

**LAKE COUNTY  
DISTRICT SCHOOL BOARD**

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**Operational Audit**



## BOARD MEMBERS AND SUPERINTENDENT

Board members and the Superintendent who served during the 2010-11 fiscal year are listed below:

	District <u>No.</u>
Larry Metz to 11-15-10	1
Jim Miller from 11-16-10	1
Rosanne Brandeburg, Vice Chair from 11-16-10	2
Cindy Barrow to 11-15-10, Chair	3
Tod Howard from 11-16-10	3
Debbie Stivender, Vice Chair to 11-15-10, Chair from 11-16-10	4
Kyleen Fischer	5

Dr. Susan E. Moxley, Superintendent

The audit team leader was Patricia A. Tindel, CPA, and the audit was supervised by Brenda C. Racis, CPA. For the information technology portion of this audit, the audit team leader was Kathy Sellers, CISA, and the supervisor was Heidi G. Burns, CPA, CISA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Manager, by e-mail at [gregcenters@aud.state.fl.us](mailto:gregcenters@aud.state.fl.us) or by telephone at (850) 487-9039.

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**LAKE COUNTY**  
District School Board

**SUMMARY**

Our operational audit disclosed the following:

PERSONNEL AND PAYROLL

Finding No. 1: District records did not sufficiently evidence that performance assessments of instructional personnel and school administrators were based primarily on student performance, contrary to Section 1012.34(3), Florida Statutes (2010).

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 (2010), 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 (2010).

Finding No. 3: The District needed to enhance its payroll processing controls over time records.

CASH CONTROLS

Finding No. 4: Controls over electronic funds transfers could be enhanced.

FACILITIES ADMINISTRATION AND MONITORING

Finding No. 5: The District needed to establish policies and procedures to address negotiated construction costs for general conditions, and ensure that construction contracts do not duplicate charges for the same items.

Finding No. 6: The District needed to establish policies and procedures for evaluating the effectiveness of alternative construction methods. Also, procedures for determining whether the District facilities design and construction delivery methods were effective and cost efficient were not always utilized.

Finding No. 7: The District could enhance its procedures to ensure compliance with certain facility safety standards.

Finding No. 8: The District did not adequately advertise the intended use of \$1,854,951 of ad valorem tax levy proceeds, used \$2,493 of ad valorem tax proceeds for unallowable purposes, and did not document that \$16,804 of county impact fee proceeds were used for allowable purposes.

STUDENT RECORDS

Finding No. 9: The District could enhance controls over the issuance of student diplomas.

INFORMATION TECHNOLOGY

Finding No. 10: The District lacked written policies and procedures for certain information technology (IT) functions.

Finding No. 11: The District had not implemented a comprehensive security awareness training program.

Finding No. 12: Some employees had inappropriate IT access privileges.

Finding No. 13: The District's IT security controls related to user authentication and data loss prevention needed improvement.

Finding No. 14: The District's IT disaster recovery plan had not been tested.

Finding No. 15: The District did not have a written security incident response plan.

**BACKGROUND**

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

During the 2010-11 fiscal year, the District operated 39 elementary, middle, high, and specialized schools; sponsored 10 charter schools; and reported 40,391 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, 2011, was presented in our report No. 2012-062, dated December 15, 2011.

**FINDINGS AND RECOMMENDATIONS**

**Personnel and Payroll**

**Finding No. 1: Performance Assessments**

Section 1012.34(3), Florida Statutes (2010),<sup>1</sup> required the District to establish annual performance assessment procedures for instructional personnel and school administrators. When evaluating the performance of these employees, the procedures were to 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 (2010), at the school where the employee worked. Additional employee performance assessment criteria prescribed by Section 1012.34(3)(a), Florida Statutes (2010), included 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 (2010), required that, if an employee was not performing satisfactorily, the performance evaluator had to notify the employee in writing and describe the unsatisfactory performance.

The District’s performance assessment procedures used performance appraisal forms that were based, in part, on criteria prescribed by Section 1012.34(3)(a), Florida Statutes (2010); however, District records did not sufficiently evidence a correlation between student performance and the performance assessments. The types of performance appraisal forms used by the District either did not include student performance as a component of the evaluation, or did not evidence that student performance was the primary factor for the overall evaluation rating.

District personnel indicated that revisions to performance assessments were delayed until implementation of the Federal Race-to-the-Top grant requirements, which are subject to approval by the Florida Department of Education for the 2011-12 fiscal year. However, without measuring employee performance by the required criteria, performance assessments of instructional personnel and school administrators may not effectively communicate the employee’s

<sup>1</sup> Sections 1012.34 and 1008.22, Florida Statutes, were amended by Chapter 2011-1, Laws of Florida, effective July 1, 2011. For the 2011-12 fiscal year, pursuant to Section 1012.34(3)(a), Florida Statutes (2011), at least 50 percent of performance evaluations of instructional personnel and school administrators must be based upon data and indicators of student learning growth assessed annually by statewide or district assessments spanning three years of data. However, if three years of data is not available, the District must use the available data and the percentage of the evaluation based upon student learning growth may be reduced to not less than 40 percent for administrators and in-classroom instructional personnel, and to not less than 20 percent for instructional personnel who are not classroom teachers.

accomplishments or shortcomings. In May 2011, the Board adopted the Florida Department of Education-endorsed teacher evaluation model to use during the 2011-12 fiscal year, and the evaluation model is based primarily on student performance.

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**Recommendation:** The District should maintain documented evidence that performance assessments of instructional personnel and school administrators are based primarily on student performance.

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### 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 (2010),<sup>2</sup> provided 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 (2010), required the Board to adopt a salary schedule with differentiated pay for instructional personnel and school-based administrators. The salary schedule was subject to negotiation as provided in Chapter 447, Florida Statutes, and was required to provide 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 to ensure that a portion of each instructional employee's compensation was based on performance pursuant to Section 1012.22(1)(c)2., Florida Statutes (2010). Such policies and procedures could establish and 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 (2010). Such policies and procedures could specify the prescribed factors to be used as the basis for determining differentiated pay, the documented process for applying the prescribed factors, and the individuals responsible for making such determinations.

The District's 2010-11 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 (2010), could be improved, as follows:

- **Instructional Personnel.** The District's instructional personnel salary schedule and union contracts provided salary incentives for teachers of students with specific learning gains at one high school. While this demonstrates that employee performance impacted compensation for this school, District records did not evidence that a portion of the compensation of instructional personnel at the other 38 schools was based on performance, contrary to Section 1012.22(1)(c)2., Florida Statutes (2010).

Also, the instructional personnel salary schedule and union contracts provided salary supplements for additional responsibilities beyond the standard work day, such as supplements for athletic and drama coaches

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<sup>2</sup> Section 1012.22, Florida Statutes, was amended by Chapter 2011-1, Laws of Florida, effective July 1, 2011. For the 2011-12 fiscal year, pursuant to Section 1012.22(1)(c)4.b., Florida Statutes, the District must base a portion of each employee's compensation upon performance demonstrated under Section 1012.34, Florida Statutes, and provide differentiated pay for instructional personnel and school administrators based upon district-determined factors, including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties.

and department chairpersons. However, contrary to Section 1012.22(1)(c)4., Florida Statutes (2010), neither the salary schedule nor the union contracts evidenced consideration of differentiated pay based on school demographics, critical shortage areas, or level of job performance difficulties for instructional personnel.

- **School-based Administrators.** Although the school-based administrators’ salary schedule evidenced consideration for additional responsibilities, school demographics, and level of job performance difficulties by differing administrative pay grades for elementary, middle, and high schools based on the type school, the salary schedule did not evidence consideration of differentiated pay based on critical shortage areas for school-based administrators, contrary to Section 1012.22(1)(c)4., Florida Statutes (2010).

District personnel indicated that salary schedule revisions to comply with the statutory performance and differentiated pay requirements were delayed to ensure consistency with Federal Race-to-the-Top grant requirements. However, without Board-adopted policies and procedures for ensuring that a portion of each instructional employee’s compensation was based on performance, and sufficiently identifying the basis for differentiated pay, the District may be limited in its ability to demonstrate that each instructional employee’s performance correlates to their compensation and the various differentiated pay factors are consistently considered and applied.

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**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 differentiated pay of instructional personnel and school-based administrators is appropriately identified on salary schedules, consistent with Section 1012.22(1)(c), Florida Statutes (2010).

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**Finding No. 3: Payroll Processing - Time Records**

The District did not have written procedures providing a consistent methodology for documenting employee time worked, leave used, and supervisory review and approval. District records used to account for time worked varied among schools and departments. Depending upon the school or department, such records included timesheets, time cards, and sign in and out sheets.

Our review of time records for 20 employees disclosed that 13 employees (8 teachers, 3 educational support employees, and 2 school administrators) used time clock cards or checked off sign in and out sheets, but the documentation lacked evidence of supervisory review and approval, and time records were not maintained for 5 employees (2 teachers, 1 educational support employee, and 2 school administrators). When documentation of work attendance and leave is not consistently maintained and reviewed, there is an increased risk of incorrect compensation and inaccurate employee leave balances. Similar findings were noted in our report Nos. 2006-205 and 2009-067.

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**Recommendation:** The District should establish procedures to provide a consistent methodology for documenting time worked, leave used, and supervisory review and approval.

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<b>Cash Controls</b>
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**Finding No. 4: Electronic Funds Transfers**

Section 1010.11, Florida Statutes, requires the Board to adopt written policies prescribing the accounting and control procedures for electronic funds transfers (EFTs) for any purpose including direct deposit, wire transfer, withdrawal, investment, or payment consistent with the provisions of Chapter 668, Florida Statutes. Pursuant to Section 668.006, Florida Statutes, the District is responsible for implementing control processes and procedures to ensure adequate

integrity, security, confidentiality, and auditability of business transactions conducted using electronic commerce. In addition, State Board of Education (SBE) Rule 6A-1.0012, Florida Administrative Code (FAC), authorizes the District to make EFTs provided adequate internal control measures are established and maintained, such as a written agreement with a financial institution. An agreement must, among other things, contain the title of the bank account subject to the agreements and the manual signatures of the Board chair, superintendent, and employees authorized to initiate EFTs.

The Board established banking agreements, signed by the Superintendent, with two banks to provide various services, including EFTs, and both agreements included names of designated District employees authorized to make electronic payments. During the 2010-11 fiscal year, the District did not normally use EFTs to make vendor payments from either bank, but regularly made electronic disbursements for direct deposit of employee pay, retirement benefits, Federal withholding taxes, and purchasing card and debt service payments. However, while the District had implemented some controls such as verbal instructions, e-mail directions, and other reviews to monitor and control electronic transmission of funds, the Board had not adopted written policies prescribing the accounting and control procedures of EFTs, contrary to Section 1010.11, Florida Statutes. Also, one banking agreement indicated that several employees could authorize EFTs, although one of them had transferred from the finance department to a District school and two of the employees had terminated employment. In addition, payroll department employees initiated payroll tax transfers to the Internal Revenue Service; however, District records did not specify which employees are authorized to set-up or process these transfers.

District personnel indicated that controls are in place, such as supervisory review and approval of journal entries and bank reconciliations to compensate, in part, for the lack of formal policies and procedures. While our tests did not disclose any EFTs for unauthorized purposes, such tests cannot substitute for management’s responsibility to establish effective internal controls. Without properly established policies and procedures governing EFT activities, there is an increased risk that errors or fraud could occur and not be timely detected.

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**Recommendation:** The Board should adopt formal written policies and procedures to ensure adequate integrity, security, confidentiality, and auditability of business transactions conducted using electronic commerce consistent with applicable Florida Statutes and SBE Rules.

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<b>Facilities Administration and Monitoring</b>
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**Finding No. 5: Construction Contract Administration**

Pursuant to Section 1013.45(1), Florida Statutes, the District may contract for the construction or renovation of facilities using various delivery methods, including the use of a construction manager (CM). Under the CM process, contractor profit and overhead are contractually agreed upon, and the contracted firm is responsible for all scheduling and coordination of the construction phases and is generally responsible for the successful, timely and economical completion of the construction project. CM firms may also be required to offer a guaranteed maximum price (GMP). The GMP provision allows for the difference between the actual cost of the project and the GMP amount, or the net cost savings, to be returned to the District.

The Board entered into a \$31.7 million GMP agreement with a CM for the Cecil E. Gray Middle School construction, renovation, and remodel project. The facilities design and construction department was responsible for construction administration of the project. Our review disclosed that the District’s construction contract administration could be improved as follows:

- The GMP agreement included certain general conditions fees for costs, such as supervisory and administrative personnel costs of \$933,409; a relocation allowance of \$180,000; and home and field office vehicles of \$110,680. The CM's listing of supervisory and administrative personnel included nine employee names and an unnamed data processing project administrator. District personnel indicated that the construction phase general conditions fee was a negotiated fee established prior to the Board approval of the CM agreement. However, documentation of the methodology applied and factors considered during the negotiation process for each item on the list was not provided and, in the absence of such documentation, the District could not document, of record, that amounts paid for these fees were reasonable and appropriate.
- Additional general conditions fee charges of \$1.7 million were not adequately supported. For example, the CM agreement's general conditions provided for indirect salary costs, commonly referred to as the labor burden. Personnel in the facilities design and construction department informed us that the components of the labor burden rate were composed of various employee benefits and payroll taxes; however, District records did not evidence the components of the computation for the labor burden rate. The CM charged a labor burden rate of 49 percent for a total of \$457,370, although the United States Department of Labor, Bureau of Labor Statistics published rate for employee compensation costs for other than wages and salaries for private industry construction occupations at the time of this agreement was 32 percent. Had the District negotiated this rate for the labor burden, potential savings to the District could have been \$158,680. Without a proper review of support for the rate proposed by the CM, the District cannot be assured that it is paying a fair amount for the CM's indirect salary cost.
- Office supplies were included on the approved GMP proposal of reimbursable items list and in the negotiated construction phase general conditions fee. The list of reimbursable items provided for \$7,000 of office supplies, and the general conditions fee included \$22,000 for office supplies. Facilities design and construction department personnel indicated that the office supplies allowance was a negotiated fee and was approved by the District as part of the CM agreement. However, including a cost category in both components of the agreement could result in duplicate charges for the same items.

Similar findings were noted in October 2010 by the District's consulting firm as part of their construction contract compliance review. District personnel indicated that several changes in contract language have been made to correct the above deficiencies, including lowering the labor burden rate and basing general conditions on the lesser of actual costs or a specified amount.

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**Recommendation:** The District should establish policies and procedures to address negotiated construction costs for general conditions. Such procedures should require documentation of the methodology used and application of various costs and factors considered in determining such costs. In addition, the District should ensure that labor burden rates are reasonable in comparison to industry averages, and that contracts do not duplicate charges for the same items.

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#### **Finding No. 6: Facilities Management**

The facilities design and construction department (department) is responsible for managing construction and renovation projects. During the 2010-11 fiscal year, the department employed 14 full-time employees, and the department's operating cost was approximately \$21 million. Also, during this fiscal year, the District had expenditures totaling approximately \$36 million for capital projects fund construction and renovation projects and the District plans to spend an additional \$55 million on these projects over the next four years. At June 30, 2011, the cost of the District's educational and ancillary facilities was approximately \$755 million and, as shown in the Florida Department of Education's Florida Inventory of School Houses data, District facilities had an average age of 19 years.

Given the significant commitment of public funds to construct educational facilities, it is important that the District establishes procedures to evaluate the effectiveness and efficiency of facility operations at least annually using performance data and established benchmarks. Such procedures could include written policies and procedures

documenting processes for evaluating facilities construction methods before commitment of significant resources to determine the most cost effective and efficient method. In addition, performance evaluations could include established goals for facility operations and measurable objectives or benchmarks that are clearly defined to document the extent to which goals are achieved and accountability for department employees. While our review of facilities management procedures indicated that procedures were generally adequate, we noted the following procedural enhancements could be made:

- **Alternative Construction Methods.** The District primarily awards construction contracts using the construction management at risk method with a guaranteed maximum price (GMP), although occasionally it has awarded construction contracts to construction contractors using the traditional design-bid-build method. District personnel indicated that they had not established written policies and procedures for evaluating the various construction methods and, while they consider alternative methods based on the type of project, they have not recently documented evaluations of the various approaches to determine for each major construction project which would be most cost effective and beneficial. Without Board-approved policies and procedures, and documented evaluations, there is an increased risk that the District may not use the most cost-effective and beneficial construction method.
- **Post-Occupancy Evaluation.** The District developed written postoccupancy evaluation procedures to determine whether the District's facilities design and construction delivery methods were effective and cost efficient. The procedures require meetings with the principal; distribution of questionnaires for students, parents, and school staff; comprehensive walkthroughs by room observing any design defects; and review of work orders and other documents to develop an evaluation report containing recommendations and modifications for future facilities and prototype designs. However, District records did not evidence postoccupancy evaluations for Cecil E. Gray Middle School and Sorrento Elementary School, two of the most recent construction projects, which opened in Fall 2010. Additionally, we requested postoccupancy evaluations of Grassy Lake Elementary School, which was completed in the Fall 2007, but facilities personnel indicated that, due to reductions in department employees and the demands of opening new schools, the postoccupancy evaluations had not been performed. Failure to follow-through with its established procedures negates the usefulness of such procedures in determining the effectiveness and efficiency of the District's facilities designs and construction delivery methods.

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**Recommendation:** The District should develop written policies and procedures requiring periodic evaluations of alternative facilities construction methods, and document these evaluations. In addition, the District should enhance procedures to ensure that the postoccupancy evaluation procedures are appropriately implemented to determine effectiveness and efficiency of facility design and construction.

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#### **Finding No. 7: Floor Plans and Relocatables Inspections**

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Section 1013.13(1), Florida Statutes, requires the District to provide a copy of the educational facility floor plans and other relevant documents to law enforcement agencies and fire departments that have jurisdiction over District facilities. This statute further requires that, after the initial submission of these copies, the District must submit to these agencies by October 1 of each year, revised documents of District facilities that were modified during the preceding year.

Additionally, Section 1013.20(2), Florida Statutes, provides that relocatables designed for classroom use be inspected annually for foundations, tie-downs, structural integrity, weatherproofing, HVAC, electrical, plumbing, and if applicable, firesafety and accessibility. The statute requires the District to post the inspection reports in the respective relocatables to facilitate corrective action.

Our review disclosed that District procedures could be enhanced to ensure compliance with safety standards, as discussed below:

- The District completed new construction and building modifications during the 2006-07, 2008-09, and 2009-10 fiscal years for Mascotte Elementary, totaling \$20.2 million; Minneola Elementary, totaling \$23 million; East Ridge Middle, totaling \$41.2 million; South Lake High, totaling \$9.6 million; and Carver Middle, totaling \$22 million. However, the District had not established specific responsibility for submitting the floor plans and, contrary to Section 1013.13(1), Florida Statutes, the District had not, as of May 2011, submitted facility floor plans to local law enforcement agencies and fire departments for the modifications of these schools. Should emergency hazardous conditions develop at District sites, floor plans may be useful to local authorities in securing District facilities and protecting students, personnel, and others. Subsequent to our inquiry, the District submitted the floor plans as required by statute for Carver Middle School.
- Our observation of 15 relocatables used for student occupancy disclosed that the required inspection reports were not posted in 12 of these relocatables as of November 2011. A generic notification, referencing that inspection reports were available at the risk management office, was located in 10 of the 12 relocatables; however, the relocatables did not contain information of the actual inspection results. For example, at one high school, we noted several significant deficiencies, including repairing emergency lights, maintaining fire extinguishers, and adjusting doors to properly open that were not posted in the relocatables. Without inspection reports properly posted in the relocatables, students, personnel, and others who use such facilities may not be aware of the safety risks and building deficiencies associated with those facilities.

Similar findings were noted in our report Nos. 03-185, 2006-205, and 2009-067.

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**Recommendation:** The District should enhance procedures to ensure compliance with applicable safety standards. Such procedures should include timely submission of floor plans to appropriate law enforcement agencies and fire departments, and posting of safety inspection reports in the relocatables.

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#### **Finding No. 8: Ad Valorem Taxation and Impact Fees**

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Section 1011.71, Florida Statutes, allows the District to levy ad valorem taxes for capital outlay purposes within specified millage rates subject to certain precedent conditions. Allowable uses of ad valorem tax levy proceeds include, among other things, funding new construction and remodeling projects; maintenance, renovation, and repair of existing school plants; school bus purchases; purchases of new and replacement equipment; payments due under lease-purchase agreements for educational facilities and sites; and payment of property-casualty insurance premiums subject to certain conditions and limitations. The conditions precedent to the levy of such taxes have been narrowly construed by the courts (e.g., *Wilson vs. School Board of Marion County*, 424 So.2d 16 [Fla. 5<sup>th</sup> DCA 1983]), and failure to fully comply with such conditions may serve to invalidate the levies. Among the specific conditions imposed by Section 200.065(10)(a), Florida Statutes, are requirements to advertise, in advance of the adoption of a budget authorizing the expenditure of such tax levy proceeds, the purposes for which the Board intends to spend the proceeds of each such tax levy and to specify in the required notice of tax levy the projects to be funded by the assessment of such taxes. Furthermore, Section 200.065(10)(b), Florida Statutes, establishes requirements for amending a list of capital outlay projects previously advertised and adopted.

The District accounts for the ad valorem tax levy proceeds in the Capital Projects – Local Capital Improvement (LCI) Fund. The District used 2009-10 and 2010-11 fiscal year ad valorem tax levy proceeds, totaling \$1,854,951 and \$2,493, respectively, to pay for school buses, trucks, and security camera inspections. While Section 1011.71, Florida Statutes, authorizes the use of ad valorem tax levy proceeds for equipment and vehicles, the public notice of tax required by Section 200.065, Florida Statutes, identifying the proposed uses of the funds for the 2009-10 year, specified instructional technical equipment and school furniture and equipment, but did not list school buses or trucks. District personnel indicated that the purchased trucks were properly listed as “New Equipment” on the public

notice of tax for the 2009-10 fiscal year; however, FDOE personnel advised us that trucks should be publicly advertised in the category of “Motor Vehicles,” which was not included on the 2009-10 fiscal year public notice of tax.

Also, while Section 1011.71, Florida Statutes, authorizes the District to use ad valorem tax levy proceeds for certain maintenance services, District records did not cite the authority to pay for the security camera inspections using 2010-11 fiscal year ad valorem tax levy funds. Subsequent to our inquiry, in November 2011, District personnel reclassified the bus expenditures totaling \$1,809,781 from the 2009-10 fiscal year ad valorem tax levy to the 2010-11 fiscal year ad valorem tax levy, and appropriately advertised these expenditures. However, ad valorem tax levy expenditures totaling \$47,663 (\$45,170 for trucks and \$2,493 for security camera inspections) remain questioned costs.

In addition, Section 22-23(3), of the Lake County, Florida, Ordinance No. 2007-60, provides that impact fees must be used solely for the purpose of providing growth-necessitated capital improvements to educational and ancillary plants of the educational system. The District accounts for the impact fees in the Capital Projects – Impact Fees Fund. District personnel ordered gaming curriculum, course software, sensor bundles, and teacher guides in June 2011 using proceeds from impact fees totaling approximately \$387,000; \$123,000 of which was expended in September 2011. However, these purposes do not represent allowable uses of impact fees. Subsequent to our inquiry, in November 2011, the District restored the \$123,000 to the Capital Projects – Impact Fees Fund, and amounts totaling approximately \$264,000 remained in encumbrances of that Fund.

Further, in connection with our 2007-08 fiscal year audit, we noted in our report No. 2009-067 that the District expended \$16,804 of impact fees for school start-up costs, including cleaning supplies, teacher guides, and books, and District records did not evidence the allowability to use impact fees for these expenditures.

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**Recommendation:** The District should enhance its procedures to ensure that ad valorem tax levy proceeds are used for the purposes set forth in Section 1011.71, Florida Statutes. The District should also document to the Florida Department of Education the allowability of the questioned costs totaling \$47,663 of questioned uses of ad valorem tax levy proceeds for the above-noted purposes or restore this amount to the LCI Fund. In addition, the District should ensure that expenditures related to the Capital Projects – Impact Fees Fund encumbrances of \$264,000 are paid from appropriate resources. Further, the District should restore the 2007-08 fiscal year impact fee questioned costs of \$16,804, and any other instructional material expenditures using impact fee proceeds, as similarly noted above, to the Capital Projects - Impact Fees Fund.

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<b>Student Records</b>
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**Finding No. 9: Diplomas**

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Improvements could be made in the District’s controls over high school diplomas. For example, there were no written agreements with the printing company specifying the District employees authorized to submit orders; functions relating to ordering, receipt, and safeguarding of diplomas were not adequately separated; and unused diplomas were not timely destroyed. Enhanced controls over diploma processing would provide further assurance that the documents were limited to authorized purposes. A similar finding was noted in our report No. 2009-067.

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**Recommendation:** The District should strengthen controls over diploma processing to provide for an adequate separation of duties and ensure that diplomas are prepared for and distributed only to those who meet the eligibility requirements for graduation.

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Information Technology
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**Finding No. 10: Written Policies and Procedures**

Each information technology (IT) function needs complete, well-documented policies and procedures to describe the scope of the function and its activities. Sound policies and procedures provide benchmarks against which compliance can be measured and contribute to an effective control environment.

The District lacked written policies and procedures for monitoring the use of system utilities and sensitive files, and for monitoring network security events. District management indicated that policies and procedures had not been finalized because of administrative turnover. In addition, although the District had developed written policies and procedures for implementing operating system software changes, these policies and procedures had not been approved by appropriate District management.

Without approved written policies and procedures, the risk is increased that IT controls may not be followed consistently and in a manner pursuant to management's expectations. A similar finding was noted in prior audits of the District, most recently in our report No. 2009-067.

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**Recommendation:** The District should establish approved written policies and procedures to document management's expectations for the above-noted IT functions.

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**Finding No. 11: Security Awareness Training Program**

A comprehensive security awareness training program apprises new employees of, or reemphasizes to current employees, the importance of preserving the confidentiality, integrity, and availability of data and IT resources entrusted to them. Significant nonpublic records (e.g., student record information and other records that contain sensitive information) are included in the data maintained by the District's IT systems.

Although limited security awareness training is provided during user application training and workstation screen displays, the District had not implemented a comprehensive security awareness training program to facilitate all applicable employees' ongoing education and training on security responsibilities, including acceptable or prohibited methods for storage and transmission of data, password protection and usage, copyright issues, malicious software and virus threats, workstation controls, acceptable Internet use, and handling of confidential information. Failure to implement a comprehensive security awareness training program increases the risk that the District's IT resources could be unintentionally compromised by employees while performing their assigned duties. A similar finding was noted in our report No. 2009-067.

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**Recommendation:** The District should promote security awareness through a comprehensive security awareness training program to ensure that all applicable employees are aware of the importance of preserving the confidentiality, integrity, and availability of data and IT resources.

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**Finding No. 12: Access Privileges**

Access controls are intended to protect data and 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.

Our audit test of selected access privileges to the finance and human resources applications disclosed that some employees had access privileges that permitted the employees to perform incompatible responsibilities. Specifically:

- Eight employees in the human resources department and one employee in the Superintendent's office had update access privileges to critical transactions within the human resources application, including setting up employee name, address, and salary information, and making payroll adjustments. In addition, the nine employees had access to set up jobs for processing. This combination of access privileges was contrary to an appropriate separation of duties as each of the employees could add an unauthorized employee to the District's payroll.
- Three employees from the finance department had update access privileges to critical transactions within the finance application including entering vendor information, approving and rolling requisitions to purchase orders, and processing invoices. This combination of access privileges was contrary to an appropriate separation of duties for purchasing as each of the employees could process an invoice for payment to an unauthorized vendor.

Although the District performed limited reviews of employee access, the existence of incompatible access privileges indicated a need for the District to enhance its reviews of application access privileges. Without a comprehensive review, inappropriate access privileges may not be timely detected and addressed by the District, increasing the risk of unauthorized disclosure, modification, or destruction of District data and IT resources.

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**Recommendation:** The District should enhance its reviews of access privileges and timely remove or adjust any inappropriate access privileges detected to ensure that access privileges enforce an appropriate separation of incompatible duties and do not exceed what is necessary for assigned job duties.

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### **Finding No. 13: Security Controls - User Authentication and Data Loss Prevention**

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Security controls are intended to protect the confidentiality, integrity, and availability of data and IT resources. Our audit disclosed certain District security controls related to user authentication and data loss prevention 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 and data loss prevention, 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. Similar issues were noted in our report No. 2009-067.

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

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### **Finding No. 14: Disaster Recovery Plan**

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Disaster recovery planning is an element of IT controls established to manage the availability of valuable data and IT resources in the event of a processing disruption. The primary objective of disaster recovery planning is to provide the entity a plan for continuing critical operations. The success and effectiveness of a disaster recovery plan requires elements such as alternate site processing arrangements and periodic testing of the plan.

The District's IT disaster recovery plan, including an agreement for reciprocal processing services with another school district, had not been tested. District management indicated that testing had not been performed because of scheduling conflicts. Without periodic testing of the effectiveness of the District's disaster recovery plan, the risk is increased that the District may not promptly and effectively resume IT operations in the event of a disaster or other service interruption. A similar finding was noted in our report No. 2009-067.

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**Recommendation:** The District should periodically test the effectiveness of its IT disaster recovery plan, including the reciprocal processing agreement, to ensure that the District can promptly resume processing in the event of a disaster or other service interruption.

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#### **Finding No. 15: Security Incident Response Plan**

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Computer security incident response plans are established by management to ensure an appropriate, effective, and timely response to security incidents. These written plans typically detail responsibilities and procedures for identifying, logging, and analyzing security violations and include a centralized reporting structure, provisions for designated staff to be trained in incident response, and notification to affected parties.

Although the District had informal procedures in place to address computer security incidents, the District had not developed a written security incident response plan. Should an event occur that involves the potential or actual compromise, loss, or destruction of District data or IT resources, the lack of a written security incident response plan may result in the District's failure to take appropriate actions in a timely manner to prevent further loss or damage to the District's data and IT resources.

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**Recommendation:** The District should develop a written security incident response plan to provide reasonable assurance that the District will respond in a timely and appropriate manner to events that may jeopardize the confidentiality, integrity, or availability of data and IT resources.

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#### **PRIOR AUDIT FOLLOW-UP**

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Except as discussed in the preceding paragraphs, the District had taken corrective actions for findings included in audit report No. 2009-067.

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#### **OBJECTIVES, SCOPE, AND METHODOLOGY**

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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 February 2011 to June 2011 and from August 2011 through September 2011 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 audit report No. 2009-067. 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 2010-11 fiscal year and selected actions prior and subsequent thereto.

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) logical access controls and user authorization.	Reviewed security settings to determine whether authentication controls were configured and enforced in accordance with IT best practices.
IT access privileges and separation of duties.	Reviewed procedures for creating, maintaining, and reviewing access to IT resources. Tested access privileges to determine the appropriateness based on the employees' job functions and responsibilities and adequacy with regard to preventing the performance of incompatible duties.
IT termination of employee access.	Reviewed procedures to prohibit former employees' access to electronic data files. Tested access privileges for former employees to determine whether their access privileges had been timely disabled.
IT policies and procedures.	Reviewed written policies and procedures to determine whether certain important IT control functions were addressed.
IT data loss prevention.	Reviewed written policies, procedures, and programs in effect governing the classification, management, and protection of sensitive and confidential information.
IT security incident response.	Reviewed written policies and procedures related to security incident response and reporting.
IT risk management and assessment.	Reviewed the District's risk management and assessment processes and security controls intended to protect the confidentiality, integrity, and availability of data and IT resources.
IT disaster recovery planning.	Determined whether a written disaster recovery plan was in place and had been recently tested.
IT security awareness and training.	Determined whether a comprehensive IT security awareness training program was in place.
IT logging and monitoring.	Reviewed procedures and reports related to the capture, review, maintenance, and retention of system and security event logs.
Monitoring charter schools.	Interviewed District personnel and reviewed supporting documentation to determine if the District effectively monitored whether charter schools had provided for required insurance.

**EXHIBIT A (Continued)**  
**AUDIT SCOPE AND METHODOLOGY**

Scope (Topic)	Methodology
Fraud policy and related procedures.	Examined written policies, procedures, and supporting documentation related to the District's fraud policy and related procedures.
Account reconciliations.	Reviewed District records to determine whether key accounts were reconciled timely.
Financial condition.	Applied analytical procedures to determine whether the percent of the General Fund total unassigned and assigned fund balances at June 30, 2011, to the fund's revenues was less than the percents specified in Section 1011.051, Florida Statutes. Analytical procedures were also applied to determine the reasonableness and ability of the District to make its future debt service payments.
Limitations on investment types.	Examined written policies, procedures, and supporting documentation to determine compliance with Section 218.415, Florida Statutes.
Restrictions on use of nonvoted ad valorem tax levy proceeds, Public Education Capital Outlay (PECO) funds, sales tax revenues, impact fees, and certificates of participation (COPs) proceeds.	Tested payments made from nonvoted ad valorem tax levy proceeds, PECO funds, and other funds, and examined supporting documentation to determine whether the District complied with requirements related to the use of nonvoted ad valorem tax levy proceeds, PECO funds, and other funds.
Charter school capital outlay funding.	Examined records to determine whether the District monitored charter school capital outlay funding as specified in Section 1013.62(2), Florida Statutes.
Restrictions on use of Workforce Development funds.	Reviewed payments to determine whether the District used funds for authorized purposes (i.e., purposes other than to support K-12 programs or District K-12 administrative costs).
Diplomas.	Interviewed school personnel to determine the adequacy of procedures regarding ordering, issuing, and safeguarding diplomas.
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.
Bank account reconciliations.	Reviewed bank account reconciliations and other supporting documentation to determine whether the District timely and properly performed bank reconciliations.
Fingerprinting and background checks for contractual personnel that had direct contact with students.	Tested contractual personnel who had direct contact with students and examined supporting documentation to determine whether the District had obtained required fingerprint and background checks for the individuals included in our test.

**EXHIBIT A (Continued)**  
**AUDIT SCOPE AND METHODOLOGY**

Scope (Topic)	Methodology
Employee time records.	Examined District records to determine whether payroll expenditures were properly supported.
Performance assessments.	Examined supporting documentation to determine whether the District had established adequate performance assessment procedures for instructional personnel and school administrators based primarily 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 both 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.
Overtime payments.	Reviewed District policies, procedures, and supporting documentation evidencing the approval of and necessity for overtime payments.
Board member compensation.	Examined supporting documentation to determine whether Board members’ salaries were in compliance with Section 1001.395, Florida Statutes.
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.
Booster organizations.	Determined whether the District had policies or procedures regarding the governance of booster organizations.
Internal audits.	Determined whether the District had followed up on recommendations of internal audits.
Construction processes.	Examined records and evaluated construction planning processes to determine whether processes were comprehensive, including consideration of restricted resources and other alternatives to ensure the most economical and effective approach, and met the District’s short-term and long-term needs.
Monitoring progress of construction projects.	Tested selected construction project records to determine whether projects progressed as planned and were cost-effective and consistent with established benchmarks, and whether contractors performed as expected.
Evaluation of maintenance department staffing needs.	Reviewed procedures for evaluating maintenance department staffing needs. Determined whether such procedures included consideration of appropriate factors and performance measures that were supported by factual data.

**EXHIBIT A (Continued)**  
**AUDIT SCOPE AND METHODOLOGY**

Scope (Topic)	Methodology
Identifying and prioritizing facility maintenance needs, and tracking maintenance jobs.	Evaluated procedures for identifying facility maintenance needs including identification and timely resolution of health and safety deficiencies, and establishing resources to address those needs. Compared maintenance plans with needs identified in safety inspection reports, reviewed inspection reports for compliance with Federal and State inspection requirements and timely resolution of deficiencies identified during inspections.
Insuring of buildings.	Determined, on a test basis, whether insurance coverage was updated for major asset acquisitions and disposals occurring in the audit period.
Annual safety inspections.	Tested safety inspection reports to determine whether deficiencies noted were timely corrected.
Educational facility floor plans.	Interviewed District personnel and reviewed supporting documentation to determine whether floor plans for all newly constructed or remodeled educational facilities were submitted to law enforcement and fire agencies by October 1 pursuant to Section 1013.13, Florida Statutes.
Wireless communication devices.	Reviewed policies and procedures to determine whether the District limited the use of, and documented the level of service for, wireless communication devices.
Purchasing card transactions.	Tested purchasing card transactions for propriety and compliance with related laws, rules, and District procedures.
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 and charter school audits.	Reviewed the audit reports for the District's direct-support organization and charter schools to determine whether the audits were performed pursuant to Chapters 10.700 and 10.850, Rules of the Auditor General, and Section 1001.453, Florida Statutes.

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**EXHIBIT B**  
**MANAGEMENT'S RESPONSE**



***Leading our Children to Success***

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<i>Superintendent:</i> Susan Moxley, Ed.D	<i>School Board Members:</i> <i>District 1</i> Jim Miller <i>District 2</i> Rosanne Brandeburg <i>District 3</i> Tod Howard <i>District 4</i> Debbie Stivender <i>District 5</i> Kyleen Fischer
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January 13, 2012

Mr. David W. Martin, CPA  
Florida Auditor General  
C74 Claude Pepper Building  
111 West Madison Street  
Tallahassee, FL 32399-1450

Dear Mr. Martin;

We would like to take the opportunity to thank you and your local audit staff for the assistance that the 2010-11 Operational Compliance audit provides to the District. We look to your recommendations as guidance and use them to focus on areas of needed improvement in our policies and procedures. In response to the Revised Preliminary and Tentative Audit Findings, we offer the following:

**#1 – Performance Assessments and #2 – Compensation and Salary Schedules**

These two topics are intertwined with the implementation of the Federal "Race-To-The-Top" grant requirements and Senate Bill 736. These include revisions to educator evaluation and compensation plans and mandates specific requirements for evaluation and compensation plans which modified Sections 1012.22 and 1012.34 for 2011. District-wide modifications to the existing evaluation and compensation programs were not fully implemented in anticipation of these new requirements. The district has developed timelines and detailed plans to ensure future compliance with the provisions of Race to the Top and Senate Bill 736.

**#3 – Payroll Processing - Time Records**

Operating with a consistent methodology for the documentation of time worked, leave used, supervisory review and approval continues to be an area in which the District procedures are inefficient. However, as the audit points out, there were no specific instances of incorrect compensation or inaccurate leave balances noted. We continue to review and revise our policies and procedures to more fully automate the process to address these concerns.

**#4 – Electronic Funds Transfers**

We will review and revise the existing policies and procedures, as necessary, to ensure that all types of electronic commerce are adequately addressed.

**#5 – Construction Contract Administration**

As part of the approved 2009-10 District Audit Plan, Construction Contract Compliance Reviews were performed by an external CPA firm for Sorrento Elementary and Gray Middle School. Both reports were presented to the Audit Committee in January 2010 and to the Board prior to the start of the current operational and compliance audit upon which these findings are based. At the same time as the Sorrento Review, the auditors presented a separate report of observations and recommendations for strengthening the construction contract language going forward. While this report did not specifically address the Gray Middle contract, in the discussions with

**EXHIBIT B**  
**MANAGEMENT'S RESPONSE (CONTINUED)**

2010-11 Auditor General Response  
January 13, 2012  
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the Audit Committee and the Auditors it was stated that because both schools used the same contract, the observations and recommendations would have applied to both contracts. They felt that presenting the information twice for the same contract template would be an unnecessary expense. On December 15, 2011, the same CPA firm completed and presented the Construction Compliance Contract Review for Lake Minneola High. In addition they presented the follow-up on the observations and recommendations from the earlier contract review indicating that, where appropriate, the recommendations had been implemented and that there was still room for improved contract language for the District to consider. These reports were made available to the Auditor General Staff.

**#6 – Facilities Management**

The District is in the process of documenting the existing procedures related to the periodic evaluation of alternative facilities construction methods. In addition, we have developed a schedule to complete the existing post-occupancy evaluation procedures to determine the effectiveness and efficiency of facility design and construction.

**#7 – Floor Plans and Relocatable Inspections**

The District has assigned the Facilities Department with the responsibility for ensuring that submitting and updating floor plans to local law enforcement agencies and fire departments. As noted in the finding, we have posted a generic inspection report referring to where the actual report may be reviewed in all of our relocatable facilities and believe that this is in compliance with the Statute. The cited Statute contains the exact language that is used with elevator inspection reports which post the same generic inspection reports. We will seek legal guidance as to the allowability of the method we are using and take whatever correction is deemed necessary.

**#8 – Ad Valorem Taxation and Impact Fees**

We will ensure that future ad valorem advertisements clearly delineate the intended use of all planned expenditures and will seek guidance from the Florida Department of Education as to acceptable corrective action regarding the \$47,663 of Trucks and Security Camera Inspections.

**#9 - Diplomas**

We will seek to enhance our procedures to provide for adequate controls to ensure that the documents are limited to authorized purposes.

**#10 - Information Technology – Written Policies and Procedures**

Changes in Management have delayed the review and release of written policies and procedures. The procedures are in final review and will be completed in a short time.

**#11 – Security Awareness Training Program**

We agree in the importance of a Security Awareness training Program and are working with staff to develop and deploy a comprehensive program.

**EXHIBIT B**  
**MANAGEMENT'S RESPONSE (CONTINUED)**

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#12 – Access Privileges

We have put a scheduled review plan into place for administrators and process owners to review access privileges for both their staff and for other employees that have access to areas under their responsibility.

#13 – Security Controls – User Authentication and Data Loss Prevention

We continue to review, revise and update security controls related to user authentication and data loss prevention.

#14 – Disaster Recovery Plan

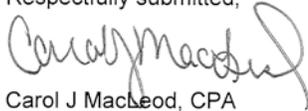
The District will document and follow a scheduled testing of the Disaster Recovery Plan.

#15 – Security Incident Response Plan

The District is in the process of developing a written security incident response plan.

We would like to take the opportunity to recognize Auditor General Staff members, Brenda Racis, Pat Tindel, and Jeff Cardinali for the professional manner in which the audit was conducted.

Respectfully submitted,



Carol J MacLeod, CPA  
Chief Financial Officer



Susan Moxley, Ed.D  
Superintendent of Schools