needed to implement these recommendations*

Action Plan 12–6

User Controls

Recommendation 1	
Strategy	Enhance administrative system security.
Action Needed	Identify appropriate parameters available in the administrative systems security software and set them as follows:
	• verification via comparison with a password history of at least the three previous passwords that passwords are actually changed every 60 days;
	• time-out following a defined interval (of 30 minutes or less) of terminal inactivity;
	• automatic revocation of any user ID that has not been used for four months;
	• security event reporting with procedures implemented to review security-related activities; and
	• alternatively, district EDP personnel can develop software programs for those recommended security features that the district's security software cannot provide, or they can consider the purchase of software for recommended security features that the district's present security software does not offer.
Who Is Responsible	Director of Data Processing
Time Frame	June 2000
How to Evaluate	View the security parameter settings and security-related reports.
Financial Impact	District personnel should be able to implement this recommendation with existing resources. If the district should need to purchase additional software, the cost would depend on the software purchased and should be minimal.
Recommendation 2	
Strategy	Ensure that access rights are granted to active users only and that the access rights are appropriate to their job duties.
Action Needed	Require supervisors and principals to provide written authorizations for the level of access appropriate to all administrative users under their supervision and file these authorizations in an organized manner.
Who Is Responsible	Director of Information Services and the security administrators
Time Frame	June 2000
How to Evaluate	For selected user IDs, review the authorizations on file. Compare the authorizations to the access rights granted to these users in the security software.
Financial Impact	This can be implemented with existing resources.

3 Has the district established appropriate data controls between the user and the data system department?

Yes. The district has established appropriate data controls between the user and the data system department.

The Data Processing Department provides the users with documentation including detailed instructions for sign-on and maneuvering within each of the screens comprising an application. The user documentation may also include explanations and procedures regarding the use of standard reports produced by the system.

Within the application systems, programmed controls are present to provide the users and, in turn, the district a level of assurance that transactions are input appropriately and accurately. Such features include restriction of input to highlighted fields, invalid field length alert, and rejection of an incorrect entry based on a table of options defined for the specific field.

Computer Operations processes jobs, produces reports, contacts the appropriate user department, and distributes the output to the department mailboxes for pick-up and review. The appropriate user departments have the responsibility of correcting any errors reflected in the reports.

4 Has the district established general controls designed to provide physical security over terminals, limit access to data programs and data files, and control risk in systems development and maintenance?

No. The district has established general controls designed to provide physical security over terminals, limit access to data programs and data files, and to control risk in systems development and maintenance. However, enhancements to the district's general controls could be made by providing for a formal electronic data processing steering committee, establishing and maintaining a policies and procedures manual, and enhancing the disaster recovery plan and year 2000 plan.

General controls, among other matters, address physical security and environmental control procedures and access control procedures.

Access controls provide safeguards to assist in the prevention or detection of deliberate or accidental errors. Errors may be caused by improper use or manipulation of data files, unauthorized or incorrect use of computer programs, and/or improper use of computer resources. Effective access controls limit access to systems documentation, data files, programs, and computer hardware to authorized persons who require such access in the performance of their duties.

Physical security and environmental controls improve custody over assets, prevent accidental or intentional destruction of data, and provide for both replacement of records that may be destroyed and the continuity of operations following major hardware or

software failure. Physical security control procedures are intended to safeguard computer equipment and facilities against unauthorized physical access. Environmental control procedures are intended to protect computer equipment from adverse environmental conditions. These controls, together with control procedures for monitoring equipment and control procedures for recovery from interruptions in data processing services, are designed to minimize the likelihood and the duration of losses in information processing capability.

General controls also relate to planning processes for the acquisition and maintenance of information technology resources.

The District Should Establish a Formal Technology Steering Committee

The district has established several committees that perform in an advisory capacity to the electronic data processing function. A Standards Committee has been established for the purpose of prescribing standards for the purchase of hardware and software components throughout the district. A Quality Improvement Committee for Technology composed primarily of representatives from the schools and business, with limited representation from district administration, has been formed to determine the hardware and software needs of the schools. A Year 2000 Committee has been established to address issues surrounding the millennium change. However, the district does not have an overall Technology Steering Committee responsible for approving data processing projects and establishing priorities.

Although various committees have been established and regular meetings are scheduled within the Data Processing Department, there does not exist a definitive mechanism for integrating the goals and objectives of upper administrative and user management into the establishment of data processing projects and priorities. The director of Data Processing prepares an annual budget request with justifications that must be approved by the superintendent. The Data Processing Department also prepared a five-year plan for hardware and software purchases (1997-98 through 2001-02). However, the budget and five-year plan do not relate technology acquisitions to the goals and objectives of the district programs and functions they will support. When the district created its last Strategic Planning document in 1996, a small portion of it was devoted to technology planning. An evaluation two years later revealed that much of that portion had not been followed due to lack of resources applied. The district is currently developing another Strategic Planning document. The technology planning section of such a document should be discussed and approved by a Technology Steering Committee that reports directly to the superintendent and includes the assistant superintendents and a senior director of Information Systems and Technology, as discussed in the additional finding section below. This committee would receive and consider input from the other committees mentioned above and would also develop the three-year technology plan recommended in Chapter 3 (Action Plan 3-7). We recommend that a Technology Steering Committee be formed in order to guide and prioritize information technology activities in a manner consistent with the district's goals and objectives.

A Policies and Procedures Manual Should Be Developed for the Electronic Data Processing Function

An electronic data processing policies and procedures manual should outline the broad procedures for designing systems, requesting and modifying programs, testing and approving new and modified programs, implementing programs into production, and documenting applications and the maintenance of such applications. It should also cover

the processes associated with access control and security administration, computer operations, and physical security of the data center.

Our review disclosed that the Data Processing Department had established processes and procedures for the daily activities of the department. For example, procedures for application maintenance require user submission of a Request for Computer Programmer Service, logging of the request and entry in the project management system, approval by the director of Data Processing, forwarding to the applicable system's project leader, assignment of the request to a programmer/analyst, program modification, indication within the program of the date and type of changes made, programmer testing of the program, user review of testing, movement of the program to production, update of the status of the request in the project management system, and filing of the request. These procedures appear to be effective for this process; however, procedures for this and other processes have not been documented. Without a properly designed and prepared policies and procedures manual, the risk is increased that the design, modification, and/or implementation of systems will not be in conformance with management's policies and standards, may not operate in accordance with original specifications, or may be implemented prior to being adequately tested. Other benefits of an up-to-date policies and procedures manual are that new employees may become productive in a shorter period of time and that all employees have standards against which their performance can be evaluated. Additionally, for applications development and maintenance processes, additional policies and procedures should be adopted and documented for accounting for time spent on the work orders, user involvement in design, development, and testing, retention of testing evidence, and formal user acceptance of completed work.

Documentation standards should also be created. To promote sound internal control, we recommend that management develop and distribute a cohesive body of formal policies and procedures addressing the areas of systems development and maintenance, including analysis, design, programming, testing, and implementation; access to system resources, libraries, and data for the Data Processing staff; security administration; computer operations; and physical security of the data center.

The District's Disaster Recovery Plan Should Be Enhanced

In 1994, the district developed a Disaster Recovery Plan patterned after a vendor-supplied comprehensive business recovery plan. The plan is designed to create a state of readiness that will provide an immediate response to a disaster affecting the district's Data Center. However, the plan has never been updated.

While the plan states that no clearly defined alternate processing strategy is in place, the district executed a contract on April 1, 1995, with the vendor to use the vendor's facility as a hot site for continuing data processing operations. The plan is tested twice a year at the vendor's site. Effective May 1, 1998, a new schedule was implemented for the purpose of adding recovery capability for the district's mainframe configuration. The director of Data Processing serves as the Disaster Recovery coordinator. During the October 1998 and February 1999 testing of the plan, the district's system, including all network communications, was in operation within six hours of disaster declaration.

Although general recovery procedures at an alternate processing site are described in the plan, the procedures are not tailored for the contracted site. The recovery teams identified do not reflect current Data Processing personnel. The hardware equipment listing does not reflect the current components in use at the district's data center, nor is the off-site storage checklist current. Additionally, updates to the application menu screens shown in the plan will be necessary to correctly reflect those systems that are in process of modification.

Absent a detailed and current plan for recovery, there is an increased risk that the district will be unable to continue critical operations by timely managing the availability of information systems data and resources in the event of a processing disruption, should key personnel with personal knowledge of procedures be unavailable. We recommend that the district review and update its Disaster Recovery Plan to address changes in critical application profiles and priority processing in light of new application development, key personnel and vendors who would assist in recovery, minimum computer configuration, associated communication systems, systems and application software, and supplies required for continued processing.

The District's Year 2000 Plan Should Be Enhanced to Substantiate the District's Assurance that All Year 2000 Concerns Have Been Addressed

Unless corrected before January 1, 2000, many computer applications will either stop working or, worse, begin producing erroneous results on or before that day. This is a very real and serious issue of global proportions, which has an absolute deadline. The year 2000 problem is a two-digit-year representation problem, which was created in the 1960s and 1970s when computer applications were first being developed. Since computer resources were costly and data entry was labor intensive, to reduce costs, it became a common practice to represent dates in some form of a six-digit format, usually MMDDYY, which did not include a century indicator. However, when the year 2000 arrives, unless applications are modified to recognize and interpret the correct century, the year 2000 will be misinterpreted as the year 1900. The significance of misinterpretation of dates can be illustrated by using the logic in calculating a person's age, which is a common calculation done in many applications to determine eligibility for personal benefits. This calculation is usually performed by subtracting the year of the date of birth of a person from the current year. The logic works fine for dates in the same century, but using the same logic in the year 2000 to calculate the age of a person born in 1935 would yield an answer of either "-35" or possibly "35" instead of the correct age of "65." Today, the six-digit-date representation can be found not only in application program code but also in all levels of computer hardware, operating system software, vendor supplied software, computer chips, data files and databases, and on all type of computing platforms including client/server, networks, and personal computers.

In response to our inquiry regarding the district's plans for becoming year 2000 compliant, district personnel indicated that a Year 2000 Plan had been developed. District personnel also indicated that, as of November 1998, the project was estimated to be approximately 75% complete. Our review of the district's plan disclosed that the plan consisted solely of the estimated completion dates for the system's various components. The estimated completion dates, according to the plan, ranged from July 1998 to July 1999. We again recommend that district management take appropriate action to develop and document a comprehensive Year 2000 Plan. Such a comprehensive plan should include:

- Establishing a districtwide team, including representatives from the highest executive and user level, to address the district's preparation for the year 2000. On October 5, 1998, the superintendent of schools requested that an ad hoc committee be formed with the charge of investigating the extent to which the district is already year 2000 compliant and of making any needed recommendations to be certain that the district is appropriately prepared for the next century. The Year 2000 Committee has been formed with the Data Processing director as its chairman.

- Establishing the resolution of the year 2000 problem as a top priority throughout the district.

- Identifying and prioritizing all components of the district's computing platforms and other equipment that will require changes to become year 2000 compliant. The Year 2000 Committee is charged with the responsibility of evaluating the district's computing platforms. A representative from the Facilities Department has been assigned the responsibility of determining the year 2000 compliance status of equipment containing embedded microprocessor chips. Systems Network staff are assessing the hardware and software in use in the Food Service, Media Services, Administration, and Instructional areas. After the compliance assessment, the committee will determine the course of action based on the pricing and the estimated man-hours for repair or replacement, along with appropriate timelines.

- Analyzing the magnitude of the task of making year 2000 changes for in-house developed applications to assist in scheduling staff and/or monetary resources. In the event the district does not have available staff to accomplish the required changes, the district should consider provisions for outsourcing or the use of consultant services.

- Establishing a detailed action plan for any in-house developed applications that will be made year 2000 compliant through the modification of existing application code.

- Contacting external software vendors to assess the impact of their plans for year 2000 compliance with regard to any vendor supplied/acquired software upon which the district is reliant.

- Establishing a purchasing policy such that year 2000 compliance conditions will be placed on any vendor hardware/software contacts executed between now and the year 2000.

- Defining critical completion dates for all year 2000 activities with accompanying procedures for managing and tracking the progress of the project.

Inasmuch as the year 2000 problem has a clearly defined and fast approaching deadline that requires timely resolution, district management should ensure that the above-mentioned elements are appropriately considered in the district's Year 2000 Plan and that management reporting guidelines are in place to provide for monitoring the district's progress in implementing its Year 2000 Plan.

Additional Finding Related to General Controls

The District Should Establish and Fill a Senior Director of Information Systems and Technology Position

The district's technology-related functions are under divided management—a director of Data Processing, a director of Information Services, and a director of School Technology Services. The first two report to the assistant superintendent for Business Services, the last one to the assistant superintendent for Instructional Services. This management structure has resulted in conflict and difficulty in reaching decisions on courses of action.

The three functions should report to one person who is knowledgeable in technology matters. In many organizations a person performing similar responsibilities has the title of chief information officer and reports directly to the chief executive, in this case, the superintendent. To be consistent with the district's position titles and management structures, this position could be called senior director of Information Systems and Technology.

A senior director of Information Systems and Technology would benefit the district by accumulating data on user needs, developing strategies and operational plans for meeting those needs, and overseeing their execution upon approval by a Technology Steering Committee. He or she would apprise the committee of progress in accomplishing the strategies and plans and bring currently developing needs to its attention. Such needs would include the participation of user departments in system purchase and development projects.

The *1997-98 American Almanac of Jobs and Salaries* indicates that the national average annual salary for a person performing these responsibilities is approximately $80,000 plus related benefits. Obviously this salary may need to be adjusted to be consistent with salary levels in the Polk County market and in consideration of fringe benefits offered by the district. The increased efficiencies that will result from placing the right individual in such a position will bring additional economies to the district. For example, the lack of direction to the EDP function has caused delays in implementing more efficient administrative systems and apparently duplicative expenditures in three related areas; the in-house development of new administrative software, the modification of existing software to meet year 2000 compliance requirements, and the evaluation of and preparation for purchased replacement software. To the extent that economies are realized, the net cost to the district for this position may be minimal.

Recommendations

- *The following enhancements could be made that would improve operating effectiveness.*

  We recommend that a high-level Technology Steering Committee be formed to prioritize and guide the activities of the information technology function in a manner consistent with the district's goals and objectives and to develop a three-year technology plan. The technology plan should state the district's intended direction for the use of information technology resources and establish technology goals and objectives that are integrated with the mission, goals, and objectives of the district.

  We recommend that management develop and distribute a cohesive body of formal policies, standards, and procedures addressing the areas of systems development and maintenance; access to system resources, libraries, and data for the Data Processing staff; operations; and physical security of the data center.

  We recommend that the district review and update its Disaster Recovery Plan to reflect changes in critical application profiles and priority processing in light of new application development, key personnel and vendors who would assist in recovery, minimum computer configuration, associated communication systems, systems and application software, and supplies required for continued processing.

Inasmuch as the year 2000 problem has a clearly defined and fast approaching deadline that requires timely resolution, we recommend that the district expeditiously complete its information technology year 2000 compliance assessment and develop a comprehensive Year 2000 Plan to ensure the advancement of the district's mission and objectives after January 1, 2000.

We recommend that the district establish and fill a position for senior director of Information Systems and Technology to oversee the Data Processing, Information Services, and School Technology Services functions to minimize conflict and provide improved guidance to the district's technology-related activities.

- *Action Plan 12–7 provides the steps needed to implement these recommendations.*

Action Plan 12–7

General Controls

Recommendation 1	
Strategy	Integrate the goals and objectives of upper administrative and user management into the establishment of technology strategies and plans.
Action Needed	Step 1: Form a Technology Steering Committee that includes the assistant superintendents and appropriate technology management staff.
	Step 2: Develop and approve three-year technology plans as recommended in Chapter 3.
Who Is Responsible	Superintendent
Time Frame	June 2001
How to Evaluate	Review the district's organizational structure, technology plan, operational plan, and Technology Steering Committee meeting minutes.
Financial Impact	This can be accomplished with existing resources.
Recommendation 2	
Strategy	Provide formal policies, standards, and procedures for the electronic data processing function.
Action Needed	Create a policies and procedures manual.
Who Is Responsible	Senior director of Information Systems and Technology
Time Frame	December 1999
How to Evaluate	Review the policies, standards, and procedures manual.
Financial Impact	This can be accomplished with existing resources.
Recommendation 3	
Strategy	Maintain a current Disaster Recovery Plan.
Action Needed	Update the existing plan.
Who Is	Director of Data Processing

Responsible	
Time Frame	June 1999
How to Evaluate	Review the Disaster Recovery Plan.
Financial Impact	This can be accomplished with existing resources.

Recommendation 4	
Strategy	Maintain reliable data processing past January 1, 2000.
Action Needed	Step 1: Complete the year 2000 compliance assessment.
	Step 2: Create a Year 2000 Plan for reaching compliance.
	Step 3: Implement the Plan.
Who Is Responsible	Technology Steering Committee and the senior director of Information Systems and Technology
Time Frame	December 1999
How to Evaluate	Review the Year 2000 Plan and progress reports to the committee against the Plan.
Financial Impact	This can be accomplished with existing resources.