School District of
OSCEOLA COUNTY
FLORIDA

School District of Osceola County, Florida

Risk Assessment Update to Develop
Proposed Fiscal Year 2021-22 Internal Audit Plan

September 30, 2021

RSM

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TRANSMITTAL LETTER

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September 30, 2021

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

Pursuant to our Statement of Work dated June 2, 2021, we hereby submit the risk assessment update for the development of the proposed internal audit plan for the School District of Osceola County, Florida ("District") for fiscal year 2021-22 ("FY22").

We updated our Risk Assessment as previously reported September 9, 2020 by applying a broad-based, business view of risk, linked to the annual budget, financial reports, and operations. We reviewed recent board meeting minutes and various media sources to understand the District's current environment. We conducted interviews with the five (5) District School Board Members, Superintendent, General Counsel, and Chief Business and Finance Officer, to gain an understanding of "What keeps them up at night?" and narrow in on their objectives and identified risks. For the purpose of this risk assessment update, 'risk' focuses on financial, strategic, performance/operational, and compliance risk, as well as the general effect of public perception with regard to District-wide activities and initiatives. During the interviews, we discussed and identified areas of high risk, opportunities and vulnerabilities. As a result, we are presenting the Proposed Top 10 High Risk Areas for Internal Audit ("Proposed Top 10"). These are on-line real-time and are labeled as proposed because it is a living document. As factors change and situations arise, the Proposed Top 10 can and will change.

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

Respectfully Submitted,

RSM US LLP

INTERNAL AUDITORS

RISK ASSESSMENT UPDATE

Updating the Proposed Top 10 from the risk assessment update will facilitate that resources are focused on areas of most immediate concern and risk to the District. Our risk assessment update considers 'inherent risk', which is the risk of a function in an environment void of controls. As noted above, functions with inherently high risk may be included in the Proposed Top 10; although their inclusion does not mean 'issues' or concerns currently exist, but rather that the high risk nature of the function is such that a higher potential exists for issues to develop. We have presented the Proposed Top 10, which is on-line real-time and are labeled as proposed because it is a living document.

As factors change and situations arise, the Proposed Top 10 can and will change. The chart below illustrates the exposure environment for positioning the District's risks and evaluating the desired response based upon the likelihood of occurrence and priority of risk concerns. A proposed internal audit plan generally focuses on areas or functions that are high exposure and high priority (the upper right quadrant).
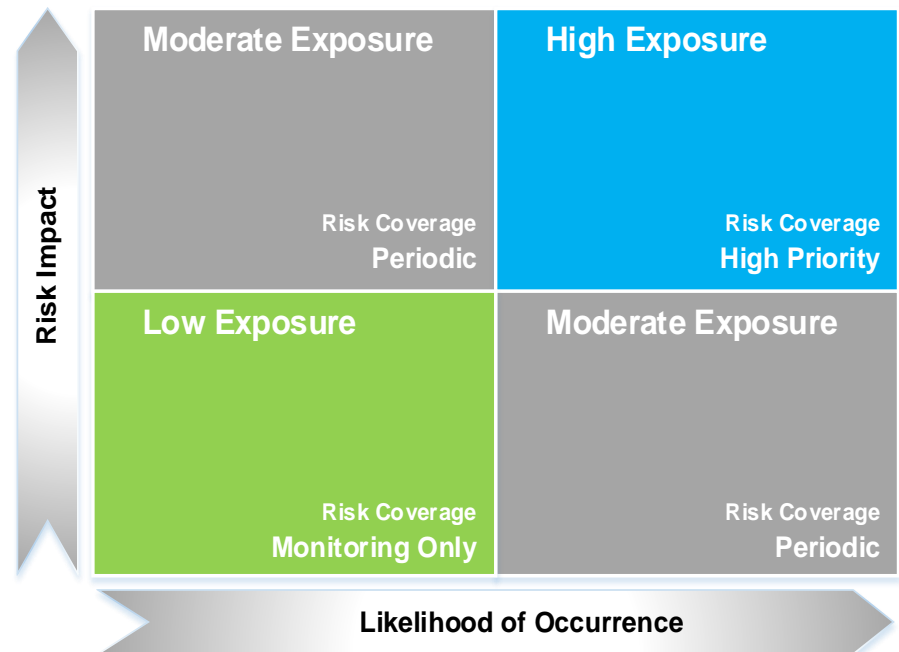
Inherent Risk

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

Residual Risk

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

Our risk assessment update was conducted utilizing a broad-based business view of risk. We conducted interviews with the current School Board members to gain an understanding of their perspective of risk at the District, focusing on their objectives in order to identify potential risks. We also conducted interviews with the General Counsel, Superintendent and Chief Business and Finance Officer to identify risks, vulnerabilities and potential opportunities. We reviewed the budget briefing for fiscal year ending June 30, 2021, as well as media coverage and recent School Board meeting agendas, minutes, and other available documentation.

Risk Impact ↑	Moderate Exposure	High Exposure
	Risk Coverage **Periodic**	Risk Coverage **High Priority**
	Low Exposure	**Moderate Exposure**
	Risk Coverage **Monitoring Only**	Risk Coverage **Periodic**

Likelihood of Occurrence →

RISK ASSESSMENT UPDATE - CONTINUED

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

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

The internal audit function should include a balance of all types of internal audits and reviews. As such, an internal audit plan should include: Overall Audit Functions, Cycle Audits, District-wide Audits, Individual Function Audits, and may include Special Requests. We have included the Proposed Top 10 from which the School Board can prioritize a potential internal audit plan for FY22. This includes an overview for each process as well as a summary of the internal audit strategy for each audit, subject to modification during the initial planning stages and scoping of each audit and subsequent discussions with management.

PROPOSED TOP 10 HIGH RISK AREAS FOR INTERNAL AUDIT

The objective of the risk assessment update is primarily for the development of a proposed internal audit plan for FY22. The Proposed Top 10 will assist the District in creating an internal audit plan with sufficient and continuous internal audit coverage of those areas judged as having a relatively high-risk profile or that otherwise require internal audit attention for various reasons.

1. Human Resources – Onboarding, Change Management, and Outboarding – BOARD APPROVED

On August 3, 2021, the Board approved this audit as part of our FY22 Audit Plan. The objective of this internal audit will be to evaluate the design and control structure, including adherence to policies and procedures for the on-boarding, employment changes, and out-boarding processes. This will include an evaluation of the following areas: position advertising, completion of any required preemployment consent forms, performance of necessary background check activities, candidate vetting and selection processes, job qualifications, management of job description changes, salary adjustments, board approvals, exit processes, record keeping, nepotism and certain specific concerns provided to us regarding hiring or promoting decisions.

The Human Resources department provides key employee management services to approxmatly 8,360 District employees. Employee hiring / onboarding refers to the procedures taken when an individual is hired to a position at the District. Performance of these processes requires significant collaboration between HR and every other department in the District. Bringing the process together within an acceptable time period and in compliance with rules, laws and District policies is inherently challenging, since phases of the process are owned by multiple parties. These factors make Human Resources an inherently high-risk function, from a financial, operational, compliance, and public perception perspective.

Inherent risks may include: Collaboration and information sharing with Departments is ineffective; Outdated, inadequate or undocumented policies and procedures surrounding job posting, descriptions, training or offers of employment; Candidate vetting and approvals are not occurring before active employment; Employees hired are not adequately screened and qualified; offboarding procedures may be ineffective for identifying opportunities for improvement; and non-compliance with applicable policies, laws and regulations.

Internal Audit Strategy

The main objective of an audit of the human resources processes would include an assessment of the following areas: change management and the onboarding and outboarding of District employees. Aspects of the assessment would include, but not be limited to Board policies and procedures concerning job descriptions review and updates, compensation adjustments, cross-training, and succession planning.

2. Information Technology – Penetration Testing

Cybersecurity is an important priority within the public sector. Threats are constantly changing and evolving, thus this area is inherently high-risk. Organizations like the District are under constant attack from external attackers. The prospect of finding that an attacker has penetrated the District's defenses and is able to steal data from the District's network keeps most leaders up at night. We last performed penetration testing in September 2020, and we recommend the District perform this testing annually.

Internal Audit Strategy

As threats to data and systems have evolved, so have the requirements for safeguarding user, student, and District information. Likewise, it is important to measure the security of technology assets to understand the ability to defend against threats. Typically a penetration test should be performed at least annually in order to stay abreast of new and evolving attacks.

PROPOSED TOP 10 HIGH RISK AREAS FOR INTERNAL AUDIT - CONTINUED

3. Purchasing & Warehouse – Purchasing Operations

There are varying aspects of the Purchasing function (competitive bid, quotes, sole-source, piggy-back, etc.) that are guided by Florida Statute, Chapter 287 Procurement of Personal Property and Services. The process includes the proper request and authorization of a purchase, scope development, selection process including the make-up of the committee, execution of contracts including legal requirements, and overall recordkeeping. Adequately documented policies and procedures, a robust control environment including appropriate segregation of duties, and transparent selection of vendors are key to the overall success of the function. The Purchasing Department often acts as a "gatekeeper" of the District's funds to ensure proper spending and, due to the volume of funds expended under the umbrella of the purchasing function, the Department operates in an inherently high risk environment. In addition, fair and transparent selection of contracts and vendors is a key component to maintaining a positive public image.

Inherent risks include: Outdated, inadequate or undocumented policies and procedures; Ineffective scope development; Non-compliance / improprieties with Florida Statutes and District policies for solicitation and procurement; Purchases not properly authorized; Purchases not made for legitimate business needs; Inadequate segregation of duties; Legal ramifications; and Bid protests.

Internal Audit Strategy

The objective of this audit would be to evaluate the design and control structure, including adherence to policies and procedures for operating effectiveness. This will include areas such as assessing compliance with authorization, solicitation, selection, and contract execution with vendor/supplier per Florida Statute and District policies and procedures; evaluating sufficiency and adequacy of the documentation and records to support the procurement; and appropriateness of access controls and that segregation of duties are present within the purchasing function.

4. Information Technology – Data Protection Assessment

An assessment of data protection includes a deep dive into the protection of sensitive data (ex: student data, personally identifiable information, etc.) Privacy concerns exist wherever sensitive information is collected, stored, used, and finally destroyed or deleted – in digital form or otherwise. As laws and regulations surrounding data protection are constantly changing, it is critical to keep abreast of any changes in laws/regulations and continually reassess compliance with data privacy and security regulations. The District's business platforms and student information system are critical for employees, administrators, teachers and students to perform a variety of day-to-day functions and responsibilities. These systems store a variety of sensitive data including names, dates of birth, social security numbers, home addresses, grades and course history, and health data.

Data protection includes, but is not limited to, the encryption of data within the systems, the encryption of data when transmitted outside of the systems, restriction of sensitive data movement via email or removable media, restriction and monitoring of privileged / administrator user access, and implementation of network firewalls and intrusion detection / prevention solutions and the appropriate segregation of duties for users with the ability to develop and migrate production-level changes to source code. Without adequate data protection considerations in place, the District leaves themselves vulnerable to sensitive information being accessed, manipulated, stolen, or leaked by unauthorized personnel thus resulting in the District's reputation being negatively impacted.

Internal Audit Strategy

The main objective of this assessment should be to identify any areas of risk associated with protection of sensitive data that could cause harm to the District. Specific areas of focus may include logical access, privileged access, user access reviews, segregation of duties, change management, policies and procedures, data encryption, network security and physical security.

PROPOSED TOP 10 HIGH RISK AREAS FOR INTERNAL AUDIT - CONTINUED

5.   District-wide – Stimulus Funding

The $900 billion federal stimulus bill signed December 27, 2020 set aside $81.9 billion for education, including $54.3 billion for K-12 public schools and $22.7 billion for higher education. The District is responsible for maintaining an efficient and effective system for monitoring funds received and expended. General guidance is provided by the Department of Treasury outlining the permitted uses of stimulus funds, as well as documentation requirements in place for substantiating the expenditures approved using stimulus funding. The administration of a stimulus spending program needs policies and active controls to ensure the District is clear about what kind of spending is permissible and what is not. Stimulus funding has very specific requirements for how dollars can be used, and building policies and active internal controls around these requirements is critical.

Internal Audit Strategy

This audit would evaluate the system in place for managing stimulus funding including key internal controls such as review/approval procedures, documentation requirements, accounting procedures, and other relevant procedures in place for maintaining compliance with regulatory guidelines.

6.   District-wide – Purchase Cards ("P-Cards")

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

Internal Audit Strategy

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

PROPOSED TOP 10 HIGH RISK AREAS FOR INTERNAL AUDIT - CONTINUED

7. District-wide – Asset Management

Effective property control practices are critical to ensure accurate records are maintained to capture and track all relevant asset information. The COVID-19 pandemic has impacted the risks surrounding property tracking and monitoring, as property users are increasingly remote. Property Control is performed within the Purchasing/Property Records Department. This function is responsible for accurately maintaining property records, safeguarding all property, conducting an annual inventory of all tangible property owned, accurately recording acquisitions, deletions and other changes into the database file in a timely and appropriate manner, as well as ensuring compliance with Florida Statute, District policies and other laws and regulations as they relate to capital assets. This function also provides appropriate property-related information and training to District departments and schools. The internal audit over property control will focus on tangible personal property and software, as the risk of loss occurs at this level. Our audits are not intended to include, and will not include, review of controls or inventories over real property, including buildings, or other types of intangible assets, if any. Capital assets are defined as those costing more than $1,000 for tangible personal property and $25,000 for real property. Per the District's audited Comprehensive Annual Financial Report for FY 2019-20, total Capital Assets for the governmental activities amounts to $904,343,667, net of accumulated depreciation.

Internal Audit Strategy

Objectives of the internal audit of Property Control will be to determine compliance, existence, completeness and consistency with respect to tangible personal property inventories conducted at the District through representative audits. This will include a review of District-wide property control processes, as well as a review of controls over the process as it relates to ensuring the general ledger and financial reporting are accurate based upon the results of the inventories. The audit will also include a review of prior inventory count results and identification of any potential control deficiencies and improvement opportunities noted during our review.

8. Business & Finance - Payroll

A significant portion of the District's budget is comprised of payroll costs and the related taxes and benefits. The District employs over 4,200 instructional and 4,350 non-instructional (administrative, technical, support, elected officials) employees, over 8,550 employees in total. These salaries and benefits comprise approximately 62.5% of the total estimated operating budget. An audit of Payroll covers the process after the time is entered and submitted by the Departments through payout to the employees.

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

Internal Audit Strategy

The primary objective of this audit would be to evaluate and assess whether the internal control structure of time recording, monitoring and reporting is appropriately designed and operating effectively to mitigate inherent risk and safeguard the District's assets.

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PROPOSED TOP 10 HIGH RISK AREAS FOR INTERNAL AUDIT - CONTINUED

9. District-wide – Contract Compliance

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

There are numerous risks inherent to contract compliance such as possible inappropriate spending due to non-compliance with contract terms, potential conflicts of interest, and failing to meet select contract provisions. These factors and the materiality of vendor contracts make this process high risk from a financial, compliance and public perception perspective.

Internal Audit Strategy

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

10. School Operations – Maintainence Operations

The District's Maintenance Department is responsible for sustaining a safe, sanitary, and functional environment for the students and employees of the District. The function oversees the repair and upkeep of District grounds, buildings, and equipment, and is organized into 3 Maintenance Zones with a Foreman, Lead, Section Chief and Building Automation Specialist assigned to oversee each zone. Staff consist of Journeymen Electricians, Journeymen Plumbers, Journeymen HVAC Specialists, Certified Back-Flow Prevention Specialists, Licensed Pest Control Specialists, as well as General Maintenance Specialists, Masons, Painters, Roofers, Carpenters, Welders, Cabinet Makers, Mechanics, etc.

Inherent risks may include: Outdated, inadequate or undocumented policies and procedures; Non-compliance / improprieties with Florida Statutes and District policies for solicitation and procurement; Unreported conflicts of interest; Non-compliance with vendor contract terms; Failure to meet select contract provisions; Vendor favoritism; Non-performance of vendors; Inaccurate accumulation or allocation of time and materials to work orders; Ineffective monitoring and reconciliation of the work order system; Inadequate monitoring of work order distribution, production and / or overtime; Untimely response to and priority of work orders and needs of the District; and inadequate monitoring of key performance indicators, such as work order turnaround.

Internal Audit Strategy

This audit will be designed to assess whether the system of internal controls is adequate and appropriate, within the Maintenance Department, for promoting and encouraging the achievement of management's objectives in the categories of compliance with applicable laws, administrative rules, and other guidelines. It will focus on the Maintenance Department's process for procurement of goods and services; and management and administration of vendors and contracts, including monitoring activities.

RSM