REPORT NO. 2011-051
DECEMBER 2010

OSCEOLA COUNTY

DISTRICT SCHOOL BOARD

Operational Audit

STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD MEMBERS AND SUPERINTENDENT

Board members and the Superintendent who served during the 2009-10 fiscal year are listed below:

	District No.
Jay Wheeler	1
Julius Melendez to 2-9-10 (1)	2
Marjorie Guillen-Melendez from 2-10-10 (2)	2
Cindy Lou Hartig	3
David Stone, Vice Chair	4
John McKay, Chair	5

Michael A. Grego, Ed.D., Superintendent

Note: (1) Leave of absence for military service.
(2) Appointed by Governor to complete board member term.

The audit team leader was Mary W. Lynn, CPA, and the audit was supervised by David A. Blanton, CPA. For the information technology portion of this audit, the audit team leader was Rebecca F. Ferrell, CISA, and the supervisor was Nancy M. Reeder, CPA, CISA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Manager, by e-mail at gregcenters@aud.state.fl.us or by telephone at (850) 487-9039.

This report and other reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 487-9024; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

OSCEOLA COUNTY

District School Board

SUMMARY

Our operational audit disclosed the following:

PERSONNEL AND PAYROLL

Finding No. 1: District performance assessment procedures for instructional personnel and school administrators were not primarily based on student performance, contrary to Section 1012.34(3), Florida Statutes.

Finding No. 2: The Board had not adopted formal policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance pursuant to Section 1012.22(1)(c)2., Florida Statutes, and documenting the differentiated pay process of instructional personnel and school-based administrators using the factors prescribed in Section 1012.22(1)(c)4., Florida Statutes.

Finding No. 3: District policies and procedures did not limit payment for accrued vacation leave to the threshold established by Section 1012.65 Florida Statutes, resulting in overpayments totaling $12,752.65 during the 2009-10 fiscal year.

STUDENT ENROLLMENT

Finding No. 4: Improvements were needed in controls over the reporting of instructional contact hours for adult general education courses to the Florida Department of Education.

INFORMATION TECHNOLOGY

Finding No. 5: The District's management of information technology (IT) access privileges needed improvement.

Finding No. 6: The District did not timely disable the IT network access privileges of a former employee.

Finding No. 7: The District's IT security controls related to user authentication needed improvement.

BACKGROUND

The Osceola County District School Board (District) is part of the State system of public education under the general direction of the Florida Department of Education. Geographic boundaries of the District correspond with those of Osceola County. The governing body of the Osceola County District School Board (Board) is composed of five elected members. The appointed Superintendent of Schools is the executive officer of the Board.

During the 2009-10 fiscal year, the District operated 46 elementary, middle, high, and specialized schools; sponsored eight charter schools; and reported 51,458 unweighted full-time equivalent students.

The results of our audit of the District's financial statements and Federal awards for the fiscal year ended June 30, 2010, will be presented in a separate report.

FINDINGS AND RECOMMENDATIONS

Personnel and Payroll

Finding No. 1: Performance Assessments

Section 1012.34(3), Florida Statutes, requires the District to establish annual performance assessment procedures for instructional personnel and school administrators. When evaluating the performance of employees, the procedures must primarily include consideration of student performance, using results from student achievement tests, such as the Florida Comprehensive Assessment Test (FCAT), pursuant to Section 1008.22(3), Florida Statutes, at the school where the employee works. Additional employee performance assessment criteria prescribed by Section 1012.34(3)(a), Florida Statutes, include evaluation measures such as the employee's ability to maintain appropriate discipline, knowledge of subject matter, ability to plan and deliver instruction and use of technology in the classroom, and other professional competencies established by rules of the State Board of Education and Board policies. Section 1012.34(3)(d), Florida Statutes, requires that, if an employee is not performing satisfactorily, the performance evaluator must notify the employee in writing and describe the unsatisfactory performance.

The District established performance assessment procedures based on criteria prescribed by Section 1012.34(3)(a), Florida Statutes, except that the employees were not evaluated based primarily on student performance, such as FCAT scores. According to District personnel, this occurred because the FCAT results were not available until June 2010, and the District is required, pursuant to Section 1012.33, Florida Statutes, to provide the evaluations to instructional personnel no later than six weeks before the end of the school year. Although the District did not timely receive the FCAT scores, the District made no performance assessments of instructional personnel and school administrators after receipt of the FCAT scores to ensure appropriate consideration of student performance.

Without measuring employee performance by the required criteria, performance assessments of instructional personnel and school administrators may not effectively communicate the employee's accomplishments or shortcomings.

Recommendation: The District should enhance procedures to ensure that performance assessments for instructional personnel and school administrators include consideration of student performance.

Follow-up to Management's Response:

The District's response indicates that compliance with Section 1012.34(3), Florida Statutes, was impossible due to the delayed receipt of the FCAT scores. However, the point of our finding is that no performance assessments were made of instructional personnel and school administrators after receipt of the FCAT scores to ensure appropriate consideration of student performance.

Finding No. 2: Compensation and Salary Schedules

Section 1001.42(5)(a), Florida Statutes, requires the Board to designate positions to be filled, prescribe qualifications for those positions, and provide for the appointment, compensation, promotion, suspension, and dismissal of employees, subject to the requirements of Chapter 1012, Florida Statutes. Section 1012.22(1)(c)2., Florida Statutes, provides that, for instructional personnel, the Board must base a portion of each employee's compensation on performance. In addition, Section 1012.22(1)(c)4., Florida Statutes, requires the Board to adopt a salary schedule with

differentiated pay for instructional personnel and school-based administrators. The salary schedule is subject to negotiation as provided in Chapter 447, Florida Statutes, and must allow differentiated pay based on District-determined factors, including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties.

While compensation of instructional personnel is typically subject to collective bargaining, the Board had not adopted formal policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance pursuant to Section 1012.22(1)(c)2., Florida Statutes. Such policies and procedures could establish and clearly communicate the performance measures affecting instructional employee compensation. In addition, the Board had not adopted formal policies and procedures establishing the documented process to identify the instructional personnel and school-based administrators entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4., Florida Statutes. Such policies and procedures could specify the prescribed factors used as the basis for determining differential pay, the documented process for applying the prescribed factors, and the individuals responsible for making such determinations.

The 2009-10 fiscal year salary schedule and applicable union contracts for instructional personnel and school-based administrators provided pay levels based on various factors such as job classification, years of experience, level of education, and other factors. However, the District's procedures for documenting compliance with Section 1012.22(1)(c), Florida Statutes, could be improved, as follows:

- **Instructional Personnel**. The instructional personnel salary schedule and union contracts did not evidence that a portion of the compensation of each instructional employee was based on performance, contrary to Section 1012.22(1)(c)2., Florida Statutes. The District had a performance pay plan in effect during the 2009-10 fiscal year that resulted in 26 instructional personnel who received a bonus in September 2010. However, since the District has over 3,000 instructional personnel, District records did not evidence that a reasonable attempt had been made to base a portion of each instructional employee's compensation on the employee's performance.

  District personnel indicated that the instructional personnel salary schedule and union contracts include consideration for additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties. For example, District personnel indicated that these records provided differential pay for additional responsibilities, such as coaches, committee chairpersons, and union negotiating team members; and school demographics, such as transfer incentives to encourage teachers to relocate to low performing schools. District personnel also identified salary differentials for critical shortage areas, such as exceptional student education teachers and speech pathologists; and level of job performance difficulties, such as guidance directors and grade level chairpersons. While these records evidenced the basis for some salary differentials, District records did not sufficiently evidence the basis upon which the District determined the critical shortage areas and level of job performance difficulties. To substantiate critical shortage areas, records could evidence a minimal number of applicants, high personnel turnover rates, and other factors demonstrating the difficulty of hiring and retaining particular personnel. For level of performance difficulties, such documentation could include records evidencing the unique circumstances, hardships, and challenges of instructional personnel of particular classes that other teachers did not encounter.

- **School-based Administrators**. District personnel indicated that the school-based administrators' salary schedule includes consideration for additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties. For example, District personnel indicated that the schedule evidenced differing administrative pay grades for elementary, middle, and high schools based on the additional responsibilities and school demographics of the type of schools. District personnel further indicated that salary differentials were also based on critical shortage areas and level of job performance difficulties since additional compensation was given for certain administrative transfers and retention incentives. However, District records did not document the basis for identifying the critical shortage areas that resulted in the additional compensation for these administrators.

Without Board-adopted policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance, and clearly identifying the basis for the differentiated pay, the District may be limited in its ability to demonstrate that each instructional employee's performance correlated to their compensation and the various differentiated pay factors were consistently considered and applied.

Recommendation: The Board should adopt formal policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance, and document the factors considered in determining differentiated pay of instructional personnel and school-based administrators.

Follow-up to Management's Response:

The District's response indicates that documentation was provided to evidence that differentiated pay was included in its salary schedules for both instructional personnel and school-based administrators for each factor required by statute (additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties). District salary schedules did evidence consideration of the four factors required by statute; however, District records did not sufficiently evidence the basis upon which the District determined critical shortage areas and level of job performance difficulties for instructional personnel and critical shortage areas for school-based administrators.

Finding No. 3: Terminal Leave Payments for Annual Leave

Section 1012.65, Florida Statutes, provides that a district school board may establish policies to provide for a lump-sum payment for accrued vacation leave to an employee upon termination of employment or upon retirement. Effective July 1, 2001, terminal pay for accrued vacation leave may not exceed a maximum of 60 days of actual payment. This limit does not impair any contractual agreement established before July 1, 2001, and for any unused vacation leave accumulated before July 1, 2001, terminal payment shall be made pursuant to the district school board's policies, contracts, or rules that were in effect on June 30, 2001.

The Board established a policy that provides for the payment of accrued vacation leave upon termination of employment or retirement, and limits terminal leave days paid to that allowed by law. The policy provides that employees could receive payment for the number of vacation days accumulated as of June 30, 2001, plus an additional 60 days accumulated after June 30, 2001. The policy also provides that employees who had entered three-year contracts with the Board as of June 30, 2001, could receive payment for the number of vacation days accumulated as of June 30, 2004, plus an additional 60 days accumulated after June 30, 2004. However, the District's termination payment policies do not limit terminal pay consistent with the provisions of Section 1012.65, Florida Statutes. District staff interpreted Section 1012.65, Florida Statutes, to authorize an additional 60 days of payment for accumulated vacation leave above that accumulated at June 30, 2001, although District records did not evidence the basis for this interpretation.

In our report No. 2008-078, our audit tests disclosed two instances in which terminal payments for vacation leave exceeded 60 days of actual payment, resulting in overpayments totaling approximately $2,150. To address these overpayments, the District sent collection letters to the former employees and collected $750, leaving an uncollected balance of approximately $1,400 as of September 2010. Further, during the 2009-10 fiscal year, as a result of the above-noted policy deficiency, the District overpaid four employees $12,752.65 for 38 days of vacation leave in excess of the 60-day limit, contrary to Section 1012.65, Florida Statutes. The number of days paid in excess of the authorized limit ranged from 1 to 23 days. In addition, as of June 30, 2010, the District had approximately 75 employees with

more than 60 days of vacation leave accrued after June 30, 2001. Based on the accrued vacation leave for these employees in excess of the 60-day limitation as of June 30, 2010, should the Board not remedy the above-noted policy deficiency, future payments of accrued vacation leave could result in overpayments totaling approximately $300,000[1].

Recommendation: The Board should amend its policy for terminal leave pay to conform with the limitations set forth by law, and seek recovery of the terminal leave overpayments totaling $14,152.65.

Follow-up to Management's Response:

We continue to disagree with the District's interpretation of the limitations on terminal pay contained in Section 1012.65, Florida Statutes. By letter dated November 4, 2010, the District requested the Florida Attorney General interpret whether or not Section 1012.65, Florida Statutes, authorizes an additional 60 days of payment for accumulated vacation leave for employees above that accumulated as of June 30, 2001. We recommend the Board follow the guidance provided in the Attorney General response when it is received.

Student Enrollment

Finding No. 4: Adult General Education Courses

Section 1004.02(3), Florida Statutes, defines adult general education, in part, as comprehensive instructional programs designed to improve the employability of the State's workforce. Chapter 2009-81, Laws of Florida, Specific Appropriation 111, states that from the funds provided in Specific Appropriations 9 and 111, each school district shall report enrollment for adult general education programs identified in Section 1004.02, Florida Statutes, in accordance with the Florida Department of Education (FDOE) instructional hours reporting procedures.

Procedures provided by FDOE to the school districts stated that fundable instructional contact hours are those scheduled hours that occur between the date of enrollment in a class and the withdrawal date or end-of-class date, whichever is sooner. Also, FDOE procedures provided that institutions must develop a procedure for withdrawing students for nonattendance and that the standard for setting the withdrawal date shall be six consecutive absences from a class schedule. Additionally, FDOE procedures provided that reported students must participate in at least 12 contact hours of instructional activity.

During the 2009-10 school year, the District reported 522,701 adult general education contact hours for 4,736 students to FDOE. We reviewed the contact hours reported and attendance records for 40 students enrolled in 85 adult general education classes. Our review disclosed that of the 4,679 contact hours reported in our test, 1,477 hours or 32 percent were overreported, as noted below:

- Although 23 students had six or more consecutive absences according to attendance records, the District did not procedurally withdraw the students, resulting in 1,300 hours overreported.
- The District did not procedurally withdraw three other students who did not generate a minimum of 12 contact hours, resulting in 177 hours overreported.

District staff indicated that they were not aware of the FDOE requirements to develop procedures for withdrawing students after six consecutive absences and reporting contact hours only from the date of enrollment to the date of withdrawal. Therefore, District staff reported all scheduled contact hours from the date of enrollment to the end of

[1] Does not consider vacation leave that these employees may earn or use after June 30, 2010.

the semester, resulting in the overreporting. Since future funding may be based, in part, on enrollment data submitted to FDOE, it is important that such data be submitted correctly.

Recommendation: The District should enhance its controls over the reporting of instructional contact hours for adult general education courses to the Florida Department of Education and develop procedures to withdraw students as required. Further, the District should determine the extent of hours overreported for all students and contact the Florida Department of Education for proper resolution.

Information Technology

Finding No. 5: Management of Access Privileges

Access controls are intended to protect data and information technology (IT) resources from unauthorized disclosure, modification, or destruction. Effective access controls provide employees access to IT resources based on a demonstrated need to view, change, or delete data and restrict employees from performing incompatible functions or functions outside of their areas of responsibility. Periodically reviewing IT access privileges assigned to employees promotes good internal control and is necessary to ensure that employees cannot access IT resources inconsistent with their assigned job responsibilities.

We reviewed selected access privileges to the finance and payroll applications and the supporting operating system to determine the appropriateness of access privileges. Our audit disclosed that, although the District's Standard Operating Procedures provided for the periodic review of employee access privileges, inappropriate or unnecessary access privileges existed. The existence of inappropriate or unnecessary access privileges indicated a need for improved District review of access privileges. Specifically:

- Six employees from the IT department had the capability to add a vendor. This access was unnecessary for their job duties. In response to audit inquiry, District management removed this access privilege for the six employees in April 2010.
- Three employees from various departments had the capability to add a vendor, input vendor invoices and journal entries, print checks, and perform security administrator functions. These privileges permitted the employees to perform incompatible job duties.
- One employee from the Finance department had the capability to add or change application users' profiles and user identifications (IDs). This access was unnecessary for his job duties. In response to audit inquiry, District management removed these access privileges for the employee in April 2010.
- Approximately 1,500 user profiles had special operating system authorities that allowed, among other things, the ability to start and end auditing (logging); hold, release, change, and cancel other users' jobs; save, restore, and free storage for all objects in the system; and manage job queues. The special operating system authorities were assigned to the user profiles through the use of a group user profile. These authorities permitted employees to have inappropriate access to these functions. In response to audit inquiry, District management removed all of these special operating system authorities in May 2010.

Although the District had controls in place (e.g., management review of journal audit reports and budgetary restrictions) to mitigate some of the risks of the control deficiencies noted above, the inappropriate or unnecessary access privileges increase the risk that unauthorized disclosure, modification, or destruction of data and IT resources may occur and without timely detection.

Recommendation: The District should be more restrictive in the granting of access privileges to ensure that access privileges are compatible with employee job responsibilities and promote appropriate separation of duties. Additionally, the District should continue its efforts to improve its review of the appropriateness of access privileges and timely remove or adjust any inappropriate or unnecessary access privileges detected.

Finding No. 6: Timely Removal of Access Privileges

Effective IT access controls include provisions for timely removing employee IT access privileges when employment is terminated. Prompt action is necessary to ensure that a former employee's IT access privileges are not misused by the former employee or others.

Biweekly, the District's Human Resources department sent listings of employee terminations to the IT department. The IT department used these listings to disable the access privileges of former employees. However, our review of 41 employees who terminated employment from July 1, 2009, through February 24, 2010, disclosed that the network user identification (ID) for one former employee was active 53 days after the termination date.

Although our tests did not disclose any instances of errors or misappropriations as a result of the issue noted above, the District is exposed to a greater risk that access privileges could be used to compromise District data or IT resources when it does not timely remove the IT access privileges of former employees. In response to audit inquiry, District management indicated that the network ID has now been disabled.

Recommendation: The District should promptly remove IT access privileges of former employees.

Finding No. 7: Security Controls

Security controls are intended to protect the confidentiality, integrity, and availability of data and IT resources. Our audit disclosed certain security controls related to user authentication that needed improvement. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising District data and IT resources. However, we have notified appropriate District management of the specific issues. Without adequate security controls related to user authentication, the confidentiality, integrity, and availability of data and IT resources may be compromised, increasing the risk that District data and IT resources may be subject to improper disclosure, modification, or destruction.

Recommendation: The District should improve security controls related to user authentication to ensure the continued confidentiality, integrity, and availability of District data and IT resources.

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the District had taken corrective actions for findings included in previous audit reports.

OBJECTIVES, SCOPE, AND METHODOLOGY

The Auditor General conducts operational audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

We conducted this operational audit from March 2010 to October 2010 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of this operational audit were to: (1) obtain an understanding and make overall judgments as to whether District internal controls promoted and encouraged compliance with applicable laws, rules, regulations, contracts, and grant agreements; the economic and efficient operation of the District; the reliability of records and reports; and the safeguarding of assets; (2) evaluate management's performance in these areas; and (3) determine whether the District had taken corrective actions for findings included in previous audit reports. Also, pursuant to Section 11.45(7)(h), Florida Statutes, our audit may identify statutory and fiscal changes to be recommended to the Legislature.

The scope of this operational audit is described in Exhibit A. Our audit included examinations of various records and transactions (as well as events and conditions) occurring during the 2009-10 fiscal year.

Our audit methodology included obtaining an understanding of the internal controls by interviewing District personnel and, as appropriate, performing a walk-through of relevant internal controls through observation and examination of supporting documentation and records. Additional audit procedures applied to determine that internal controls were working as designed, and to determine the District's compliance with the above-noted audit objectives, are described in Exhibit A. Specific information describing the work conducted to address the audit objectives is also included in the individual findings.

AUTHORITY

Pursuant to the provisions of Section 11.45, Florida Statutes, I have directed that this report be prepared to present the results of our operational audit.

David W. Martin, CPA
Auditor General

MANAGEMENT'S RESPONSE

Management's response is included as Exhibit B.

EXHIBIT A
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Information technology (IT) security awareness training program.	Examined supporting documentation to determine the adequacy of the District's IT security awareness program.
IT policies and procedures.	Examined the District's written IT policies and procedures to determine whether they address certain important IT control functions.
Logging and monitoring of system events.	Reviewed network and system settings to determine whether network and system events were logged and monitored.
Security administration.	Examined documentation and tested employee access to security administrator functions to determine whether security administrator access was granted only to the identified security administrators.
Program change controls.	Reviewed supporting documentation to determine the adequacy of the District's change management methodology for production data changes related to IT resources.
Procedures to timely prohibit terminated employees' access to IT electronic data files.	Tested employees who terminated during the audit period and examined supporting documentation to determine whether the District timely terminated access privileges.
User identification and authentication controls.	Examined supporting documentation to determine whether user identification and authentication controls were configured and enforced in accordance with IT best practices.
Appropriateness of access to IT resources.	Tested employee access to selected functions within the application to determine whether an appropriate separation of duties existed in relation to employees' job functions. Tested operating system groups and system privileges granted to employees to determine if an appropriate separation of duties existed in relation to employees' job functions.
Access to and modification of sensitive or critical files.	Reviewed documentation to determine whether the District was logging and monitoring accesses to and modification of sensitive or critical files in accordance with IT best practices.
Procedures for granting access to IT resources.	Examined documentation to determine the adequacy of the District's process for requesting, approving, implementing, and reviewing system access to IT resources.
Fraud policy and related procedures.	Examined written policies, procedures, and supporting documentation related to the District's fraud policy and related procedures.
Purchasing card transactions.	Tested purchasing card transactions for propriety and compliance with related laws, rules, and District procedures.
Social security numbers.	Examined records to determine whether the District had provided individuals with a written statement as to the purpose of collecting social security numbers pursuant to Section 119.071(5)(a), Florida Statutes.
Adult general education program enrollment reporting.	Tested adult education students from Florida Department of Education (FDOE) records and examined supporting documentation to determine whether the District reported instructional and contact hours in accordance with FDOE requirements.

EXHIBIT A (Continued)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Restrictions on use of Workforce Development funds.	Applied analytical procedures to determine whether the District used funds for authorized purposes (i.e., not used to support K-12 programs or District K-12 administrative costs).
Financial condition.	Applied analytical procedures to determine whether the General Fund unreserved fund balance at June 30, 2010, was less than the percents of the Fund's revenues specified in Section 1011.051, Florida Statutes.
Compensation and salary schedules.	Examined supporting documentation to determine whether the Board, for instructional personnel, based a portion of each employee's compensation on performance, and adopted a salary schedule with differentiated pay for instructional personnel and school-based administrators based upon District-determined factors, including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties.
Performance assessments.	Examined supporting documentation to determine whether the District had established adequate performance assessment procedures for instructional personnel and school administrators primarily based on student performance and other criteria in accordance with Section 1012.34(3), Florida Statutes.
Superintendent and school board member compensation requirements of Chapter 2009-59, Laws of Florida.	Determined whether the Superintendent was properly paid pursuant to employment agreements and received no more than $225,000 in remuneration from State funds. Also, determined whether the District properly calculated the salary of school board members according to statutory guidance.
John M. McKay Scholarships for Students with Disabilities Program.	Examined records to determine whether parents and guardians were notified annually of the John M. McKay Scholarships for Students with Disabilities Program pursuant to Section 1002.39(5)(a), Florida Statutes.
Charter school administrative fee.	Examined records to determine whether the District properly withheld the charter school administrative fee pursuant to Section 1002.33(20)(a), Florida Statutes.
Direct-support organization audits.	Reviewed the District's direct-support organizations' audit reports to determine whether the audits were performed pursuant to Chapter 10.700, Rules of the Auditor General, and Section 1001.453, Florida Statutes.
Inventory procedures.	Reviewed controls over District inventories to ensure that they were adequately designed and implemented to provide for proper accountability and safeguarding of related assets.
Investment control procedures.	Reviewed District investments to ensure that invested funds were adequately secured.
Terminal leave payment procedures.	Reviewed terminal leave payments to determine whether such payments were appropriate.
Payments for overtime.	Examined District records and applied analytical procedures to determine whether overtime costs were properly controlled.

EXHIBIT A (Continued)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Annual safety inspections.	Reviewed safety inspection reports and examined supporting documentation to determine current status of any deficiencies identified in the reports and whether the District timely resolved such deficiencies.
Third-party administrators.	Determined whether third-party administrators contracted by the District held a valid certificate of authority from the Florida Office of Insurance Regulation.

EXHIBIT B
MANAGEMENT'S RESPONSE

THE SCHOOL DISTRICT OF OSCEOLA COUNTY, FLORIDA
817 Bill Beck Boulevard • Kissimmee• Florida 34744-4492
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SCHOOL BOARD MEMBERS
District 1 – Jay Wheeler
407-390-0505
District 2 – Marjorie Guillen-Melendez, Vice Chair
407-922-5113
District 3 – Cindy Lou Hartig, Chair
407-832-3999
District 4 – Barbara Horn
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District 5 – Tom Long
407-892-5836

Superintendent of Schools
Michael A. Grego, Ed.D.

November 29, 2010

David W. Martin, CPA
Auditor General
5015 S. Florida Avenue, Suite 406
Lakeland, FL 33813

Dear Mr. Martin:

The District is audited by the Auditor General every third year, with audits performed by private independent Certified Public Accountants in the intervening years. Traditionally, audits performed by the Auditor General include much more extensive operational and compliance testing resulting in more recommendations than audits performed by private independent auditors. The last audit of the Osceola County District School Board performed by the Auditor General was for the fiscal year ended June 30, 2007 and included ten (10) operational findings. The current report includes seven (7) operational findings. We recognize and commend the efforts and diligence of District staff that produced this improvement.

We appreciate the thorough review of District operations performed by the Auditor General's staff and the guidance they provided to us in our production of a Comprehensive Annual Financial Report for submission to the Government Finance Officers Association excellence in financial reporting certificate program.

Finding No. 1: Performance Assessments

District performance assessment procedures for instructional personnel and school administrators were not primarily based on student performance, contrary to Section 1012.34(3), Florida Statutes.

Recommendation: The District should enhance procedures to ensure that performance assessments for instructional personnel and school administrators include consideration of student performance.

Student Achievement – Our Number One Priority
Districtwide Accreditation by the Southern Association of Colleges and Schools
An Equal Opportunity Agency

EXHIBIT B
MANAGEMENT'S RESPONSE (Continued)

November 29, 2010
Page 2 of 7

Response:

On August 28, 2009, the District submitted to the Florida Department of Education a revised instructional assessment system in compliance with 1012.34 FS. The system was developed collaboratively with the teacher's union in compliance with Chapter 447 collective bargaining law.

Under 1012.33, school districts must notify certain teachers of performance deficiencies no later than 6 weeks prior to the post conference period. Unfortunately, the final release of state assessment data was not until June 28, 2010 – long after required compliance with the statute for notification and long after the post conference period for teachers. This made it impossible for Districts to utilize data defined in 1008.22 in compliance with 1012.34 FS. In the absence of state assessment data, the District utilized local assessments, benchmarks, etc. to determine instructional effectiveness as described in our Board Approved Instructional Assessment System.

Administrators used data locally available through our ODMS (Osceola Data Management System) and portfolios submitted by teachers in the assessment process to make the determination of learning gains. Additionally, all indicators of our Instructional Assessment System for which a rating of "outstanding" can be given reflect directly on indicators of student achievement (as described in the Assessment Manual).

Clearly, in the absence of the data mandated for use in 1012.34 (state assessments 1008.22) it would have been impossible for the District to comply with both that statute and the one governing notification of teacher performance (1012.33). The District acted in good faith on the promise of the availability of the test scores, and to delay notification or assessment would have required the District to both fail to comply with statutory requirement for timely notification AND enter into a collective bargaining agreement for changes in the District's assessment system timeline based upon an unknown delivery date for state assessment scores. The District further acted in good faith and practice in timely submission of our assessment system to the FLDOE for approval and the successful negotiation of the system in compliance with Chapter 447, and ratification by teacher membership and the School Board in November of 2009.

Finding No. 2: Compensation and Salary Schedules

The Board had not adopted formal policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance pursuant to Section 1012.22(1)(c)2., Florida Statutes, and documenting the differentiated pay process of instructional personnel and school-based administrators using the factors prescribed in Section 1012.22(1)(c)4., Florida Statutes.

EXHIBIT B
MANAGEMENT'S RESPONSE (Continued)

November 29, 2010
Page 3 of 7

Recommendation: The Board should adopt formal policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance, and document the factors considered in determining differentiated pay of instructional personnel and school-based administrators.

Response:

This comment addresses two separate requirements for compensation and salary schedules.

The first is pay for performance as determined by annual evaluations under Section 1012.22(1)(c)(2), which states:

> A district school board, in determining the salary schedule for instructional personnel, must base a portion of each employee's compensation on performance demonstrated under s.1012.34.

Section 1012.34 refers to employee assessments.

The second issue is differentiated pay based on defined factors under Section 1012.22(1)(c)(4), which states:

> Beginning with the 2007-2008 academic year, each district school board shall adopt a salary schedule with differentiated pay for both instructional personnel and school-based administrators. The salary schedule is subject to negotiation as provided in chapter 447 and must allow differentiated pay based on district-determined factors, including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties.

With respect to the first issue, pay for performance, we will instruct our negotiating team to develop a salary schedule in which performance, as determined by annual evaluations, is a factor in determining every instructional employee's salary. However, because the salary schedule and the specific methodology for incorporating performance measures must be determined through negotiations, these items cannot be determined in advance by Board policy.

With respect to the second issue, differentiated pay, the District believes it has complied with all statutory requirements. We have provided documentation that differentiated pay is included in the salary schedules for both instructional personnel and school-based administrators for each factor required by statute (additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties). For instructional personnel, the specific factors, amounts, and methods of application have been determined through negotiations, as required by statute. The outcome of negotiations cannot be predetermined by Board policy. The factors, amounts, and methods of application for school-based administrators have been established by management, within its right, and result in a school-based administrative team fully staffed with qualified personnel. All salary schedules have been reviewed by senior District leadership and approved by the School Board.

EXHIBIT B
MANAGEMENT'S RESPONSE (Continued)

November 29, 2010
Page 4 of 7

Finding No. 3: Terminal Leave Payments for Annual Leave

District policies and procedures did not limit payment for accrued vacation leave to the threshold established by Section 1012.65 Florida Statutes, resulting in overpayments totaling $12,752.65 during the 2009-10 fiscal year.

Recommendation: The Board should amend its policy for terminal leave pay to conform with the limitations set forth by law, and seek recovery of the terminal leave overpayments totaling $14,152.65.

Response:

The School Board's policies regarding terminal pay for accrued vacation leave are in compliance with §1012.65, Florida Statutes. During the 2001 Legislative Session, §1012.65, Florida Statutes (previously numbered §231.481, Florida Statutes) was amended to state in pertinent part:

> Effective July 1, 2001, terminal pay for accrued vacation leave may not exceed a maximum of 60 days of actual payment. This limit does not impair any contractual agreement established before July 1, 2001. For unused vacation leave accumulated before July 1, 2001, terminal payment shall be made pursuant to the district school board's policies, contracts, or rules that are in effect on June 30, 2001.

Prior to the July 1, 2001 effective date of the above quoted statute, the School Board approved multi-year employment contracts for all current employees who would be impacted by the statutory amendment, which ultimately expired June 30, 2004. According to the above statutory language, the terminal pay limits do not impair any contractual agreement established before July 1, 2001. Accordingly, the above statutory language should be supplemented so that unused vacation leave accumulated before July 1, 2001 should also include "or July 1, 2004 for those employees holding multi-year employment contracts."

The Florida Auditor General's Office interpretation of §1012.65, Florida Statutes, is that if an employee had accumulated sixty (60) days or more of vacation leave before July 1, 2001 (or July 1, 2004 for those employees holding multi-year employment contracts), the employee is prohibited from accruing any additional vacation leave for terminal pay purposes. However, the School Board has interpreted §1012.65, Florida Statutes (1) for vacation leave accrued before July 1, 2001 (or July 1, 2004 for those employees holding multi-year employment contracts), terminal pay is paid pursuant to the School Board policy in effect at that time; and (2) for vacation leave accrued on and after July 1, 2001 (or July 1, 2004 for those employees holding multi-year employment contracts), terminal pay may not exceed sixty (60) days of actual payment. This interpretation is based on the following factors.

EXHIBIT B
MANAGEMENT'S RESPONSE (Continued)

November 29, 2010
Page 5 of 7

First, a plain reading of §1012.65, Florida Statutes, provides the sixty (60) day limit does not impair any contractual agreement established before July 1, 2001. Accordingly, the total amount of vacation leave days employees have accrued before July 1, 2001 (or July 1, 2004 for those employees holding multi-year employment contracts) are to be paid pursuant to the School Board rules in effect at that time. Thereafter, the statute provides that effective July 1, 2001 (or July 1, 2004 for those employees holding multi-year employment contracts) terminal pay for accrued vacation leave may not exceed sixty (60) days of actual payment.

Second, Chapter 2001-103, Laws of Florida, which served to amend §1012.65, Florida Statutes, also amended the terminal pay for accrued sick leave provision in Section 1 of the Bill. The amendment for terminal pay for accrued sick leave specifically included a restriction that if an employee had an accumulated sick leave balance of sixty (60) days or more prior to July 1, 2001, sick leave earned after that date may not be accumulated for terminal pay purposes until the accumulated leave balance for leave earned before July 1, 2001 is less than sixty (60) days. Importantly, while the above language was added to the terminal pay for accrued sick leave provision, that language was not added to the terminal pay for accrued vacation leave amendment in the same Bill. If the legislature intended to restrict terminal pay for accrued vacation leave as it did terminal pay for accrued sick leave, it would have included the same restrictive language. This information was presented to the Florida Attorney General's Office in 2005 after the Florida Auditor General's Office advised the School District of a difference of opinion in the interpretation of §1012.65, Florida Statutes. The Florida Attorney General's Office in a 2005 letter provided to the Florida Auditor General's Office agreed with the School Board that the additional restrictions in the statute for terminal pay for accrued sick leave did not apply to terminal pay for accrued vacation leave.

Finally, the Senate Staff Analysis of Chapter 2001-103, Laws of Florida dated March 12, 2001, also supports this interpretation. Page 3 of the Analysis provides "after July 1, 2001, terminal pay for accumulated annual leave would be limited to 60 days. Terminal pay for annual or vacation leave accumulated prior to that date would be governed by board policies in effect on June 30, 2001." Accordingly, we believe the School Board correctly calculated terminal pay (1) for vacation leave accumulated before July 1, 2001 (or July 1, 2004 for those employees holding multi-year employment contracts) pursuant to the School Board rule in effect at that time, and (2) for vacation leave accrued on and after July 1, 2001 (or July 1, 2004 for those employees holding multi-year employment contracts), terminal pay may not exceed sixty (60) days actual payment.

While the Florida Auditor General's Office states that School Board records do not evidence a basis for the above interpretation, the above referenced documents are included in the School Board records and were provided to the Florida Auditor General's Office upon request. In addition, discussions have been held between the School Board Attorney and the Florida Auditor General's Legal Counsel clearly evidencing the basis for the legal interpretation of the School Board.

EXHIBIT B
MANAGEMENT'S RESPONSE (Continued)

November 29, 2010
Page 6 of 7

The $14,152.65 paid to employees for their terminal leave payouts were calculated correctly based on the District's current policy which meets the requirements of Section 1012.65, Florida Statutes, as stated above. The District does not consider the amount identified to be overpayments.

Finding No. 4: Adult General Education Courses

Improvements were needed in controls over the reporting of instructional contact hours for adult general education courses to the Florida Department of Education.

Recommendation: The District should enhance its controls over the reporting of instructional contact hours for adult general education courses to the Florida Department of Education and develop procedures to withdraw students as required. Further, the District should determine the extent of hours over-reported for all students and contact the Florida Department of Education for proper resolution.

Response:

To address the adult general education attendance reporting guidelines set forth in Section 1004.02(3), Florida Statutes, attendance policies and procedures were developed and are now included in the Adult Learning Center of Osceola (ALCO) Student Handbook. This handbook, and the policies included therein, was approved by the School Board of Osceola County on July 1, 2010. These policies and procedures are in full effect and will be reviewed and updated annually.

We will contact the Florida Department of Education to determine the impact of over-reported hours.

Finding No. 5: Management of Access Privileges

The District's management of information technology (IT) access privileges needed improvement.

Recommendation: The District should be more restrictive in the granting of access privileges to ensure that access privileges are compatible with employee job responsibilities and promote appropriate separation of duties. Additionally, the District should continue its efforts to improve its review of the appropriateness of access privileges and timely remove or adjust any inappropriate or unnecessary access privileges detected.

Response:

All of the discrepancies noted were corrected. The causes varied and were usually the result of unique cases that did not follow the normal procedures. We have reviewed our procedures for processing access privileges to better handle these exceptions.

EXHIBIT B
MANAGEMENT'S RESPONSE (Continued)

November 29, 2010
Page 7 of 7

Finding No. 6: Timely Removal of Access Privileges

The District did not timely disable the IT network access privileges of a former employee.

Recommendation: The District should promptly remove IT access privileges of former employees.

Response:

The one discrepancy noted was corrected. An automated process to disable accounts when an employee terminates was corrected so that this will not happen again. The employee in question was a substitute and the automated process did not look at substitutes since substitutes usually don't have active directory accounts.

Finding No. 7: Security Controls

The District's IT security controls related to the user authentication needed improvement.

Recommendation: The District should improve security controls related to user authentication to ensure the continued confidentiality, integrity, and availability of District data and IT resources.

Response:

We have discussed the specific issues involved in the comment with the auditors and have made the recommended adjustments to our system.

Sincerely,

Michael A. Grego
Superintendent

MAG/sg