School District of Osceola County, Florida

Risk Assessment:
Top-10 High-Risk Areas of Focus – FY2023/24

September 11, 2023

RSM

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TRANSMITTAL LETTER

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September 11, 2023

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

Pursuant to our Statement of Work dated September 5, 2023, we hereby submit the Risk Assessment: Top-10 High-Risk Areas of Focus for the School District of Osceola County, Florida ("District") for fiscal year 2023-24 ("FY24").

We performed the Risk Assessment by applying a broad-based, enterprise view of risk, linked to the annual budget, financial reports, and operations. We reviewed recent board meeting minutes and various media sources to understand the District's current environment. We conducted interviews with District School Board Members, Superintendent, and other memb ers of management to gain an understanding of "What keeps them up at night?" and narrow in on their objectives and identified risks. For the purpose of this risk assessment, 'risk' focuses on financial, strategic, performance/operational, and compliance risk, as well as the general effect of public perception with regard to District-wide activities and initiatives. During the interviews, we discussed and identified areas of high risk, opportunities and vulnerabilities. As a result, we are presenting the Proposed Top-10 High-Risk Areas of Focus ("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.

We will present this report at the next Audit Advisory Committee meeting. We would like to thank the District's School Board, Superintendent, members of leadership, as well as the various departments and staff involved in assisting with the risk assessment process.

Respectfully Submitted,

RSM US LLP

INTERNAL AUDITORS

PROCESS OVERVIEW

Objectives

The risk assessment process is intended to assist in analyzing risk impacting the School District of Osceola County's current operating environment, including inherent and residual impacts and likelihood, and to identify the key risks impacting the current operating environment, functions, and activities. Objectives included the following:

- Identify and prioritize key risks impacting the District's current operating environment, functions, and activities.
- Refresh the District's risk profile and enhance management's awareness of risks, as applicable.
- Facilitate discussions with management regarding risk ownership and mitigation activities.
- Develop a proposed internal audit plan for the District.

Approach

1. *Identify and Measure Risk*
   - Conducted interviews with key stakeholders to identify current risks.
   - Reviewed the District's strategic plan, financial statements, current events, prior risk universe, and other information as deemed applicable.

2. *Prioritize risk*
   - Evaluated the level of risk within each process area based on the frequency with which it was mentioned during the interviews and the severity of potential impact on District operations and fulfillment of objectives.
   - Evaluated risk across various classifications, such as: Reputation, Technology, Compliance, Finance, External Factors, Operations, Human Resources, and Strategic.

   Note: RSM evaluated and prioritized risks based on information obtained from interviews, severity of impacted business operations, and interference with fulfillment of District objectives. Our review did not include detailed testing of source documents.

3. *Communicate Results*
   - Prepared an overall risk profile by classification.
   - Reviewed risk profile and deliverable with management, Audit Committee, and Board.

Risk Classifications

Risk classifications serve as the framework for assessing and prioritizing the risk model. RSM classified each of the risks into one or more of the following categories:

Compliance
Compliance with applicable laws and regulations.

External Factors
Known and emerging market trends, industry regulations, external stakeholder expectations, political, environmental, social, and technological unexpected events.

Finance
Oversight and internal controls over budgeting and forecasting, procurement, financial reporting, endowment, and utilization of resources.

Human Resources
Policies, procedures, and practices for attracting, training, and maintaining a qualified, skilled, and diverse workforce.

Operations
Effectiveness and efficiency of processes and communications across departments to achieve strategic, financial, and operational objectives.

Reputation
Ability to anticipate and mitigate risks that could adversely affect external perceptions of Osceola County Public Schools.

Strategic
Executive level oversight, planning and reporting processes established to achieve strategic objectives including monitoring performance and organizational alignment to meet objectives.

Technology
A sufficient IT infrastructure and environment to meet the needs of the District. Oversight and internal control over data integrity, business continuity, disaster recovery, data privacy, general and application controls, and cybersecurity.

PROCESS OVERVIEW – CONTINUED

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

Our approach is based on the widely accepted Committee of Sponsoring Organizations ("COSO") guidance on monitoring Internal Control Systems, as shown below:
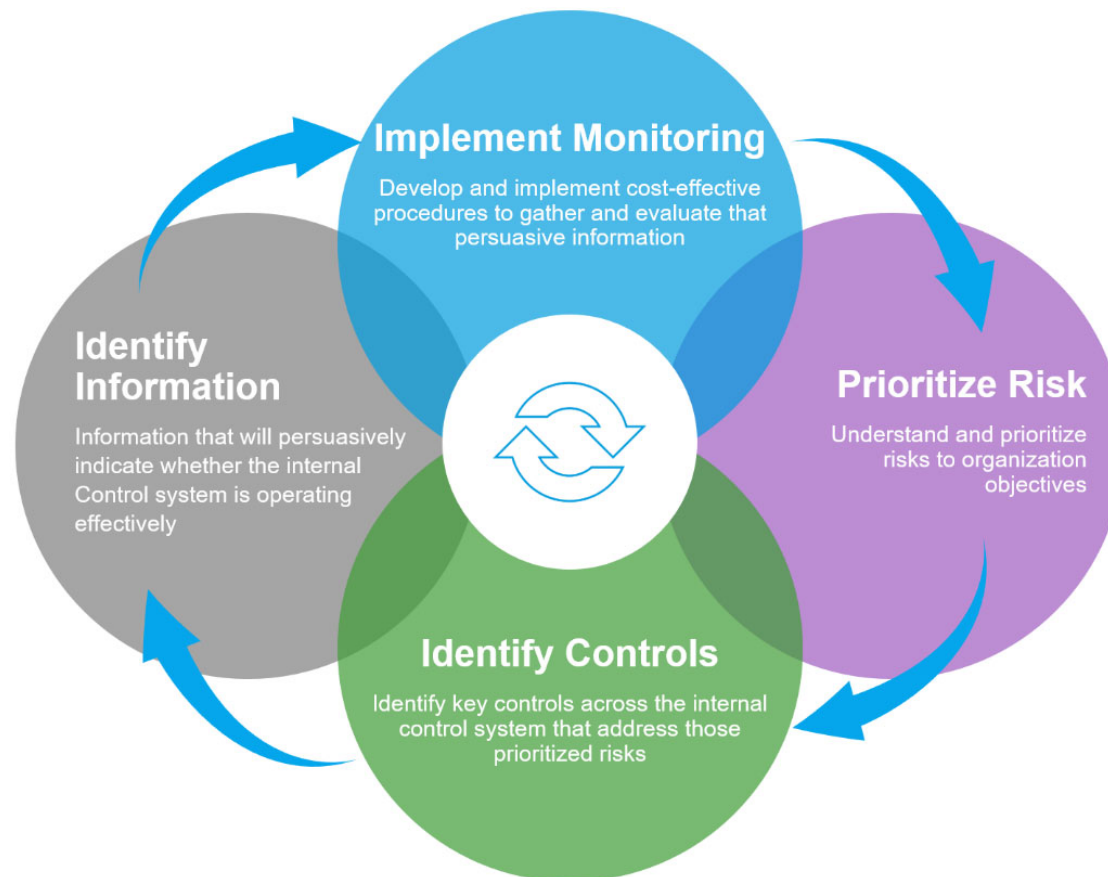
RISK ASSESSMENT

Updating the Proposed Top 10 from the risk assessment will facilitate that resources are focused on areas of most immediate concern and risk to the District. Our risk assessment 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).
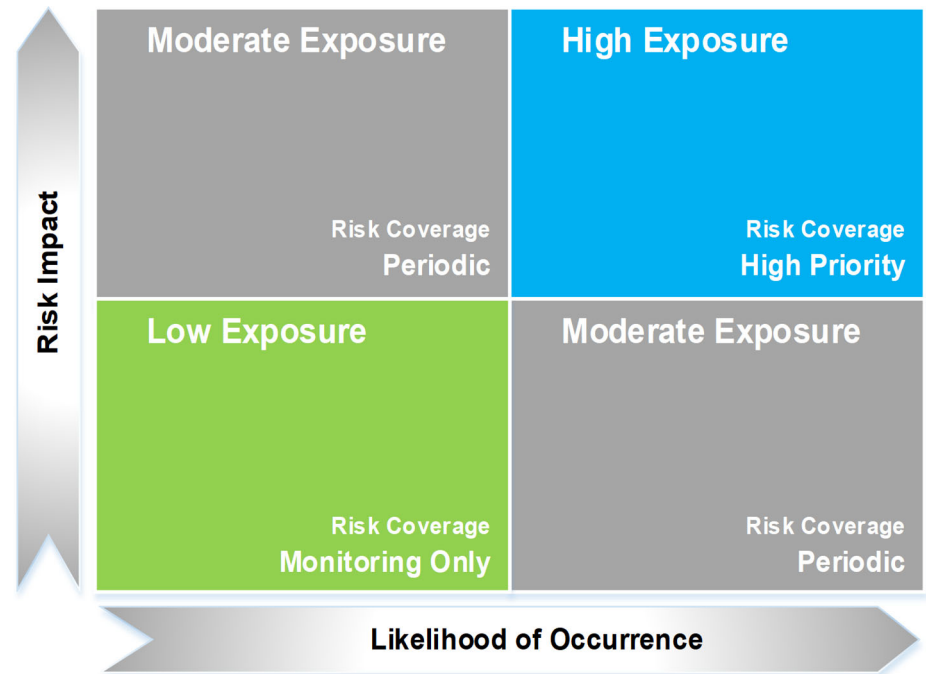
Inherent Risk

- 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 was conducted utilizing a broad-based enterprise 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, and other leaders to identify risks, vulnerabilities and potential opportunities. We reviewed recent budget briefings as well as media coverage and recent School Board meeting agendas, minutes, and other available documentation.

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

Risk Impact (vertical axis)

Likelihood of Occurrence (horizontal axis)

RISK ASSESSMENT - CONTINUED

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

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 Audit Advisory Committee and School Board can prioritize a potential internal audit plan for FY24. 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.

TOP-10 HIGH-RISK AREAS OF FOCUS – FY24

Annual Recurring Audits

The Institute of Internal Auditors ("IIA") is the internal audit profession's leader in standards, certification, education, research, and technical guidance. When developing the internal audit plan, the IIA International Standards for the Professional Practice of Internal Auditing require the internal audit function to perform a risk assessment and follow-up procedures, at least annually.

Risk Assessment	*"The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process."*
Follow-up Testing	*"Internal auditors should establish a follow-up process to ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action."* For each audit report completed"

Top-10 High-Risk Areas of Focus

The following is a summary of the top-10 high-risk areas of focus identified. In the pages that follow, we provide a high-level description of each proposed audit function/area, as well as the audit strategy for evaluating the effectiveness of the processes, procedures, and controls in place within the function. *We would like to re-iterate, as previously noted in this document, that the inclusion of a proposed high risk area of focus does not mean 'issues' or concerns currently exist, but rather that the high risk nature of the function is such that a higher potential exists for issues to develop.*

Top-10 High-Risk Areas of Focus
1. Safety, Security, and Emergency Management – Physical Security
2. Operations – Maintenance Services and Work Order Processes
3. Information Technology – IT Risk Monitoring
4. Business & Fiscal Services – Charter School Monitoring
5. Business & Fiscal Services – Payroll
6. District-wide – Ethics Hotline
7. Business & Fiscal Services – Purchase Cards ("P-Cards")
8. Records Management – Public Records
9. Purchasing, Property Records, and Warehouse – Property Control
10. Information Technology – Device Management

School District of
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FLORIDA

TOP-10 HIGH-RISK AREAS OF FOCUS

The objective of the risk assessment update is primarily for the development of a proposed internal audit plan for FY24. 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.	Safety, Security, and Emergency Management – Physical Security

All organizations face some degree of physical threat, whether from crime, natural disasters, technological incidents, or human error. Physical security is the protection of people, property, and physical assets from actions and events that could cause damage or loss. A physical security assessment is the most foundational and effective review of an organization's security program.

The District utilizes a myriad of facilities for ongoing operations and educational services. Managing access to, and the security of, District buildings is critical to protecting employees, students, and assets. The performance of health and safety inspections, camera installations and repair, fencing and gate installation, lock repair and key control, as well as the administration of the safety plan is the responsibility of the Safety, Security and Emergency Management department.

Inherent risks may include: Unauthorized or inappropriate access to facilities; Safety incidents; Theft or destruction of property and assets; Theft or destruction of records or personal/personnel information and various other threat actors.

Internal Audit Strategy

The purpose of the internal audit will be to perform a holistic review of the overall physical security of the District's buildings, facilities, and locations and to evaluate applicable regulatory compliance. We will evaluate the physical security controls in place at locations that are in scope. For example, our staff evaluates access control systems, security guards, closed-circuit television (CCTV) cameras, access badges, locks, security lighting, fences, and more. The physical security assessment is a noninvasive walk-through assessment that is guided by the client's security personnel while on-site. Our approach follows industry-accepted testing methodologies and are largely adapted from ASIS International guidelines and standards.

TOP-10 HIGH-RISK AREAS OF FOCUS - CONTINUED

2.   Operations – Maintenance Services and Work Order Processes

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

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.

TOP-10 HIGH-RISK AREAS OF FOCUS - CONTINUED

3.	Information Technology – IT Risk Monitoring

As of fiscal year 2024, the Board has directed that the District's Information and Technology department will manage certain IT-related monitoring projects, including third-party security audits of the IT environment, which was previously performed by Internal Audit. However, given the rapidly developing IT landscape and the inherent nature of IT-related risks, Internal Audit will provide ongoing risk monitoring of the District's IT environment to advise on any areas of risk that should be incorporated into the District's monitoring plan.

The District is currently planning for a fully upgraded ERP implementation. Given the complexity of this transition to a new ERP, ongoing real-time monitoring and feedback regarding alignment with industry best practices may provide the Information and Technology department with confidence in its implementation roadmap during its gap analysis and forthcoming implementation.

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

Internal Audit Strategy

The main objective of this assessment should be to coordinate with the District's Information and Technology leadership to identify any areas of risk associated with information technology that are not being addressed and to communicate information technology industry best practices that have not yet been implemented within the District. During its ERP implementation, subject matter professional would work collaboratively with the Information and Technology leadership to review any gap analysis results and recommendations to verify consistency with industry best practices and alignment with District IT-related initiatives.

TOP-10 HIGH-RISK AREAS OF FOCUS - CONTINUED

4.   Business & Fiscal Services – Charter School Monitoring

Charter schools are governed by Florida Statute Section 1002.33, which defines their purpose as, "to improve student learning and academic achievement, increase learning opportunities for all students (with special emphasis on low-performing students and reading), encourage the use of innovative learnings methods, and require the measurement of learning outcomes." Currently, there are twenty-six (26) charter schools operating within the District representing roughly 32% of all District schools. Per the 2023-2024 tentative budget, charter schools operate have budgeted appropriations in excess of $146,000,000. All public charter schools in Osceola County are sponsored by the School Board of Osceola County, but are operated independently of the School District of Osceola County. Each charter school has its own governing board, which is a non-profit organization that has applied for and received a charter contract. The District oversees the planning and monitoring of charter schools, and obtains monthly financial data as required per Florida Statute. Adequate monitoring controls are critical to detecting operational and financial disruptions that may potentially interrupt learning for students.

Inherent risks may include: Noncompliance with Florida Statutes; noncompliance with the executed charter contracts and school sponsorships; Inadequate or undocumented policies and procedures regarding reporting and oversight responsibilities; Exposure to legal ramifications; Inability to sufficiently monitor school operations and financial conditions, leading to financial loss and operational inefficiencies or failure; Reputational damage; Inability to meet strategic goals.

Internal Audit Strategy

The objective of this review would be to evaluate the design and effectiveness of the internal control structure in place to maintain compliance with Florida Statute and the District's current charter contract(s).

5.   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 8,300 instructional and non-instructional (administrative, technical, support, elected officials) employees, in total. These salaries and benefits comprise approximately 64.3% 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.

TOP-10 HIGH-RISK AREAS OF FOCUS - CONTINUED

6.   District-wide – Ethics Hotline

The District has implemented a new fraud, waste, and abuse reporting hotline. As part of this newly implemented hotline, all submitted reports are directed to the District's general counsel rather than to District staff. Updated processes have been implemented by the District general counsel to accommodate the directed workflow to respond to fraud, waste, and abuse complaints. Given this change in reporting and response structure, it is important to understand how these processes have been implemented and whether they are operating effectively and efficiently.

Inherent risks may include: Outdated, inadequate or undocumented policies and procedures; Inability to sufficiently monitor whistleblower complaints; Inability to respond to whistleblower complaints; Reputational damage; and Exposure to legal ramifications.

Internal Audit Strategy

The objective of this review would be to evaluate the design of the ethics reporting processes and hotline monitoring procedures. It will focus on the general counsel's procedures for receiving, documenting, and investigating whistleblower complaints and compliance with applicable regulation and school board policy.

7.   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 requests for checks being processed. There can be significant risks with P-Cards if the policies and procedures are not established correctly and are not functioning as designed. We recently completed a Purchasing audit which did not include P-Cards.

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

Internal Audit Strategy

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

TOP-10 HIGH-RISK AREAS OF FOCUS - CONTINUED

8. Records Management – Public Records

Pursuant to Chapter 119 F.S, public citizens are permitted to request documentation and records from the District through a "Public Records Request". It is the responsibility of the District to coordinate a public records request from any entity making that request and ensure all requests comply with Florida Statute Chapter 119, also known as the "Public Records Act." Records Management is currently responsible for the maintenance of school district records, providing access to records that are open for public inspection and review, and protecting those that are confidential and exempt.

Inherent risks may include: Outdated, inadequate, or undocumented policies and procedures surrounding public records; Improper dissemination of information; Noncompliance with Florida Statutes; and Exposure to legal ramifications.

Internal Audit Strategy

The primary scope and objective of this review is to identify how public records requests are managed, how publically available records are maintained, and what available controls are in place to administer public records requests.

9. Purchasing, Property Records, and Warehouse – Property Control

The property control function is responsible for managing the acquisition, supervision, accountability, control, transfer, and disposal of all tangible personal property owned by the District. This includes maintaining an adequate and accurate record of all tangible personal property of the District. Per the most recently completed annual financial report, the District has over $66 million in furniture, fixtures, and equipment assets.

Inherent Risks: Outdated, inadequate or undocumented policies and procedures; Non-compliance with Florida Statues and District policies for property control; Inaccurate inventories; Ineffective asset management and monitoring procedures.

Internal Audit Strategy

The primary objective of an audit of property control would include an evaluation of the current control structure and alignment with property control and accounting best practices. Audits over property control focus on tangible and software personal property due to the risk of loss. Our audits are not intended to include a review of controls or inventories over real property, including land and buildings. Our testing procedures may include, but are not limited to; assessing the system of controls in place to account for physical properties; Testing for, on a sample basis, the existence of specified assets and the completeness of asset records; and Verify compliance with District Property Control procedures.

TOP-10 HIGH-RISK AREAS OF FOCUS - CONTINUED

10. Information Technology – Device Management

The District's Information and Technology department is responsible for the monitoring of all personal IT devices distributed to District personnel that have been purchased through District funds. These devices are used by District employees for the purpose of District responsibilities, and includes new and replacement equipment, computer and device hardware, and operating system software necessary for gaining access to or enhancing the use of electronic and digital instructional continent and resources.

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

Internal Audit Strategy

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

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