



Volusia County Schools, Florida

Internal Audit Report: Year End Tax Reporting and Disbursements

September 16, 2021

TABLE OF CONTENTS

Transmittal Letter 1

Executive Summary 2

Background 4

Objectives and Approach 9

Observations Matrix 11

Appendices 24

TRANSMITTAL LETTER

September 16, 2021

School Board of Volusia County, Florida
200 North Clara Avenue
DeLand, FL 32720

Pursuant to our Statement of Work dated April 12, 2021 with the School Board of Volusia County Schools, Florida ("District"), and per our approved audit plan for fiscal year ("FY") 2020-21, we hereby present our report on Year-end Tax Reporting and Disbursements. We will present this report to the Audit Committee at their next scheduled meeting. Our report is organized in the following sections:

Executive Summary	This provides a high-level summary of the observations noted in our internal audit over year-end tax reporting and disbursements processes.
Background	This provides an overview of the year-end tax reporting and disbursements processes at the District, as well as relevant background information.
Objectives and Approach	The internal audit objectives are expanded upon in this section and include detailed testing of payroll, finance, and disbursement-specific attributes.
Observations Matrix	This section includes a description of the observations noted during our internal audit and recommended actions, as well as management's action plan.
Appendices	We have included process maps to depict the current year-end tax reporting process and relevant inputs as well as three key finance areas: vendor management, invoicing, and payment.

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

Respectfully Submitted,



RSM US LLP

EXECUTIVE SUMMARY

Background

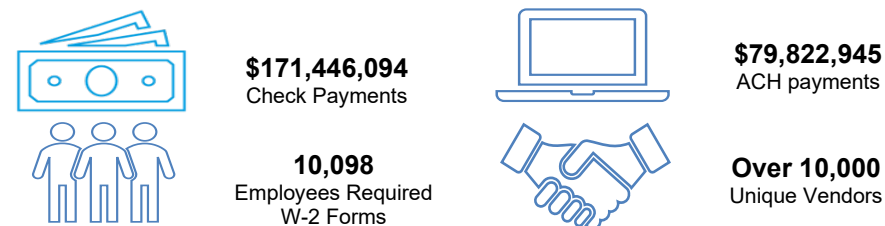
As part of a District-wide initiative, the Finance Department implemented a new ERP system, Oracle, in July 2019. In addition to this major undertaking and the impact on the working environment due to the pandemic, the District Finance Function has been through numerous significant changes over the past several months that have increased risks. They include:

- In March 2021, the Payroll Department moved from reporting under the Chief Financial Officer to the Chief of Human Resources Officer.
- The Chief Financial Officer position turned over in June 2021.

This audit is focused on two high risk functions: the year-end tax reporting and district-level disbursement processes.

Year End Tax Reporting: The District year-end tax reporting process involves producing accurate, complete, and timely preparation of year-end tax forms. While the Payroll Department owns the year-end tax reporting process, the Benefits, Human Resources and Information Technology departments each play significant roles in calculating year-end inputs. Federal changes cause year-end tax reporting to be heavily scrutinized and regulated, resulting in inherently high risk to the District.

District-level Disbursements: The Finance Department is responsible for reviewing the accuracy of expenditure documentation and managing the processing of disbursements. This process includes receiving approved invoices from user departments and processing electronic or paper check payments to vendors, individuals, and schools.



Data is from an accounts payable report dated July 2020 through June 2021 and is unaudited.

Objectives and Scope

The objective of our internal audit was to assess whether the system of internal controls over year-end tax reporting and district-level disbursement processes are appropriately designed and implemented. The procedures performed during this internal audit include, but are not limited to, the following procedures:

- Conducted interviews and walkthroughs with key personnel to obtain an understanding of the District's operating policies and procedures as they relate to our scope, including, but not limited to: employee deductions, compilation and preparation of year-end tax forms, processing of invoices, electronic and paper disbursement processes, and vendor management.
- Evaluation and assessment of the design of the process(es) and testing operating effectiveness of key internal controls through walkthroughs, sampling, review, and other auditing techniques.
- Providing recommendations for improvement, where applicable.

Our audit scope was July 2020 through June 2021. Our scope was focused on district-level processes and did not include Internal Accounts or school-based processes.

At the conclusion of our audit, we summarized the results of our procedures into this written report detailing the findings of our observations and relevant recommendations, where applicable. We held exit meetings with the Superintendent, Chief Financial Officer, Chief Human Resource Officer, Chief Information Officer, and other members of management to review the results and obtain management's response. Based on the observations identified, we will conduct a full scope follow-up 6 – 12 months after remediation.

Fieldwork was performed May 2021 through August 2021

Summary of Observations (See within for risk rating definitions)

High	Moderate	Low
7	1	0

We would like to thank all District team members who assisted us throughout this internal audit.

EXECUTIVE SUMMARY (CONTINUED)

Observations Summary

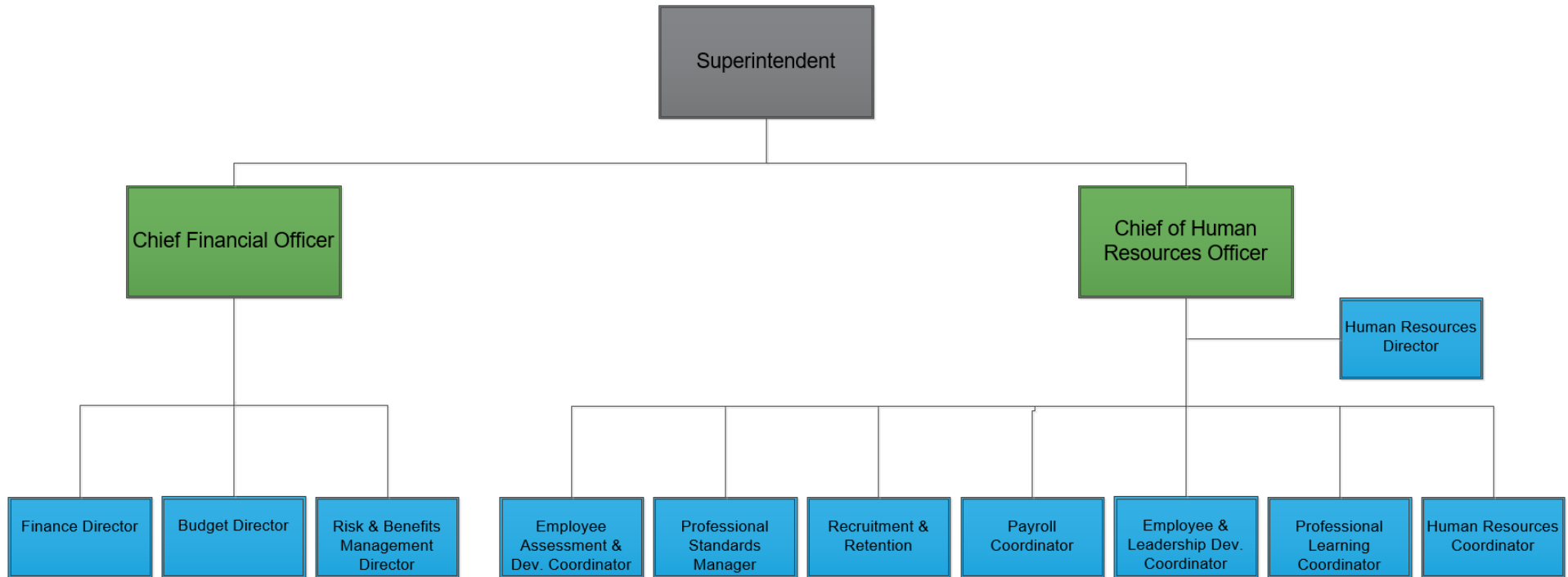
The summary provided below is organized by responsible Department and outlines the observations identified during this internal audit. The detailed observations are included in the observations matrix section of this report.

Summary of Observations	
Multi-Departmental Observations	
1. Finance/Payroll/Benefits: Formalized, Updated Policies and Procedures	High
Payroll Observations	
2. Payroll: Formalized Training, Roles and Responsibilities	High
3. Payroll: Review and Approval	High
Finance Observations	
4. Finance: User Access Management	High
5. Finance: Segregation of Duties	High
6. Finance: Vendor File Management	High
7. Finance: Review and Approval	High
8. Finance: Monitoring Procedures	Moderate

BACKGROUND

Reporting Structure

During the course of this audit, both the Payroll and Finance departments have experienced recent changes in senior leadership. In April 2021, the Payroll Department moved from under the Chief Financial Officer to under the Chief of Human Resources Officer. Additionally, there was turnover of the Chief Financial Officer role in July 2021. A high-level overview of the current organizational structure is depicted in the chart below:



Software Systems

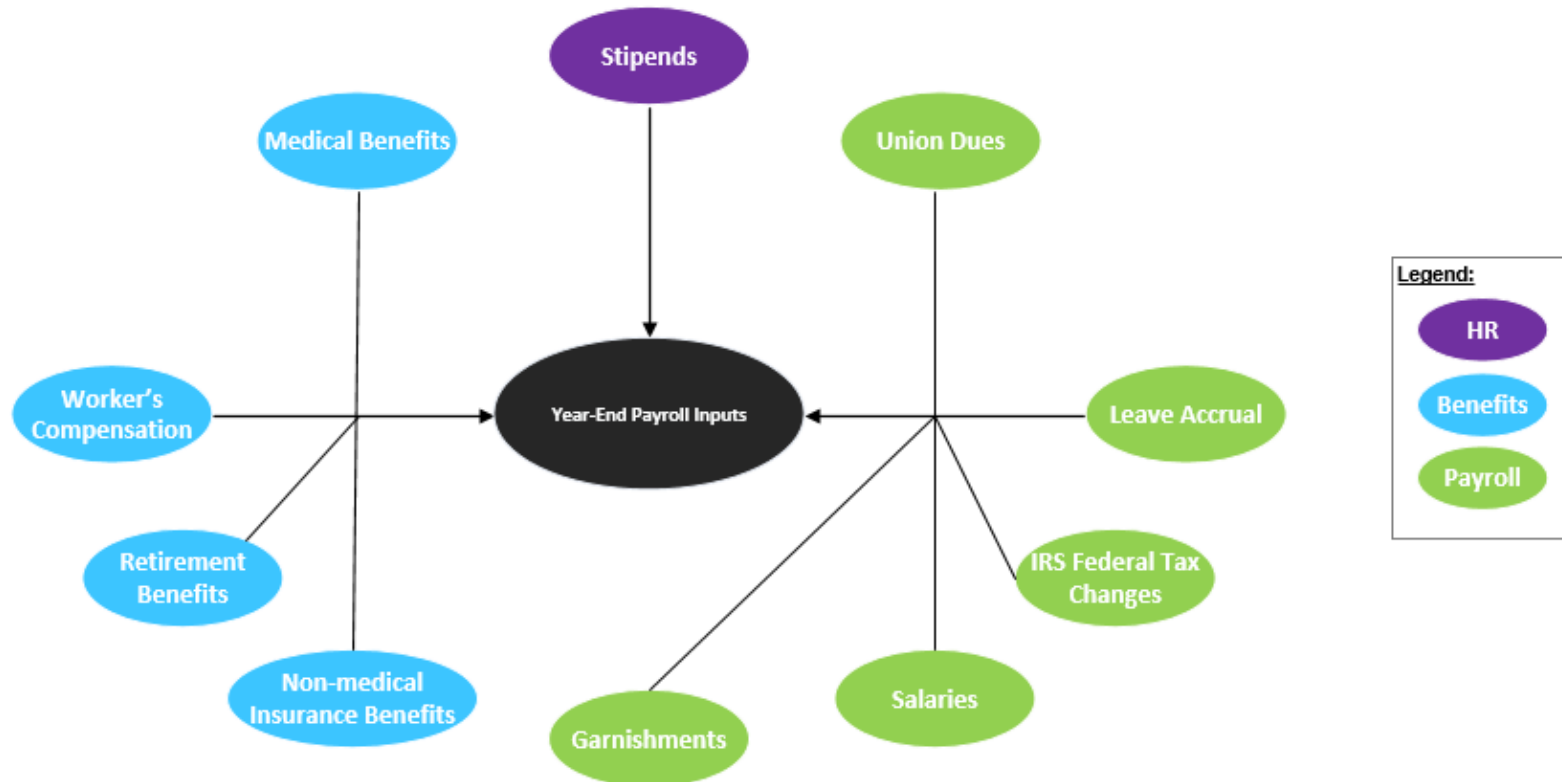
As part of a District-wide initiative, the Finance Department implemented a new ERP system, Oracle, in July 2019 - approximately two (2) years prior to the beginning of our audit. While the Department still regularly works with the Oracle implementation team to resolve ongoing items, this system has wholly replaced the previous application, SmartStream, and is used to manage the entire disbursement process.

The entire Human Resources team uses the application Cross Point to process regular pay cycles and year-end tax reporting. Due to the ongoing remediation of roll-out items with the Finance team, Payroll's implementation of Oracle has been paused indefinitely.

BACKGROUND (CONTINUED)

Year-End Tax Reporting Process

While the Payroll Department owns the year-end tax reporting process, Benefits, Human Resources, and Information Technology departments play significant roles in calculating year-end inputs, specifically for the Form W-2. The graphic below demonstrates which inputs are required of various other departments.



Along with the aforementioned W-2 inputs, the Payroll Department processes employee salaries for 54 different pay types, IRS federal tax changes, leave accrual, and taxable fringe benefits (awards to employees as an extra benefit to supplement their salary, such as school reimbursements, personal car usage, and personal cell phone usage). Once each input has been collected, Payroll is responsible for reconciling the data, ensuring appropriate deductions are made for the year, adjusting the IRS taxable withholding tables, and populating the W-2s, Form 941s, and UTC-6s accurately and timely.

BACKGROUND (CONTINUED)

Disbursement Process

The Finance Department manages the processing of all expenditures utilizing District funds. In the performance of these responsibilities, the Finance Department relies on other Departments to perform other key functions. The Purchasing Department oversees the solicitation of goods and services and assists Finance with creating and managing vendor data. Once a need is identified by an end user, which includes District Schools and Departments, the Purchasing Department is contacted describing the nature of the need. Purchasing works with the end user to contact vendors directly to establish a contract or identify piggyback contracts that may be in place from other government entities.

A critical component of the disbursement process is the selection and active management of District vendors. The District Purchasing Department is responsible for facilitating and approving vendor applications, obtaining the initial W-9 Form, and entering vendor data into the Oracle system. Following vendor selection, Finance and Purchasing are responsible for managing changes to key vendor data, such as: vendor remit addresses, ACH elections, bank account information, vendor alternate names and updates to the W-9 Form.

Once a vendor is identified and all required Purchase Order approvals are obtained by the end user, the purchase order is submitted to and approved by the Purchasing Department. The end user performs their contract administration duties by verifying performance against an invoice and receiving on the goods and services contracted.

Following receipt and approval of the invoice by the end user, the invoice is directed to the Finance Department for payment. Disbursements are input into Oracle by an Office Specialist, reviewed for accuracy, and paid with paper check or electronically, through ACH. During our audit period of July 2020 through June 2021, the District Finance Department processed over \$251 million in combined ACH payments and check payments. Additionally, the Finance Department is responsible for facilitating any stop payments, processing credit memos, reimbursements, and direct pay purchases (purchases made without a purchase order). The District gives schools the autonomy to choose between a utilizing a bookkeeper staffed within the District office to manage school-based disbursements, or hiring their own bookkeeper on-site. At the time of our audit, 47 schools utilized the Finance Department's District bookkeepers.

BACKGROUND (CONTINUED)

The table below depicts the top 25 vendors by total paid amount, according to a report of payables from July 2020 through June 2021*. Each of these vendors are added to Oracle after a vendor application, including a W-9 form, is obtained by the District (see **Observation 5** for details). After vendors have successfully been onboarded into the system and have begun fulfilling their contractual obligations, invoices are sent to the District and paid through the Finance department. Within our audit period, the Finance department processed approximately \$251,269,039 dollars to over 10,000 unique vendors.

Vendor Name	Number of Payments	Total Paid (\$)
Florida Health Care Plan	21	\$51,138,023.22
ABM	22	\$12,812,774.43
Core Construction Services of Florida,	14	\$11,442,639.17
Wharton-Smith Inc.	11	\$7,795,117.38
Ivy Hawn Charter School of the Arts	29	\$6,586,755.21
Bank of America	34	\$6,370,072.70
TSA Consulting Group Inc.	23	\$6,105,682.96
U S Foods Inc.	38	\$5,279,579.72
Insight Investments, LLC	2	\$5,100,000.00
Charles Schwab Bank Trust and Custody	57	\$4,949,704.22
Duke Energy	47	\$4,566,419.82
Florida Power & Light	45	\$4,507,849.41
Burns Charter School	26	\$4,350,097.40
Brown & Brown of Florida, Inc.	24	\$3,922,849.97
Trane U S Inc.	40	\$3,590,604.92
A.M. Weigel Construction, Inc.	22	\$3,552,152.61
Volusia United Educators	13	\$3,245,697.90
Easter Seals Northeast Central	35	\$2,699,852.58
Welbro Building Corporation	19	\$2,471,878.36
Richard Milburn Academy	28	\$2,386,800.81
H J High Construction Co	6	\$2,299,871.30
Behavior Change Artists Inc.	6	\$2,122,654.36
Reading Edge Academy	24	\$1,880,823.44
Florida School Book Depository Inc.	20	\$1,801,494.04
Solstice Benefits	16	\$1,630,060.86

**The information in this section is unaudited.
Internal Accounts activity is audited in a separate audit process, and thus, is not included in our scope.*

BACKGROUND (CONTINUED)

Laws and guidelines

The District's Finance and Payroll Departments are subject to many Federal, and State laws as well as internal bylaws and policies. They include, but are not limited to, the following.

School Board Policies

- School Board Policy 417 – Leave, Terminal Pay, and Holiday Provisions
- School Board Policy 423 – Non-Bargaining Employee Sick Leave Bank
- School Board Policy 606 – Bids for School Construction Projects
- School Board Policy 607 – Payments and Bond Requirements
- School Board Policy 701 – Finance
- School Board Policy 702 – Purchasing
- School Board Policy 714 – Volusia County School Board Policy on Advertising
- School Board Policy 717 – Travel Expense Reimbursement Policy
- School Board Policy 719 – Internal Accounts
- School Board Policy 720 – Electronic Funds Transfers
- School Board Policy 722 – Fund Balance
- School Board Policy 723 – Debt Management Policy

State Board of Education Rules

- State Board of Education Rule 6A-1.012 – Purchasing Policies
- State Board of Education Rule 6A-1.0452 – Distribution of Florida Education Finance Program Funds
- State Board of Education Rule 6A-1.052 – Salary Schedules to Be Adopted for All Personnel
- State Board of Education Rule 6A-1.008 – Financial Statements
- State Board of Education Rule 6A-22 – Reemployment Services, Workers' Compensation

Florida Statutes

- FS 112.313 – Standards of Conduct for Public Officers, Employees of Agencies, and Local Government Attorneys; Doing business with one's agency
- FS 119.071 – General Exemptions from Inspection or Copying of Public Records
- FS 120.57(3) – Mediation of Disputes
- FS 218.70 – Local Government Prompt Payment Act
- FS 286.11 – Public Meetings & Records; Public Inspection; Criminal and Civil Penalties
- FS 287.084 – Preference to Florida Businesses
- FS 287.087 – Preference to Business with Drug-Free Workplace Program (Tie Bids)
- FS 287.133 – Public Entity Crime; Denial or Revocation of the Right to Transact Business with Public Entities
- FS 1010.04 – Purchasing

OBJECTIVES AND APPROACH

The objective for this internal audit was to assess whether the system of internal controls over year-end tax reporting and district-level disbursement processes are appropriately designed and implemented. Our approach consisted of the follow three (3) phases:

Understanding and Documentation of the Process

The purpose of this phase was to obtain an understanding of the key processes, personnel, risks, and controls relevant to the District's year-end employee payroll tax reporting function and disbursement processes. The following procedures were conducted as part of this phase:

- Obtained and reviewed any documented policies and procedures, relative Florida Statutes, quantitative reporting, and any other information obtained from the District.
- Conducted interviews and walkthroughs with key personnel to obtain an understanding of the District's operating policies and procedures as they related to key focus areas, including, but not limited to:
 - Employer paid benefits and employee paid deductions; such as taxes, retirement contributions, benefits, wage garnishments, and child support payments
 - Compilation and preparation of the year-end tax forms required for employees (ex: W-2s)
 - Vendor File Management
 - Invoice processing
 - ACH transactions
 - Paper checks
- Developed a work plan for the evaluation of the operating effectiveness of processes and controls, based on the information obtained through our review, inquiry, and walkthrough procedures.

Process Assessment and Detailed Testing

During this phase, we evaluated the District's processes for compliance with relevant authoritative guidance, appropriate monitoring controls and segregation of duties, gaps in internal controls, and duplication of effort or opportunities to enhance efficiency. Our testing was conducted utilizing sampling and other auditing techniques to meet our audit objective outlined above. Procedures included, but were not limited to:

- Walkthroughs of year-end tax form preparation for a sample of forms;
- Testing of the vendor file set up and modification processes for proper authorization and completeness;
- Testing of proper authorization, reasonableness, timeliness, and accuracy of the invoice payment process through source document review;
- Testing of proper authorization and accuracy in association with selected types of disbursement payment processes (paper or electronic) through source documentation review; and
- Review of Finance Department user access roles in Oracle for appropriateness for the job duties assigned and appropriate segregation of duties.

OBJECTIVES AND APPROACH (CONTINUED)

Reporting

During the reporting phase, we summarized the results of this project and reviewed the results with applicable representatives. Observations, recommendations, and opportunities for improvement were developed based on the testing and analysis completed as part of our scope of work. We issued this report summarizing the observations and recommendations, which includes management's response to each reportable observation.

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

OBSERVATIONS MATRIX

Observation	1. Finance/Payroll/Benefits: Formalized, Updated Policies and Procedures
<p>High</p>	<p>During our review, we noted that policy and procedural documentation regarding key functions are outdated and, in some cases, obsolete. We noted that the latest revisions to Finance policies and procedures were made in 2015. The Finance Department is in the process of updating policies and procedures to align with the new Oracle application. However, through discussions with management we noted that no formal process for periodically updating policies and procedures existed even prior to software implementation. The Payroll Department was also found to maintain outdated policies and procedures that referenced applications no longer utilized by the District. The current policy does not provide updated guidance on how to complete current tasks, when to complete them, or defined roles and responsibilities for those tasks. Lastly, we noted that the Benefits Department retained outdated policies and procedures, last updated in 2006. While the Benefits Department does utilize checklists for some tasks, a formal process for reviewing and updating this tool for accuracy does not yet exist.</p> <p>The policies retained in the Payroll and Benefits Departments also affect external departments, such as Information Technology. For example, IT is involved in the creation and adjustment of system reference tables, like the IRS Tax Withholding table. We noted that IT does not maintain their own policies or procedures specific to Payroll and Benefit functions; instead, the team relies on the available policies and procedures noted above, which were found to be outdated.</p> <p>Given the recent changes in organizational structure and the inherently complex nature of the Payroll and Finance functions, it is imperative that each team member is aware of the procedures that are assigned to them and has detailed instructions on how to effectively complete tasks. If formalized procedures are not routinely monitored and updated, the District may risk increased uncertainty as to job responsibilities, operational expectations, and compliance with statutory and regulatory requirements. Maintaining current procedures can enhance the efficiency and effectiveness of the implementation of new applications. Without this documentation, the implementation team may not design the application in line with the requirements necessary to facilitate current processes and procedures.</p>

OBSERVATIONS MATRIX (CONTINUED)

Observation	1. Finance/Payroll/Benefits: Formalized, Updated Policies and Procedures (continued)
Recommendation	<p>We recommend the District perform a formal review of policies and procedures for incomplete or outdated material on at least an annual basis or when a change occurs. All written procedures should be updated for accuracy and completeness. All relevant processes should be contained within the formalized procedures and should define how core functions are performed for all Payroll, Benefits, and Finance tasks.</p> <p>The Payroll and Finance teams are responsible for completing complex tasks with regulated deadlines. We recommend each respective Department consider utilizing checklists to provide structure and organization to each team. Checklists may include, but are not limited to:</p> <ul style="list-style-type: none"> • Listing of tasks to be completed, separated by role or team member • Sub-tasks and / or references the relevant policy or procedure to provide step-by-step instruction for accurate completion • Estimated completion dates • Assigned reviewer (see Observation 2) • A designated area for sign-off of completion <p>Checklists can assist with the prioritization, timing, and accuracy of tasks performed. Checklists should be collected and retained by departmental leadership to enforce accountability of team members, and provide an audit trail.</p>
Management's Action Plan	<p>Payroll</p> <p>Responses: Payroll will work with Human Resources and the legal department to develop a school board policy for Payroll and will also review and revise Policy 417. The payroll procedural manuals are in the process of being reviewed and updated based on current practice.</p> <p>Responsible Party: Stephanie Workman, Payroll Coordinator; HR Coordinator; Legal</p> <p>Estimated Completion Date: June 30, 2022</p> <p>Finance</p> <p>Responses: A formal review of Finance policies and procedures has begun, and all key processes in Oracle have been documented. A formalized comprehensive policies and procedures manual will be developed to incorporate all core functions in Finance by June 2022. The new ERP software is not functioning as designed in many areas and work around processes were developed as we continue to work through functional issues.</p> <p>Responsible Party: Dawn Fortes, Finance Director</p> <p>Estimated Completion Date: Current processes will be reviewed and updated to present practices by June 30, 2022</p> <p>Benefits</p> <p>Response: We have processes documented; however, they will significantly change based on the direction of the new software.</p> <p>Responsible Party: Beth Swallows, Risk and Benefits Management Director</p> <p>Estimated Completion Date: Current processes will be reviewed and updated to present practices by June 30, 2022. After this, a formal review of processes will occur annually, and updates will be made to align with the current practices</p>

OBSERVATIONS MATRIX (CONTINUED)

Observation	2. Payroll: Formalized Training, Roles and Responsibilities
<p>High</p>	<p>The Payroll Department has experienced organizational change through departmental structure, leadership turnover, and reorganization of roles and responsibilities within the past year. During our review, we noted that no formal process exists to provide formal training to assist with change management. We noted that a process does not exist to formally communicate current practice or obtain acknowledgment from team members of their respective roles and responsibilities. Through conversations, we noted that informal training is often completed when roles and responsibilities shift but such training is performed inconsistently and without documentation. A formal process that provides on-demand or periodic training to all staff members could provide business and skill continuity, and identify knowledge gaps before an issue arises.</p> <p>Furthermore, we noted that during this period of recent significant change in Payroll, job responsibilities have shifted without formal involvement from the Human Resources team. Without formal review and approval of these job responsibility changes, the Human Resources Department may not be capable of providing the necessary guidance required to adequately communicate new roles, responsibilities, and expectations. Roles and responsibilities may deviate from the advertised job description, experience level or compensation aligned with the job performed.</p>
<p>Recommendation</p>	<p>We recommend the Payroll Department assess each position's role and responsibility and make any updates to job descriptions needed. The Payroll Department should implement a formal training process for each position. Leadership has contracted with a former District Director of Payroll to assist with the training on various procedures and tasks based on the Department's current and short-term needs. In conjunction with the updated policies and procedures (see Observation 1), formalized training will provide staff access to updated guidance and recommended best practices to better understand the role they play within the Payroll process.</p> <p>We also recommend the Finance and Payroll Departments consider collaborating with Human Resources to review changes to roles and responsibilities and update job descriptions, if needed, to accurately record compensation levels and experience requirements.</p> <p>Lastly, we recommend the Department consider performing a skills analysis to compare departmental need versus the current roles and responsibilities. Identifying any gaps in skill sets or positions will provide insight into the training program(s) needed to actualize a high-performing Payroll department. This will also assist in maintaining efficient operations during organizational changes such as those experienced by the District and identified during this review.</p>
<p>Management's Action Plan</p>	<p>Responses: A needs assessment for training has been conducted for the payroll staff. Based on the results, a training schedule has been implemented and will be ongoing throughout the year. Job descriptions will be reviewed with the HR department and amended as needed.</p> <p>Responsible Party: Stephanie Workman, Payroll Coordinator; Rachel Hazel, HR Director; Dawn Fortes, Finance Director</p> <p>Estimated Completion Date: December 2021 with ongoing assessment</p>

OBSERVATIONS MATRIX (CONTINUED)

Observation	3. Payroll: Review and Approval
<p>High</p>	<p>Through our discussions with Payroll management, we noted that several key tasks are performed manually by either a Payroll Analyst or Payroll Specialist without a secondary review for accuracy (see Appendix A and B). These tasks, which are listed below, may be completed using data from various queries and reports:</p> <ul style="list-style-type: none"> • Calculations of retro-pay for individual employees • Determination of appropriate W-2 adjustments • Reconciliation of garnishments, a W-2 input • Reconciliation between Forms W-2, 941, and UTC-6 • Determination of appropriate annual benefit deductions • Adjustment of IRS taxable withholding tables • Final balancing of W-2 prior to posting <p>Additionally, we noted that many of these tasks require input from external departments (i.e., deduction adjustments require input from the Benefits Department and W-2 forms require input from Human Resources). There are currently no formal procedures requiring documented review of inputs by the external Department prior to acceptance by Payroll.</p> <p>A secondary supervisory review process is critical to monitor the completeness and accuracy of calculations. Human error is an unavoidable risk that must be acknowledged and mitigated through secondary supervisory review processes. Secondary review controls enhance the District's ability to manage operational, financial, and reputational risk.</p>
<p>Recommendation</p>	<p>We recommend that the District consider assigning a designated reviewer of the inputs made by the Payroll Analyst or Specialist. Reviewers should, at a minimum, have the knowledge and expertise necessary to identify issues, miscalculations, and discrepancies. All updated procedures and expectations should be formally documented, periodically reviewed, and effectively communicated to all relevant process owners. (See Observations 1 and 2)</p> <p>Further, we recommend that the Payroll Department collaborate with Human Resources and Benefits departments to identify a process to document the review by each Department of their respective inputs for accuracy prior to flowing into payroll calculations. Each external department is most qualified to validate that their data is complete and accurate prior to incorporation into tax reporting documents.</p>
<p>Management's Action Plan</p>	<p>Reponses: Reassessment of the edit procedures run during payroll process will be conducted and updated as necessary. Develop a workflow, in conjunction with the IT department, for processing W2 documents accurately and on time. Develop a checks and balance system (a secondary review process) for reviewing and correcting any data calculation errors.</p> <p>Responsible Party: Stephanie Workman, Payroll Coordinator; Maha Khan, Business Analyst; Audrey Delio, Sr. Information Systems Analyst; IT; Rachel Hazel, Human Resources Director; Beth Swallows, Risk and Benefits Mgt. Director</p> <p>Estimated Completion Date: June 2022</p>

OBSERVATIONS MATRIX (CONTINUED)

Observation	4. Finance: User Access Management
High	<p data-bbox="363 331 1990 386">During our review, we noted several issues regarding management of user access roles within the Oracle application. These issues are outlined below.</p> <p data-bbox="363 406 726 435">Role Capabilities and Clarity</p> <ul data-bbox="426 451 1990 862" style="list-style-type: none"> Through discussion with the Finance Department and review of their Oracle assignments, we noted that a clear understanding of the access granted by role does not exist. Furthermore, we noted that Finance works with IT to edit standard, out-of-the-box Oracle roles to better fit the size and makeup of the District. These customized changes further contribute to the limited understanding of user access privileges, as customized changes are performed on an as-needed basis with limited precedent on the implications on user access across the department or District. We noted that both the standard Oracle roles and the custom created roles do not contain detailed descriptions of access or edit rights, thus we were unable to complete our audit procedures to determine if user access roles were appropriate. Examples of descriptions are outlined below: <ul style="list-style-type: none"> The “Line Manager” role is described as, “Identifies the person as a line manager”. The “VCS Cost enter 312 SVS” role is described as, “Access to Finance” The “VCS BI Administrator Role” is described as, “Custom – VCS BI Admin Role” The “VCS District Funds Bookkeeper” role is described as “Assigned to personnel identified as VCS District Funds Bookkeepers” <p data-bbox="363 880 802 909">User Access Change Management</p> <ul data-bbox="426 925 1990 1040" style="list-style-type: none"> Through discussion with IT on the process to edit Oracle roles, we noted that while user departments may request user access modifications from the IT Department via email, edit requests are also accepted verbally and without documentation of who the requestor is, the desired role, or who approved it. For example, when requesting edits to our Oracle auditor access, IT tickets were not created and many of our requests were made verbally and without formal documentation of what changes were necessary. <p data-bbox="363 1058 737 1088">Periodic User Access Review</p> <ul data-bbox="426 1104 1990 1219" style="list-style-type: none"> Through discussions with the IT team, we noted that while a periodic user access review was performed for the Cross Pointe application, a similar process for Oracle user access has not yet been implemented. Regular, periodic user access reviews are utilized to detect inappropriate access that may have been erroneously granted or access that was not properly rescinded following employee termination. <p data-bbox="363 1237 1990 1382">Without formally defining what each role can specifically view, edit, or create, the Department cannot effectively limit user access on a consistent basis. Proper user access controls protect the District from improper segregation of duties and inappropriate access rights. Without managing which users and departments have access to view and edit data, the risk for fraudulent activity and unchecked human error increases. Just as manual roles and responsibilities must be managed (Observation 2), so, too, must accessibility of roles. Proper user access controls protect the District against erroneous transactions, fraudulent behavior and enforces proper segregation of duties.</p>

OBSERVATIONS MATRIX (CONTINUED)

Observation	4. Finance: User Access Management (continued)
Recommendation	<p>We recommend the following:</p> <ul style="list-style-type: none"> The district should perform a baseline review of all roles, define the access capabilities within each role and document for reference. User access provisioning should be the responsibility of the IT function where possible. This process could be further enhanced by the creation of a separation of duties matrix by department whereby, new access will only be provisioned if the access does not create a conflict or if a mitigating control is identified prior to granting the access. Changes made to the access capabilities should follow a defined process that includes proper request, testing, and approvals by each IT and requesting Department prior to the change being made. No changes should be made to roles without first determining if the change will result in a segregation of duties conflict. The District should implement a regular user access review. Elements of an effective user access review include: <ul style="list-style-type: none"> Review ensures that all user accounts and access capabilities are to be included in the review. In the event that certain access capabilities are excluded (e.g., read-only roles/permissions), justification for these exclusions are documented. Reviewer should consider that the access belongs to a current employee, the access is appropriate based on job function, and the access capabilities do not create a separation of duties (SOD) conflict. In the event that the access does create a SOD conflict, mitigating controls should be identified. Evidence of the review and report reviewed is retained. Reviewer should not review one's own access. Changes to access are identified and initiated by administrators. <p>As the District expands the implementation of Oracle into other departments, the same controls should be applied at the outset to avoid inappropriate access and duplicative roles.</p>
Management's Action Plan	<p>Responses:</p> <ul style="list-style-type: none"> The IT Department will create a formal procedure for 1.) Creating, 2.) Editing, and 3.) Assigning user access roles in the Oracle System to include review and approval of management. The IT Department will update our customized roles to clearly define the capabilities and access provided. As the District cannot modify the description of Oracle's canned roles, the IT Department will submit a service request asking the vendor to update their role descriptions. The IT Department will create a formal procedure regarding the period review of user access to the Oracle system. This process will be maintained and documented. <p>Responsible Party: Dawn Fortes, Finance Director; Eric Fort, ERP System Administrator; IT</p> <p>Estimated Completion Date: March 2022</p>

OBSERVATIONS MATRIX (CONTINUED)

Observation	5. Finance: Segregation of Duties
High	<p>During our review of the disbursements process, we noted that the current vendor management process does not allow for proper segregation of duties (see Appendix C).</p> <p>The Finance Department has the capability to make substantial edits to vendor information, including edits to bank accounts, vendor addresses and vendor names. In addition, the Finance Department processes payments to vendors. Thus, these duties are not appropriately segregated. As noted in Observation 4, we were unable to test appropriate access on an individual employee basis. Without properly segregating duties related to vendor payments and vendor change management, the District is exposed to operational and financial risk.</p> <p>We noted that key vendor management tasks are shared between the Finance and Procurement departments. Vendors may request, among other things, changes to their bank account information, business name, remit-to and order-from addresses, and ACH elections. These requests may be routed to and completed by either Finance or Purchasing. When discussing vendor management with each team, we noted that this inter-departmental collaboration is undefined and undocumented, leaving ambiguity over who owns the vendor master file as a whole.</p>
Recommendation	<p>We recommend that the Finance department collaborate with Purchasing to clarify roles, and consider formally assigning ownership of vendor data to the Purchasing Department. This enforces proper segregation of duties by ensuring the department responsible for processing payments is not able to modify vendor information. The initial set-up, collection of applications and tax forms, as well as the management of subsequent changes should be managed in one centralized location by a delegated authority.</p>
Management's Action Plan	<p>Reponses:</p> <ul style="list-style-type: none"> Currently all new ACH requests have been suspended until the vendor portal configurations are secured through the below actions identified. Oracle's vendor portal is designed to allow vendors to manage their own account, including address and banking information. The vendor portal was not configured correctly to be able to place it in service. Purchasing is working with Oracle to enhance and configure the vendor portal to allow vendors to manager their own account. Purchasing has started to assume the full responsibility of maintaining the vendor management module which will allow for proper segregation of duties. <p>Responsible Party: Dawn Fortes, Finance Director; Maria Kraft, Purchasing and Warehouse Director</p> <p>Estimated Completion Date: June 2022</p>

OBSERVATIONS MATRIX (CONTINUED)

Observation	6. Finance: Vendor File Management
<p>High</p>	<p>During our review of the disbursements process, we noted that the current vendor management process left the District exposed to operational, financial, and reputational risk (see Appendix C).</p> <p>Verification of Vendor Identity</p> <p>We noted that the District has created a vendor change request form to process solicited changes to relevant vendor information. This form includes an identity verification process through the means of validating bank account information. However, we understand that this form is not consistently used, and changes to vendor information may occur without verifying the legitimacy of the requestor. We also noted that the Department does not maintain a list of vendor representatives who are expressly authorized to request changes so the change request can be validated. Once a change is made to a vendor's information, Finance staff only sends confirmation to the requestor if they explicitly requested it. Additionally, an internal review of the change does not occur.</p> <p>Audit Trail</p> <p>A change log or edit history of all vendor file alterations is not maintained. Upon our request for such a log, the Information Technology department was unable to provide the requested system historical information since the log was not activated during the Oracle implementation process.</p> <p>Clear ownership over the vendor master file is a crucial component of maintaining accurate, secure, and trustworthy data. Changes to such a file should be reviewed prior to finalization and recorded in a formal edit log. Further, without confirming the legitimacy of the requestor, the District may unknowingly make changes to vendor information that would benefit a malicious party. As of November 2020, the Finance Department has suspended the ability of vendors to request changes to the vendor ACH bank account information to temporarily mitigate the risk of changing the information due to the lack of proper controls in place.</p>
<p>Recommendation</p>	<p>We recommend that staff implement a comprehensive verification process for vendor file changes which includes the Purchasing Department, including maintaining a list of authorized vendor representatives to make a change and confirming any changes with those authorized representatives through a formal vendor change application form, as well as a secondary review of all vendor file changes.</p> <p>Additionally, we recommend the Finance Department collaborate with IT to enable an audit trail or log of vendor file changes including type of change made, by whom, and when.</p>

OBSERVATIONS MATRIX (CONTINUED)

Observation	6. Finance: Vendor File Management (continued)
Management's Action Plan	<p>Reponses:</p> <ul style="list-style-type: none">• IT will assist the Finance and Procurement teams with role access modification to ensure appropriate segregation of duties related to vendor files.• An audit log for changes and edits of the vendor files has been enabled.• Oracle's vendor portal is designed to allow vendors to manage their own account, including address and banking information. The vendor portal was not configured correctly to be able to place it in service. Purchasing is working with Oracle to enhance and configure the vendor portal to allow vendors to manager their own account.• Purchasing has started to assume the full responsibility of maintaining the vendor management module which will allow for proper segregation of duties. <p>Responsible Party: Dawn Fortes, Finance Director; Eric Fort, ERP System Administrator</p> <p>Estimated Completion Date: June 30, 2022</p>

OBSERVATIONS MATRIX (CONTINUED)

Observation	7. Finance: Review and Approval
High	<p data-bbox="363 331 1990 386">During our review and testing of source documents, we noted a lack of review and approval in Finance-related processes (see Appendices D and E).</p> <p data-bbox="363 407 1990 548">Invoices that utilize a purchase order are approved by user departments through the “receipting” function within Oracle, which tracks spend against an approved PO. By creating a receipt number and signing off within the application, user departments signify they have reviewed the invoice for accuracy, received the goods / services to satisfaction, and approve the invoice for final payment. This process is well-defined and expectations are clearly communicated. However, there are several other types of disbursements that do not utilize a purchase order, and whose process is less-defined:</p> <ul data-bbox="415 570 1990 1421" style="list-style-type: none"> <li data-bbox="415 570 1990 683">• Batch-loaded invoices are utilized for a variety of payments, namely for telecommunications and energy expenditures. Because there are no associated POs for these disbursements, the “receipting” function that signifies invoice approval is not available within Oracle. It is the responsibility of the end user department to review invoices for accuracy prior to sending to Finance. However, documentation of this review does not exist. During our audit period, the District spent over \$9,000,000 on energy alone. <li data-bbox="415 704 1990 938">• Direct Pays are used when a PO is not available or not feasible. Examples include one-off purchases under a closed PO, or payments to Charter Schools. These types of payments require a Direct Pay form, which has signatory approval and justification as to why this type of payment was necessary. Through our testing, we noted: <ul data-bbox="510 808 1990 938" style="list-style-type: none"> <li data-bbox="510 808 1990 863">○ Three (3) of the fourteen (14) sampled Direct Pays did not include the required Direct Pay form. Each of these disbursements were to charter schools, and totaled \$1,003,412. <li data-bbox="510 885 1990 938">○ One (1) of the eleven (11) Direct Pay Forms reviewed was incomplete, and did not include justification as to why a Direct Pay was necessary. This was a payment of \$3,795,432 for insurance coverage. <li data-bbox="415 959 1990 1036">• Through our discussions with Finance, we noted that credit memos are expected to be approved by a member of management. Of the two (2) credit memos tested, neither contained evidence of managerial approval. The credits totaled \$92 for office supplies and HVAC parts. <li data-bbox="415 1057 1990 1263">• Before payments are processed, a Finance Specialist generates a Payment Preview file, which is reviewed for accuracy and signed for approval. <ul data-bbox="510 1133 1990 1263" style="list-style-type: none"> <li data-bbox="510 1133 1990 1166">○ One (1) of the sixty-two (62) sampled payment previews was not initialed. <li data-bbox="510 1182 1990 1263">○ Five (5) payment previews could not be provided. We noted that these five (5) instances related to on-demand payments, and documentation of their review is not currently required by management. However, all payments should be reviewed and approved properly, regardless of when they are processed during the week. <li data-bbox="415 1284 1990 1421">• After the payment preview has been reviewed, the Finance Specialist prints the relevant batch of checks. Staff will then compare each printed check to the payment preview. However, the preview file does not contain check numbers to verify checks were printed correctly according to the system’s numerical assignment and in sequential order. Without reviewing the accuracy of check numbers, printing errors may cause the physical checks to misalign with the system’s record, creating issues with financial reporting and disbursement tracking.

OBSERVATIONS MATRIX (CONTINUED)

Observation	7. Finance: Review and Approval (continued)
	<p>The Finance Department facilitates disbursements through a wide variety of payment types, each of which may follow different procedures and require different approvals. However, each payment must follow a pre-defined process for appropriate review to ensure the accuracy and legitimacy of the requested expenditure. Strong controls within the disbursements process prevents erroneous and/or fraudulent payments, and helps ensure District funds are spent as efficiently as possible. Without strong controls over the review, approval, and monitoring processes for all disbursements, the District is exposed to financial, operational, and reputational risk.</p>
<p>Recommendation</p>	<p>The Finance Department has well-defined expectations and procedures regarding PO-related invoices. We recommend the department build upon those documents to streamline processes surrounding the disbursements which do not require POs and strengthen disbursement review processes. The Department should consider, at a minimum:</p> <ul style="list-style-type: none"> • Implementing a formal, documented review process for batch-loaded invoices, especially those of high dollar and frequency, like telecommunications and energy payments • Requiring a Direct Pay form process for all payments outside of the traditional PO function, including those to Charter Schools to document external authorization for each payment processed. • Revisit the process for documenting approving credit memos to ensure they are reviewed by management. • Revisit the process for documenting approval of payment previews and documenting the review of on-demand payments to incorporate a formalized review of every payment run. • Perform a “check audit” of each batch of printed checks by selecting random samples throughout the check batch for accuracy.

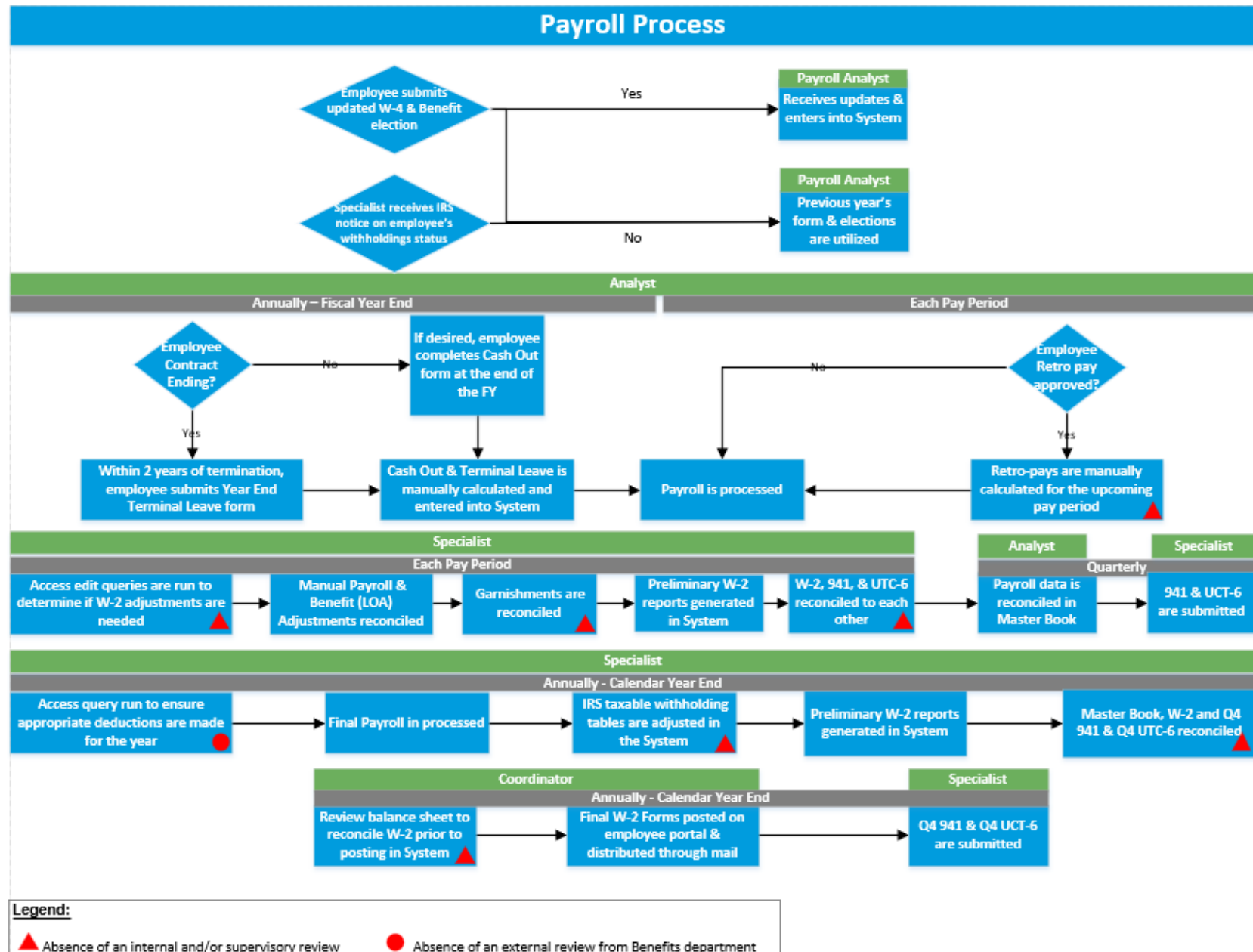
OBSERVATIONS MATRIX (CONTINUED)

Observation	7. Finance: Review and Approval (continued)
Management's Action Plan	<p>Responses:</p> <ul style="list-style-type: none"> The Finance Department currently reviews all batch loaded invoices with the file received from end-user departments. The Finance Department will require evidence of the formal review performed by the end-user departments at the time the batch loaded invoices are sent to Finance. Finance and Purchasing are working together to minimize the use of Direct Pays. We have begun requiring all payments outside of the traditional PO process to include a Direct Pay form properly documented and authorized by the requestor. The Finance Department confirms validity of credit memos with the appropriate department before processing them. Clarification is requested on the format to document approval of the credit memos. The payment preview process is a critical control process that has been on-going. The process is documented and does include on-demand payment runs. A “check audit” of each batch of printed checks will be conducted by selecting random samples throughout the batch for accuracy. Finance will work with Maintenance to ensure that a tracking place is put in place to identify potential spikes. <p>Maintenance is working with Purchasing and Financial Services to evaluate energy savings alternatives.</p> <p>Responsible Party: Dawn Fortes, Finance Director; Lisa Snead, Chief Financial Officer; Dr. Mark Shanoff, Chief Operating Officer; Maria Kraft, Purchasing and Warehouse Director; Ron Young, Maintenance and Operations Director</p> <p>Estimated Completion Date: December 2021</p>

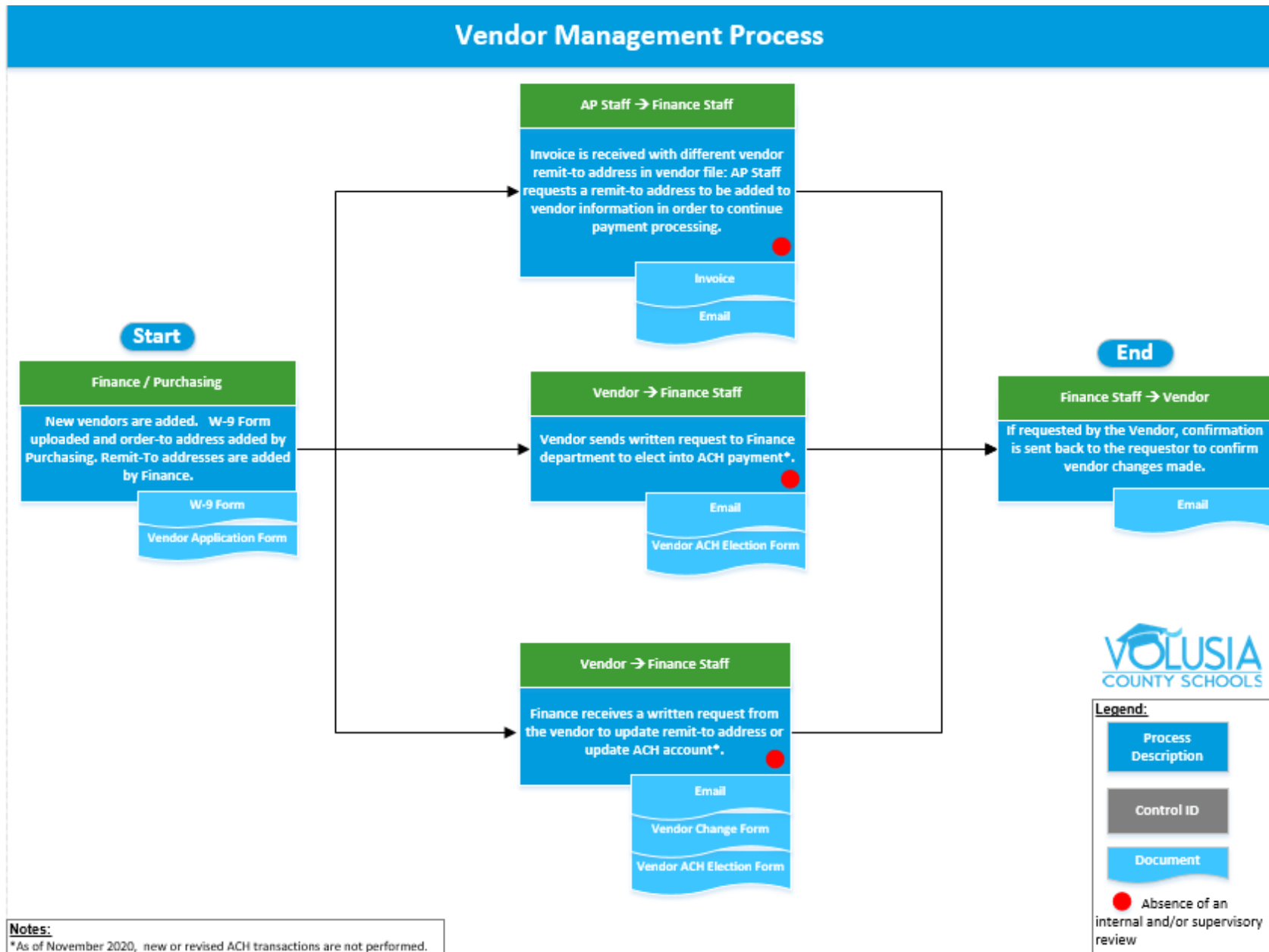
OBSERVATIONS MATRIX (CONTINUED)

Observation	8. Finance: Monitoring Procedures
<p>Moderate</p>	<p>During our review of the Finance Department's processes and invoice documentation, we noted a lack of monitoring procedures over the timeliness of invoice approval.</p> <p>Florida Statute 218 requires payment for goods or services to be made within 45 days of the invoice date. While the Finance team utilizes Oracle reports to identify invoices that have been received by Finance and entered into the system, but not yet paid, we noted, however, there is no process to identify delays of invoice approval from user schools or departments. Through our testing, we noted that invoices are paid expediently once delivered to Finance, however, thirteen (13) of the sixty-two (62) sampled invoices had an average delay of 94 days in approval from the user department or school.</p> <p>Because the review, approval, and ultimate payment of invoices is a decentralized process by nature, it is imperative that the Finance Department has the tools necessary to track and facilitate payments in a timely manner, despite the number of other parties involved. While invoice approval is the ultimate responsibility of user departments and schools, it is Finance's responsibility to ensure payments are made in a timely manner.</p>
<p>Recommendation</p>	<p>We recommend the Department consider creating processes to monitor invoice turnaround time. Example processes may include:</p> <ul style="list-style-type: none"> • Creating an Oracle entry for schools and departments to log the receipt date of invoices prior to approval. • Requiring school or departments to date stamp invoices upon receipt. • Requiring vendors to send a copy of an invoice directly to the Finance department. • Running reports periodically through the Oracle system to determine which purchase orders have goods/services received but not paid and following up with the user department or school for invoice status.
<p>Management's Action Plan</p>	<p>Responses: When invoices are received in the Finance Department, they are paid timely. Without monitoring tools, it is difficult for Finance to know when invoices are received by other departments. It may be the responsibility of the Finance Department to pay invoices in a timely manner, but it is the responsibility of the departments who receive an invoice to process and remit it to Finance in a timely manner. The Finance Department will continue to notify departments about submitting invoices as soon as they are received to ensure payments are made in a timely manner. Ultimately, it is the district's responsibility that the vendors are paid in a timely manner and in accordance with contract/state statute and finance will continue to work with Oracle to identify automated methods for ensuring obligations are met.</p> <p>Responsible Party: Dawn Fortes, Finance Director; Eric Fort, ERP Systems Administrator</p> <p>Estimated Completion Date: June 2022</p>

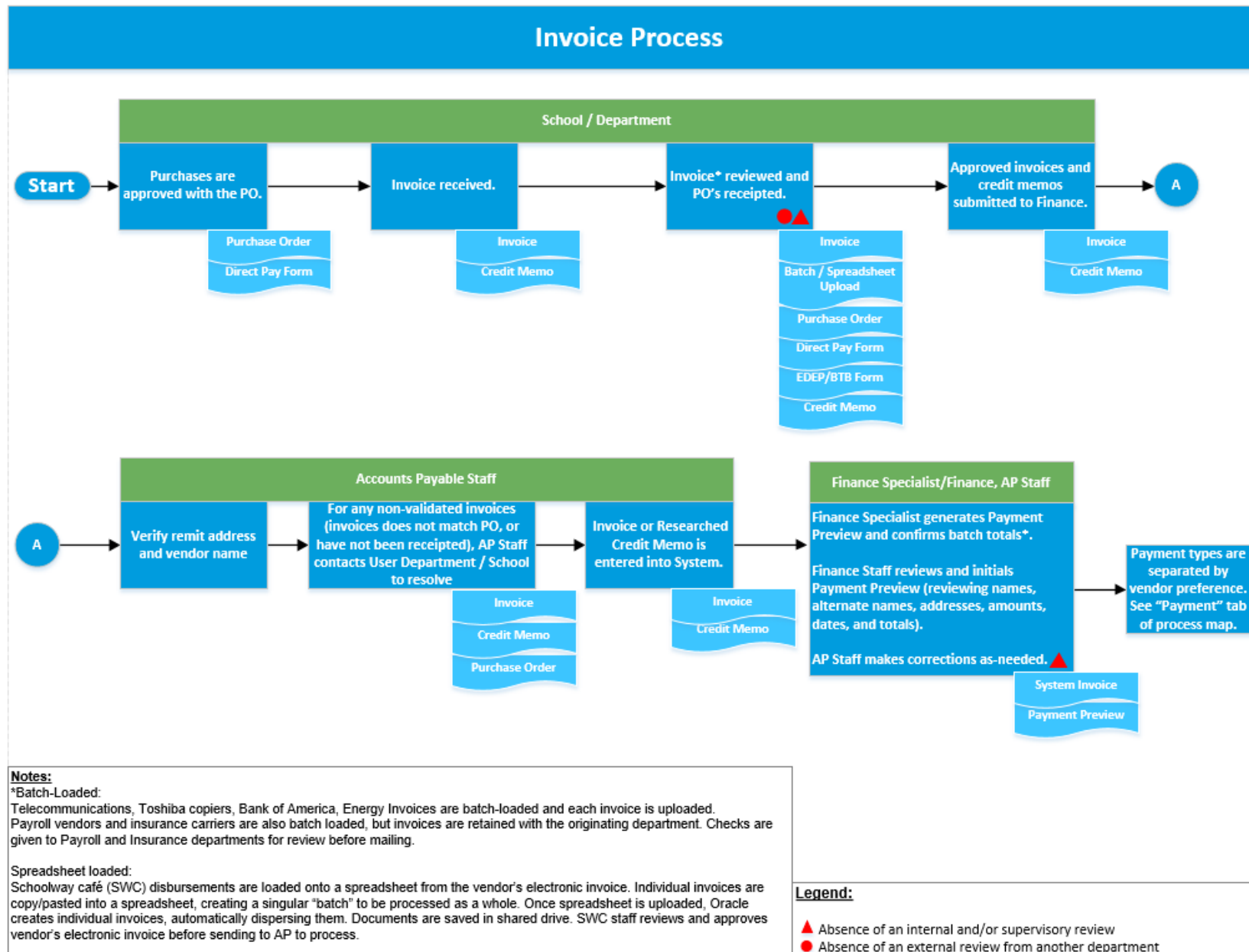
APPENDIX A



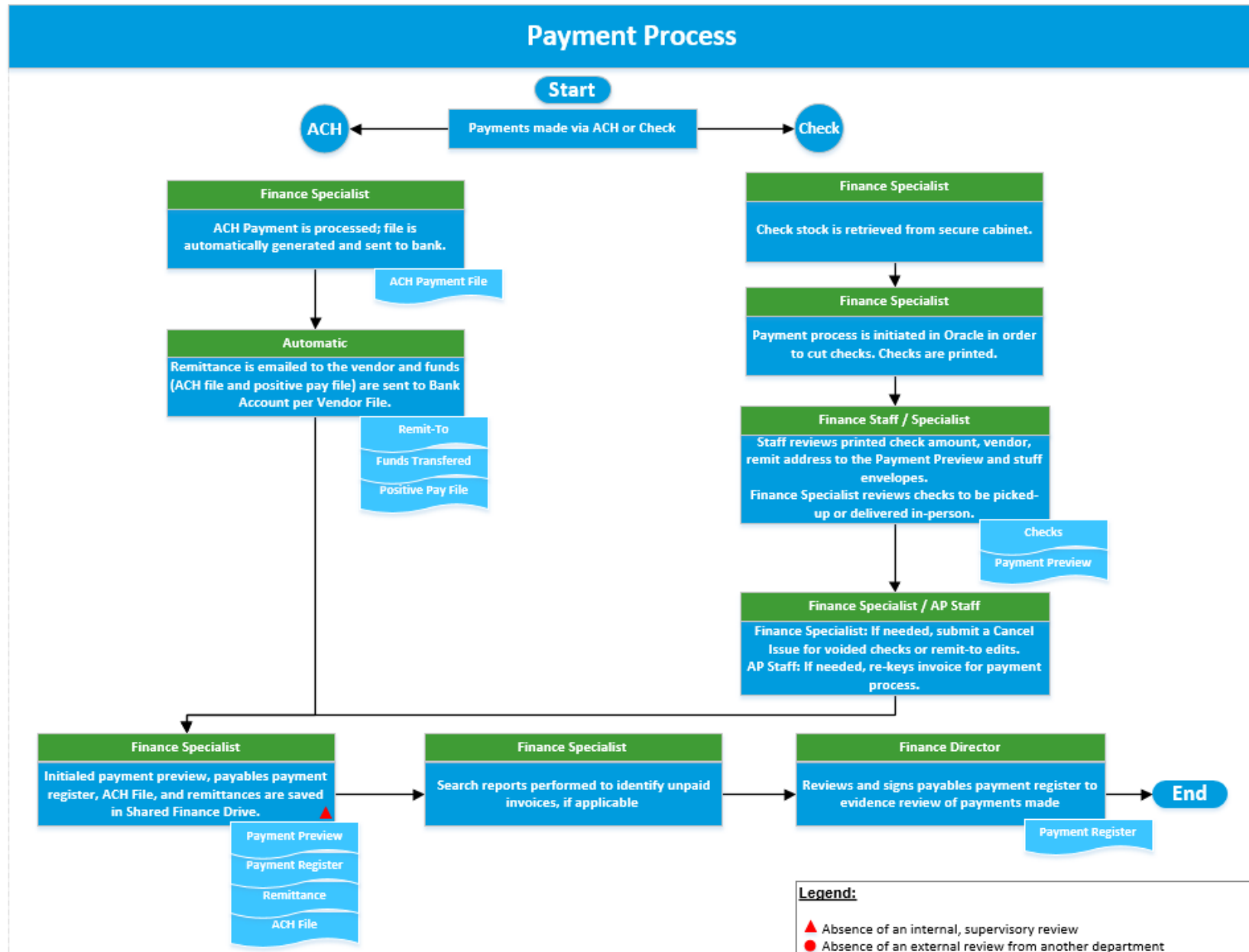
APPENDIX B



APPENDIX C



APPENDIX D





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