REPORT NO. 2011-060
DECEMBER 2010

BREVARD 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.
Robert Jordan, Chair to 11-16-09	1
Dr. Barbara Murray, Vice Chair	2
Amy Kneessy, Chair from 11-17-09	3
Karen Henderson	4
Andy Ziegler	5

Brian T. Binggeli, Ed.D., Superintendent

The audit team leader was Mark D. Kenny, CPA, and the audit was supervised by Tim L. Tucker, CPA. For the information technology portion of this audit, the audit team leader was Stephanie J. Hogg, 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) 487-9175; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

BREVARD COUNTY

District School Board

SUMMARY

Our operational audit disclosed the following:

BOARD POLICIES

Finding No. 1: The District had not developed a formal fraud policy to provide guidance to employees for communicating known or suspected fraud to the appropriate authority.

Finding No. 2: The Board had not adopted written policies establishing a target net asset balance for the self-insured health plan.

PERSONNEL AND PAYROLL

Finding No. 3: District records did not sufficiently evidence that performance assessment procedures for instructional personnel and school administrators included consideration of student performance, contrary to Section 1012.34(3), Florida Statutes.

Finding No. 4: The Board had not adopted adequate 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. 5: Procedural enhancements could be made to ensure that employee work time is appropriately documented, and reviewed and approved by supervisory personnel.

Finding No. 6: The credit union utilized by the District to process employee payroll direct deposits was not designated as a qualified public depository, contrary to Section 280.03, Florida Statutes.

CAPITAL ASSETS

Finding No. 7: Enhancements are needed in the District's procedures to ensure the adequacy of records for land, buildings, and nonbuilding improvements.

INFORMATION TECHNOLOGY

Finding No. 8: The District's management of information technology access privileges needed improvement.

BACKGROUND

The Brevard 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 Brevard County. The governing body of the Brevard County District School Board (School Board) is composed of five elected members. The appointed Superintendent of Schools is the executive officer of the School Board.

During the 2009-10 fiscal year, the District operated 86 elementary, middle, high, and specialized schools; sponsored nine charter schools; and reported 71,580 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

Board Policies

Finding No. 1: Fraud Policies

The District had not developed policies for communicating and reporting known or suspected fraud. Such policies should clearly identify actions constituting fraud, incident reporting procedures, responsibility for fraud investigation, and consequences for fraudulent behavior. Fraud policies are necessary to educate employees about proper conduct, create an environment that deters dishonesty, and maintain internal controls that provide reasonable assurance of achieving management objectives and detecting dishonest acts. In addition, such policies serve to establish the responsibilities for investigating potential incidents of fraud, taking appropriate action, reporting evidence of such action to the appropriate authorities, and to avoid damaging the reputations of persons suspected of fraud but subsequently found innocent. Further, in the absence of such policies, the risk increases that a known or suspected fraud may be identified but not reported to the appropriate authority.

Recommendation: To aid in the detection and prevention of fraud, the District should develop policies for communicating known or suspected fraud to the appropriate authority.

Finding No. 2: Health Self-Insurance – Net Assets

Section 112.08(2), Florida Statutes, authorizes the Board to establish a self-insured plan for health, subject to approval based on actuarial soundness by the Office of Insurance Regulation (OIR). This statute requires the District to annually submit a report to OIR with statements made by actuaries as to the actuarial soundness of the plan, and OIR approves plans it determines are designed to provide sufficient revenues to pay current and future liabilities. In May 2010, the District submitted an annual report of the self-insured health plan to OIR for the plan year ending December 31, 2009, which reflected an operating loss of approximately $6.7 million with a positive net asset balance of $4.1 million. The OIR suggested that improvements were needed to establish revenues sufficient to meet obligations of the self-insured health plan. To monitor the self-insured health plan, the Board receives monthly financial reports, and, according to the District's Deputy Superintendent for Human Resources, the District's unwritten target level for the plan's net asset balance is approximately 60 days' average claims experience or approximately $10 million.

In May 2010, the Associate Superintendent of Financial Services submitted OIR a letter that indicated the Board, effective January 1, 2010, had implemented plan design and funding changes to improve the adequacy of the fund net assets. The available net assets totaled approximately $5.7 million at June 30, 2010; however, as similarly noted in our report No. 2008-090, the Board had taken no official action to establish the plan's funding level and the net assets balance is still below the program needs based on the District's targeted net asset balance of approximately $10 million. Although the Board receives monthly financial reports to monitor the financial stability of the fund, future plan funding and design improvements are needed to ensure net asset balances are adequately funded to meet future obligations.

Recommendation: The Board should establish policies identifying a target net asset balance for the self-insured health plan and continue to take actions, as necessary, to ensure adequate funding of the plan.

Personnel and Payroll

Finding No. 3: 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 for instructional personnel and school administrators based on criteria prescribed by Section 1012.34(3)(a), Florida Statutes, except these employees were not evaluated based primarily on student performance. Instructional personnel typically maintain records, in consultation with their school principal or administrator, to establish specific goals addressing the improvement of student performance based on FCAT scores and other standardized tests, and they meet periodically with their school administrator throughout the school year to assess the progress in meeting the projected goals. Similarly, school administrators maintain a leadership portfolio with goals and meet with area superintendents or their immediate supervisors to assess their progress. However, for these employees, District records did not evidence a correlation between student performance and the employee's performance assessment, such as providing a numeric indicator that would directly link student achievement and employee performance. According to District personnel, the District is in the process of developing revised performance assessments that provide objective numeric measurements to correlate student achievement and instructional performance, and provide a higher numeric weight to student performance.

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

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

Finding No. 4: 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.

The Board had not adopted adequate 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. The Board adopted a policy in June 2002 providing that instructional personnel who demonstrate outstanding performance could earn a 5 percent supplement in addition to their individual salaries; however, the policy did not establish what performance measures were to be used to determine whether instructional employees had achieved an outstanding performance. 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 to be used as the basis for determining differential pay, the documented process for applying the prescribed factors to be used, 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**. 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, contrary to Section 1012.22(1)(c)2., Florida Statutes. The union voted not to participate in the 5 percent performance pay plan for instructional employees and no performance supplement was budgeted or spent for the 2009-10 fiscal year. However, the negotiated union contract would not relieve the District from its responsibility to correlate instructional employee performance to employee compensation as required by Section 1012.22(1)(c)2., Florida Statutes. In addition, neither the salary schedule nor the union contract evidenced differential pay based on critical shortage areas, contrary to Section 1012.22(1)(c)4., Florida Statutes.

  District personnel indicated that the instructional personnel salary schedule and union contracts provided differential pay for additional responsibilities, such as athletic trainers; school demographics, such as teachers assigned to the lowest academically performing school; and level of job performance difficulties, such as teachers at the area alternative learning centers. District personnel indicated that the differentiated pay for level of job performance difficulties resulted from instructional staff working an extra hour each work day at the centers as a strategy to improve learning.

- **School-based Administrators**. The school-based administrator's 2009-10 fiscal year salary schedule did not provide differential pay for critical shortage areas. The salary schedule did provide differential pay for additional responsibilities of school-based administrators, such as when administrators are required to be present during use of District facilities on holidays and weekends or school psychologists provide student educational evaluations beyond normal work hours. According to District personnel, the salary schedule also provided differential pay based on school demographics and level of performance difficulties for administrators assigned to high poverty schools and those with special assignments identified as unique, difficult, or unusual at the discretion of the Superintendent. The Superintendent identified, and the Board approved, certain administrators who were provided salary supplements because of special assignments, such as administrators of exceptional student education centers. However, District records did not document the basis for identifying the level of job performance difficulties that resulted in the additional compensation for these administrators and did not evidence the District's review and analysis of its other school administrator positions to provide consistency in the application of differentiated pay factors.

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 adequate formal policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance, and differentiated pay of instructional personnel and school-based administrators is appropriately identified on salary schedules, consistent with Section 1012.22(1)(c), Florida Statutes.

Finding No. 5: Time Records

Effective internal control requires supervisory approval of time worked and leave used by all employees. The District pays contracted employees on a payroll by exception basis in which employees receive their regular pay each period, unless employees use more leave than accumulated, resulting in a reduction to their salary. District payroll procedures further require employees to sign leave forms and time sheets, and supervisors to review, approve or disapprove, and sign these documents. The supervisor's designee reconciles the leave forms to timesheets, and inputs attendance and leave taken into the payroll system. The payroll system generates biweekly reports, approved by the employee supervisor, reflecting the employees pay, leave earned, and leave used.

Our review of District records and responses to our inquiries disclosed that supervisors generally review and approve leave forms and biweekly payroll reports; however, District records did not evidence that certain administrators, such as the associate superintendents, area superintendents, and the superintendent, approved the biweekly payroll reports of employees who report directly to them. District personnel indicated that supervisory staff above the director and principal levels are not required to review and approve biweekly payroll reports because the cost of these procedures would exceed the savings realized. As a result, approximately 120 administrative personnel did not have time sheets approved by supervisory personnel.

In September 2010, the District contracted with an auditing firm to perform an investigation of alleged payroll improprieties by a District director, who reported to an associate superintendent, and the Director's secretary. Based on comparisons of the director's scheduling calendar to leave forms and biweekly payroll reports, the auditors noted instances in which the director was absent from work, although no leave requests or other records existed to authorize and document the absences and the director received the regular pay for the periods absent. Also, based on responses to inquiries, the auditors similarly noted instances in which the director's secretary was also absent from work, without documented authorization, and the secretary continued to receive regular pay for the period. Subsequent to the investigation, the District took corrective action to properly deduct the leave used from these employees' leave records, the director resigned, and the District terminated the secretary's employment.

Without records evidencing timely verification of work attendance and leave taken, there is an increased risk that the District may incorrectly compensate employees and employee leave balances may be inaccurate.

Recommendation: The District should enhance its payroll processing procedures to ensure that District records appropriately document employee attendance and absences, and supervisory review and approval of time records.

Finding No. 6: Qualified Public Depositories

Section 280.03, Florida Statutes, provides that public deposits, including moneys of a school district, shall be secured in a qualified public depository unless exempted by law. Qualified public depositories are financial institutions that have been designated as such by the Chief Financial Officer, State of Florida, and that have pledged collateral pursuant to the requirements of Section 280, Florida Statutes, to be used as security for Florida public deposits.

During the 2009-10 fiscal year, the District's payroll totaled approximately $267 million, and all employees were paid by direct deposit. The District electronically transferred payroll direct deposits to a credit union, which remitted the payments to various financial institutions designated by the District's employees. However, as similarly noted in our report No. 2008-090, the District used a credit union that was not designated as a qualified public depository, and not legally authorized as a depository of public funds. The District indicated that, during the summer of 2010, it solicited requests for banking services from qualified public depositories, but because of a low response rate, no contract was executed. The District's noncompliance with the requirements of Section 280.03, Florida Statutes, increases the risk that District payroll deposits may not be adequately secured.

Recommendation: The District should ensure that its deposits are secured at an institution designated as a qualified public depository.

Capital Assets

Finding No. 7: Subsidiary Records

At June 30, 2010, the District reported balances totaling $35,887,953, $1,406,109,672, and $65,602,631 for land, buildings, and nonbuilding improvements, respectively. However, as noted in our previous audit reports, most recently in our report No. 2008-090, the District lacked detailed listings of these assets by site, and calculated the year-end balances for financial reporting by adding current year additions to the prior year balances. According to District personnel, the District did not maintain these subsidiary property records because of other priorities. Without detailed records, the District may be limited in its ability to determine the undepreciated cost of the asset for removal from the District's financial records in the event the assets are sold or impaired.

Recommendation: The District should strengthen procedures to ensure the adequacy of capital assets records.

Information Technology

Finding No. 8: 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. Further, effective access controls provide employees access privileges that restrict employees from performing incompatible functions or functions outside of their areas of responsibility. Periodically reviewing for appropriateness 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 duties.

We reviewed selected access privileges to the finance and human resources applications and the supporting operating system to determine the appropriateness of access privileges. Our audit disclosed that, although end-user departments performed annual reviews and periodically analyzed profiles to ensure that access was appropriate for the specific functions, inappropriate or unnecessary access privileges existed. The existence of the inappropriate or unnecessary access privileges indicated a need for improved District review of access privileges and increased the risk of unauthorized disclosure, modification, and destruction of District data and IT resources. Specifically:

- One security analyst from the Education Technology (ET) Department was initially assigned access capabilities similar to an application group that allowed access to, among other things, utilities needed for programming. This access was inappropriate for his job duties and should only be given to programmers and systems analysts. In response to our inquiry, District management, in May 2010, indicated that the employee was no longer assigned these access capabilities.
- One systems analyst from the ET Department was initially assigned access capabilities similar to a Help Desk group that managed customer service requests. This access was inappropriate for her job duties and should only be given to employees who perform Help Desk functions. In response to our inquiry, District management, in May 2010, indicated that the employee was no longer assigned these access capabilities.
- Two systems analysts from the ET Department were initially assigned to a group that was designed for analysts given group lead responsibilities. The access capabilities of this group were unnecessary for their job duties. In response to our inquiry, District management, in May 2010, indicated that the employees were no longer assigned these access capabilities and that the group will be evaluated for removal.
- Six employees from various business departments and eight employees from the ET Department were assigned access privileges that allowed the employees to update user accounts or account authorizations that could allow update access to finance, payroll, or human resource transactions. Only security administrators whose responsibilities are to manage users' access privileges should be assigned those privileges. In response to our inquiry, District management indicated that the access privileges were restricted to inquiry access to user accounts and account authorizations for the employees from the ET department in May 2010 and the employees from the business departments in June 2010.
- Twenty-two employees from various business departments were assigned access privileges that allowed, among other things, the ability to perform one or more of the following functions: update vendor information, update the chart of accounts, or approve requisitions. Such access was unnecessary for their job duties. In response to our inquiry, District management indicated that they were already in the process of addressing selected finance profiles to ensure that access privileges were appropriate for the specific job duties but were unable to complete the review before our testing. Subsequent to our initial inquiry, District management stated that all of the inappropriate access privileges were revised by July 2010 to reflect current job duties.
- Thirty employees from various business departments were assigned access privileges that allowed, among other things, the ability to perform one or more of the following functions: update employee addresses; update benefits and deductions; update payroll, time, or benefit adjustments; update selected salary information; or print, void, or transfer checks. Such access was unnecessary for their job duties. In response to our inquiry, District management indicated that the access privileges were changed in July 2010 to reflect current job duties.
- Fifteen programmers and analysts, and one ET manager, were assigned to profiles that allowed end-user access to selected functions within the finance and human resources applications. This access was inappropriate for their job duties and should only be given to end users in their respective business departments, such as finance and human resources. In response to our inquiry, District management indicated that the access privileges were changed in July 2010 to reflect current job responsibilities.

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, inadequate separation of duties increases the risk that unauthorized disclosure, modification, or loss of data and IT resources may occur and not be timely detected.

Recommendation: 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 detected to ensure that access privileges are compatible with employee job duties.

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 May 2010 to December 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.

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EXHIBIT A
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Information Technology (IT) policies and procedures.	Examined the District's written IT policies and procedures to determine whether they address certain important IT control functions.
Separation of duties.	Tested employee access to selected functions within the finance and human resources applications, application production libraries within the change management function, and operating system groups and system privileges to determine if an appropriate separation of duties existed in relation to employees' job functions.
IT program change management procedures.	Reviewed documentation that supported the District's change management methodology for production data changes related to IT resources. Tested change management requests and change management comparison reports to determine whether changes were documented and approved. Tested employee access to application production libraries and datasets to determine if an appropriate separation of duties existed in relation to the change management functions.
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. Tested access requests to determine whether access granted to employees was appropriate, documented, and approved.
Procedures to timely prohibit terminated employees' access to IT resources.	Examined documentation to determine the adequacy of the District's process for removing system access to IT resources. Tested former employees who separated from service during the audit period to determine whether access privileges were appropriately revoked.
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.
Procedures for user authentication controls.	Examined supporting documentation to determine whether user authentication controls for the network, operating system, and applications were configured and enforced in accordance with IT best practices.
Audit logging and monitoring.	Examined supporting documentation to determine whether audit logging and monitoring controls were configured and enforced in accordance with IT best practices.
Security awareness and training program regarding the confidentiality of information.	Examined supporting documentation to determine the adequacy of the IT security awareness and training program.
Disaster recovery.	Examined plan and supporting documentation to determine whether the District had implemented a disaster recovery plan that contained step-by-step procedures for recovery, provided an alternate processing site, and required periodic testing.
John M. McKay Scholarships for Students with Disabilities Program.	Tested 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.

EXHIBIT A (Continued)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
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.
Fraud policy and related procedures.	Examined written policies, procedures, and supporting documentation related to the District's fraud policy and related procedures.
Direct-support organization audits.	Reviewed the Brevard Schools Foundation audit report to determine whether the audit was performed pursuant to Chapter 10.700, Rules of the Auditor General, and Section 1001.453, 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.
Comprehensive procedures manual.	Reviewed the comprehensive procedures manual to determine whether it contained adequate guidance for financial operations.
Financial condition.	Applied analytical procedures to determine whether the total General Fund's June 30, 2010, assigned and unassigned fund balances was less than the percents of the Fund's revenues specified in Section 1011.051, Florida Statutes.
Qualified depositories.	Determined whether the District secured its deposits in depositories designated as qualified public depositories by the State Treasurer pursuant to Section 280.03, Florida Statutes.
Bank reconciliation procedures.	Reviewed documentation to determine whether the District properly prepared bank reconciliations on a timely basis.
Banking services.	Reviewed procedures to determine whether the District effectively obtained banking services by periodically soliciting proposals from financial institutions.
Restrictions on use of nonvoted capital outlay tax levy proceeds and Public Education Capital Outlay (PECO) funds.	Applied analytical procedures, tested payments made from nonvoted capital outlay tax levy proceeds and PECO funds, and examined supporting documentation to determine whether the District complied with requirements related to the use of nonvoted capital outlay tax levy proceeds and PECO funds.
Capital asset records.	Determined whether capital asset subsidiary records for land, buildings, and improvements exist and whether the values of the assets are accurate.
Procedures for selecting construction managers and monitoring the selection of subcontractors.	Tested a major construction project in progress during the audit period to determine whether the District properly selected the construction manager. Reviewed construction project records to determine whether the District monitored the selection process of subcontractors by the construction manager.

EXHIBIT A (Continued)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Procedures for reconciling capital outlay transactions to tangible personal property records.	Examined selected capital outlay transactions to determine whether the transactions were properly added to the tangible property records.
Annual physical inventory of tangible personal property.	Tested selected school sites and departments to determine whether physical inventories were properly completed and reconciled to subsidiary records.
Annual safety inspections.	Obtained copies of the annual life safety, fire safety, and sanitation inspection reports and determined whether the deficiencies noted were timely corrected.
Adult general education program enrollment reporting	Tested adult education students from Florida Department of Education (FDOE) records and examined supporting documentation at the District to determine whether the District reported instructional and contact hours in accordance with FDOE requirements.
Restrictions on use of Workforce Development funds.	Tested expenditures charged to Workforce Development 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).
Cash collections of after school programs.	Reviewed collection procedures at selected locations and tested daily cash collections to determine the effectiveness of such procedures.
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.
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.
Superintendent and school board member compensation requirements of Chapter 2009-59, Laws of Florida.	Determined whether the Superintendent received no more than $225,000 in remuneration from State funds, and the salary of school Board members was calculated according to statutory guidance.
Procedures for monitoring cellular telephone usage.	Reviewed District policies and procedures for the issuance and monitoring of cellular telephone usage.
Purchasing card transactions.	Tested purchasing card transactions for propriety and compliance with related laws, rules, and District procedures.

EXHIBIT A (Continued)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Polices for monitoring health self-insurance program net asset balances.	Determined whether the Board established a minimum net asset balance for the health self-insurance program.
Health self-insurance program claim payments.	Determined that claims payments were supported by detailed claims reports and reconciled to bank statements from the third-party administrator (TPA). Determined that District staff received and reviewed SAS 70 reports of the TPA claims processing procedures. Reviewed the District's internal audit report of the TPA's claim payments made on behalf of the District for the 2009-10 fiscal year.

EXHIBIT B
MANAGEMENT'S RESPONSE

School Board of Brevard County
2700 Judge Fran Jamieson Way • Viera, FL 32940-6601
Brian T. Binggeli, Ed.D., Superintendent

December 1, 2010

David W. Martin, CPA
Auditor General-State of Florida
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450

Dear Mr. Martin:

Listed below are responses to your preliminary and tentative audit findings provided to the School Board of Brevard County for the fiscal year ending June 30, 2010.

Finding No. 1: Fraud Policies:

School Board Policy 1210, entitled *Standards of Ethical Conduct*, establishes the Board's expectations for the highest ethical standards and educates employees about the conduct that should be maintained by each employee. District staff believes that the current policy establishes management's position regarding all unethical behavior, including fraudulent acts and acts of dishonesty, and provides information concerning the consequences of non-compliance to the policy. There is no separate fraud policy that identifies specific actions to be taken for the reporting of known or suspected fraud. District staff will develop more detailed procedures for communicating and reporting known or suspected fraud and will integrate those procedures with current policy or establish a new policy based on Board input and approval.

Finding No. 2: Health Self-Insurance – Net Assets:

The School Board agrees that the net asset balance of the Self Insurance Health Plan is approximately $5.7 million as of June 30, 2010 and that this balance is below the approximate value of the average claims experience for a sixty day period. The School Board began the process of re-building adequate reserves during fiscal year 2010. Plan design and funding changes were made for the plan year beginning January 2010. The School Board also solicited competitive proposals for health services for plan year effective January 1, 2011, to reduce future administrative and overall claims costs. Additional plan design changes were recommended for fiscal year 2011 and these changes are currently in union negotiation. The School Board believes that proper due diligence has been given to maintain adequate reserves for the Health Insurance fund and state funding requirements will be met in the coming years. There are also sufficient reserves in other funds that could be transferred to meet the state's requirements, if needed, pending School Board approval.

Finding No. 3: Performance Assessments:

The District will continue its efforts to ensure that performance assessments for instructional personnel and school administrators include student performance as the primary factor. The District is in the process of developing revised performance

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EXHIBIT B
MANAGEMENT'S RESPONSE (Continued)

assessments that provide objective numeric measurements to correlate student achievement and instructional performance, and provide a higher numeric weight to student performance. The District has applied for the Race to the Top grant in an effort to strengthen and to revamp our evaluation system. We currently have two project teams working to incorporate strategic plan elements into a multi-metric evaluation system based on measured standards of professional performance and student achievement.

It is important to note that compliance with FS sections 1008.22 (3) and1012.34 (3) primarily requires the Commissioner of Education to provide Florida school districts with a statewide program, for assessment and evaluation. Until the state meets the specific requirements of these statutes and provides guidance as well as funding, Districts will be challenged to comply with the standards of this statute.

Finding No. 4: Compensation and Salary Schedules:

The Board will adopt salary schedules with differentiated pay for both instructional and school-based administrators. The salary schedule for instructional personnel is subject to negotiation as provided in FS chapter 447. The differentiated pay will be based on district-determined factors, including but not limited to, additional responsibilities, school demographics, critical shortage areas and level of job difficulties.

The Board has a performance pay plan in the current teacher contract which meets statute requirements. The legislature did not fund the plan so we were unable to put it into process since we froze the salary schedules in FY09. The salary freeze was a bargained agreement between the Brevard Federation of Teachers and the School Board.

The District, along with the entire state of Florida has been challenged over the past 2-3 years with very lean budgets and no additional funding to allocate to differentiated pay. Additionally there has been a lack of union buy in and approval making implementation of performance based pay very difficult.

Finding No. 5: Time Records:

The District is a decentralized organization where each administrator is responsible for the time keeping and data entry of employees located at his/her respective worksite. Employee payroll is system generated based on the time entry data provided by each worksite. District expectations are for time entry records to be reviewed and monitored by worksite designees and ultimately approved by the appropriate supervisor and/or administrator. District staff believes that immediate supervisors and managers are generally following these procedures; however, it is difficult for Area Superintendents and Senior Staff to approve time sheets for Principals and Directors when they are not located at the same worksite and/or they do not know the daily schedules of those administrators. Directors, Principals and Senior Staff are expected to self-report their time accurately and ethically.

The District will continue to examine best practices for time entry reporting and payroll approval processes. Staff will explore options to implement an online approval process for timekeeping input; however available options will require changes in the design of

EXHIBIT B
MANAGEMENT'S RESPONSE (Continued)

current software or the purchase of new software. Funding constraints could negatively impact the feasibility of this action.

Finding No. 6: Qualified Public Depositories:

The District has completed its solicitation for banking services through an *Invitation to Negotiate (ITN)* process and has entered into final negotiations for banking services, with a selected qualified public depository. The contract is effective beginning January 1, 2011. The selected bank provides direct deposit payroll services and the District has plans to utilize those services.

Finding No. 7: Subsidiary Records:

The District has a detailed subsidiary listing of the appraised values for all building and non-building improvements at each site. The appraisal was completed during fiscal year 2010 and provides a detailed ledger including every building on every campus and the value of the contents for each building.

The district staff understands that the detailed appraisal does not provide historical costs as required by GAAP; however, it does provide us with information concerning the inventory records at each school site that would assist us in obtaining which depreciable assets should be removed in the event of a sale, loss, or impairment of property.

The District believes that its current recordkeeping is adequate for accurate financial reporting of district assets; however staff will explore its options to implement a detailed historical cost subsidiary ledger as recommended.

Finding No. 8: Management of Access Privileges:

As acknowledged in the audit finding, all changes requested regarding user access have been made. Educational Technology has also implemented a new report to be run quarterly to list and compare group profile setups to ensure that native AS400 access restrictions are appropriate. System owners will continue to review user access requests to ensure users are provided only with the access necessary to perform his/her job duties.

I would like to thank you and your staff from the Fort Pierce office for your support and cooperation during the FY10 audit. I look forward to the completion of the final report.

Sincerely,

Brian T. Binggeli, Ed.D
Superintendent

C: Board Members
Audit Committee
Judy Preston

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