REPORT NO. 2013-135
MARCH 2013

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 2011-12 fiscal year are listed below:

	District No.
Dr. Michael Krupp	1
Dr. Barbara Murray, Chair	2
Amy Kneessy, Vice Chair	3
Karen Henderson	4
Andy Ziegler	5

Brian T. Binggeli, Ed.D., Superintendent

The audit team leader was Patricia A. Tindel, CPA, and the audit was supervised by Brenda C. Racis, CPA. 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:

ADMINISTRATIVE MANAGEMENT AND BOARD POLICIES

Finding No. 1: The Board needed to enhance its policies and procedures regarding the reporting of known or suspected fraud.

Finding No. 2: The District did not appropriately document certain Board and insurance advisory committee meetings, and Board meetings were not always timely approved, contrary to the Sunshine Law.

Finding No. 3: Controls over electronic fund transfers could be enhanced.

Finding No. 4: The Board had not adopted a written policy establishing a target net asset balance for the District's self-insured health plan.

PERSONNEL AND PAYROLL

Finding No. 5: The Board had not established a documented process to identify instructional personnel entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4.b., Florida Statutes.

Finding No. 6: District records did not always evidence that administrators approved reports of time worked and leave taken by subordinate employees.

CAPITAL ASSETS

Finding No. 7: District records supporting land, buildings and fixed equipment, and improvements other than buildings could be enhanced.

PROCUREMENT

Finding No. 8: Controls over the purchasing card program could be strengthened.

BACKGROUND

The Brevard 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 Brevard County. The governing body of the District is the Brevard 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 2011-12 fiscal year, the District operated 86 elementary, middle, high, and specialized schools; sponsored 7 charter schools; and reported 71,043 unweighted full-time equivalent students.

FINDINGS AND RECOMMENDATIONS

Administrative Management and Board Policies

Finding No. 1: Policies and Procedures for Reporting Fraud

The Board adopted standards of ethical conduct policies and the District established corresponding administrative procedures designed to create a culture of honesty and integrity. The policies and procedures provide steps for identifying and reporting known or suspected unethical or fraudulent incidents, establish responsibility for investigation of policy violations, and require initial ethics training for new hires and annual refresher training for other employees. However, these policies and procedures did not provide for anonymous reporting of known or suspected policy violations as the policy requires the person making complaints to be identified before an investigation commences. Also, the policy did not identify the consequences for persons who violate the policy. Allowing anonymous persons to report policy violations may help identify violations, and specifying consequences for violators may reduce the number of violations. Without such, the risk increases that known or suspected unethical or fraudulent behavior may occur and not be reported. A similar finding was noted in report No. 2011-060.

Recommendation: The Board should enhance its policies and procedures to provide for anonymous reporting of known or suspected unethical or fraudulent behavior and to specify consequences for policy violators.

Finding No. 2: Board Minutes

Section 286.011, Florida Statutes, is commonly referred to as the Sunshine Law. Section 286.011(2), Florida Statutes, requires the District to promptly record the minutes of all Board meetings for public inspection. Also, Section 1001.42(1), Florida Statutes, requires the Board to review and approve minutes for each Board meeting at the next regular meeting, and to keep minutes as a public record in a permanent location to set forth clearly all Board actions and proceedings. Further, the Florida Attorney General's publication *GOVERNMENT-IN-THE-SUNSHINE-MANUAL*, 2012 Edition, pages 3 through 7, states that advisory boards and fact finding committees whose powers are limited to making recommendations to a public agency and which possess no authority to bind that agency are subject to the Sunshine Law. The Manual also provides that when a committee possesses or exercises not only the authority to conduct fact finding but also to make recommendations, the committee is participating in the decision-making process and is subject to the Sunshine Law.

During the 2011-12 fiscal year, minutes for 7 of 12 regular Board meetings were not approved until 14 to 77 days, or an average of 52 days, after the next regular meeting. Also, the Board did not approve the minutes of 16 of 23 workshop and special meetings until 14 to 392 days, or an average of 98 days, after the next regular meeting. In addition, as of October 23, 2012, the minutes of 2 workshop meetings held during the 2011-12 fiscal year were not available for review.

Further, pursuant to Board policy, the Superintendent established an insurance advisory committee that makes recommendations to the Superintendent and, therefore, the committee is subject to maintaining documentation of meetings consistent with the Sunshine Law. However, the minutes for 3 of 13 committee meetings held during the 2011-12 fiscal year were not kept and none of the minutes for the remaining 10 meetings were approved by the committee.

District personnel indicated that a staffing shortage caused the delays in maintaining the Board minutes and they were unaware that the minutes of the insurance advisory committee meetings were required to be maintained and approved. Without appropriately maintaining records of public meetings, public access to official actions taken at the meetings may be limited.

Recommendation: The District should enhance its procedures to ensure that minutes of the Board and insurance advisory committee are appropriately maintained and timely approved.

Finding No. 3: Electronic Funds Transfers

Section 1010.11, Florida Statutes, requires each school board to adopt written policies prescribing the accounting and control procedures under which any funds are allowed to be moved by electronic transaction for any purpose including direct deposit, wire transfer, withdrawal, investment, or payment. This law also requires that electronic transactions comply with the provisions of Chapter 668, Florida Statutes, which discusses the use of electronic signatures in electronic transactions between school boards and other entities. In addition, State Board of Education (SBE) Rule 6A-1.0012, Florida Administrative Code (FAC), authorizes the District to make electronic funds transfers (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. SBE Rule 6A-1.0012, FAC, also requires the District to maintain documentation signed by the initiator and authorizer of EFTs to confirm the authenticity of EFTs.

During the 2011-12 fiscal year, the District regularly used EFTs to make electronic disbursements for vendor payments, purchasing card payments, debt service payments, purchases and sales of investments, and direct deposit of employee pay and other payroll related activity. According to District records, approximately $240 million of EFTs were made from its operating and investing accounts during the 2011-12 fiscal year. The Board established a bank agreement with each of three banks and an investment agreement with the Florida Education Investment Trust Fund to provide various services, such as EFTs.

While the District used written processes, such as use of EFT control documents that identified employees who initiated and authorized EFTs, the Board had not adopted written policies prescribing the accounting and control procedures of EFTs, including the use of electronic signatures, contrary to Section 1010.11 and Chapter 668, Florida Statutes. Although our tests did not disclose any EFTs for unauthorized purposes, the lack of specific guidance in the form of written policies and procedures increases the risk that electronic transactions will not be executed in accordance with Board directives and the provisions of Chapter 668, Florida Statutes.

Recommendation: The Board should adopt written policies and procedures related to controls over EFTs, including the use of electronic signatures.

Finding No. 4: Financial Condition – Group Health Self-Insurance Plan

The District established a group health self-insurance plan for employees, retirees, and dependents pursuant to Section 112.08(2), Florida Statutes. Section 112.08(2)(b), Florida Statutes, requires the District to annually submit to the Florida Department of Financial Services, Office of Insurance Regulation (OIR), a report that includes a statement prepared by an actuary of the plan's actuarial soundness. To obtain approval of a plan that lacks sufficient

reserves to pay the actuarially-projected average claims expense for the 60-day period after plan year end, OIR requires a certification assuring the availability of other funds to compensate for plan reserve shortages.

As of plan calendar years ended 2009 and 2010, the District had plan reserve shortages of $6.3 million and $6.1 million, respectively, to pay average claims expenses for 60-days. Also, as of plan calendar year ended 2011, the plan reserve was $4.5 million and the average claims expense for the average 60-day period was $9.3 million, resulting in a plan reserve shortage of $4.8 million. To compensate for the plan reserve shortages of the three plan calendar years, the District provided OIR with certifications of other available funding, and OIR accepted the plans as actuarially sound.

In an effort to improve the financial condition of the health self-insurance plan, the Board restructured its insurance plan effective May 1, 2011. However, the Board had taken no official action to establish the plan's target net asset balance or funding level to ensure that the plan is adequately funded to meet future obligations and, as of October 2012, the District's monthly financial report disclosed that the net asset balance had declined to $5.1 million, or $4.2 million less than the average claims expense for the 60-day period at plan calendar year ended 2011. Although the Board receives monthly financial reports to monitor the financial stability of the plan, future plan funding and design improvements are needed to ensure net asset balances are adequately funded to meet future obligations. Similar findings were noted in report Nos. 2008-090 and 2011-060.

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

Personnel and Payroll

Finding No. 5: 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)4.b., Florida Statutes, provides that, for instructional personnel, the Board must provide for 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 established a documented process to identify instructional personnel entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4.b., Florida Statutes. Such a documented process could specify the factors to be used as the basis for determining differentiated pay, the process for applying the factors, and the individuals responsible for making such determinations.

The 2011-12 fiscal year salary schedule and union contract for instructional personnel provided pay levels based on various factors such as job classification, years of experience, level of education, and other factors. The instructional personnel salary schedule and union contract provided salary supplements for additional responsibilities beyond the standard workday, such as supplements for coaching athletic activities and extra duty supplements, and also provided differentiated pay salary supplements to teachers at alternative learning centers based on the level of job performance difficulties, and to those teachers at schools designated by the State as "F" schools for school demographics.

However, neither the salary schedule nor the union contract evidenced consideration of differentiated pay based on critical shortage areas for instructional personnel, contrary to Section 1012.22(1)(c)4.b., Florida Statutes.

District personnel indicated that, as of January 2013, the teacher's union two-year contract did not include the required differentiated pay provisions, but the required differentiated pay provisions would be considered for the 2014-15 union contract. Without a Board-established documented process for identifying the basis for differentiated pay, the District may be limited in its ability to demonstrate that the various differentiated pay factors are consistently considered and applied. A similar finding was noted in our report No. 2011-060.

Recommendation: The Board should establish a documented process for ensuring that differentiated pay of instructional personnel is appropriately identified on salary schedules, consistent with Section 1012.22(1)(c)4.b., Florida Statutes.

Finding No. 6: Time Records

Effective internal control requires supervisory approval of time worked and leave used by all employees to ensure that compensation payments are appropriate and leave balances are accurate. District records did not always evidence that certain administrators, such as area superintendents, assistant superintendents, and the superintendent, approved the biweekly payroll reports of their subordinate employees, such as principals, department directors, managers, and coordinators. Based on responses to our inquiries, administrators did not approve the time sheets of 126 of their subordinate employees for the 2011-12 fiscal year. District personnel indicated that, as of November 2012, electronic time records, evidencing supervisory approval, for all employees was in the design phase with a preliminary goal to implement the process at selected worksites during the 2013-14 fiscal year, and full implementation in the 2014-15 fiscal year.

Without records evidencing timely verification of work attendance and leave taken, there is an increased risk that the District may incorrectly compensate employees and that employee leave balances may be inaccurate. A similar finding was noted in our report No. 2011-060.

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

Capital Assets

Finding No. 7: Subsidiary Records

At June 30, 2012, the District reported on the annual financial report balances totaling $35.9 million, $814.7 million, and $27.3 million for land, buildings and fixed equipment, and improvements other than buildings, respectively, net of depreciation. However, District records did not evidence that detailed subsidiary records had been established and maintained for these capital assets. To determine the balances reported in the financial statements for these assets, District personnel added the current fiscal year capital outlay expenditures to the balances reported on the prior fiscal year financial statements. While this procedure may fairly present financial statement balances, it is not a substitute for establishing and maintaining an adequate record system to account for the District's individual capital assets. District personnel indicated that risk management records listing appraised values of buildings could assist in adjusting fixed asset records when assets are sold, lost, or impaired; however, these records did not indicate historic cost or

depreciation and, therefore, would be of limited use. Similar findings were noted in our report Nos. 2008-090 and 2011-060.

Recommendation: The District should strengthen procedures to ensure the adequacy of its records supporting land, buildings and fixed equipment, and improvements other than buildings.

Procurement

Finding No. 8: Purchasing Cards

To expedite the purchase of selected goods and services, the District used purchasing cards in certain situations. Purchases made with purchasing cards are subject to the same rules and regulations that apply to other District purchases and are subject to additional purchasing card guidelines. The District's purchasing card guidelines provide that a purchasing card activity report be prepared by either the cardholder or the school or department purchasing card custodian, signed by the cardholder, and authorized by the principal, department supervisor, or appointed representative for payment.

As of March 7, 2012, the District had issued 620 purchasing cards to its employees, and purchasing card expenditures totaled $8.7 million for the period July 1, 2011, through March 7, 2012. To determine the propriety of purchasing card expenditures and whether controls were operating effectively, we tested 25 purchasing card expenditures totaling $6,419, selected from monthly cardholder purchasing card activity reports for 21 employees. Our tests disclosed 14 expenditures totaling $1,982, made by 11 employees and reported on activity reports that were not approved by the employees' supervisors or appointed representatives. Our expanded review of transactions on the activity reports of the 11 employees disclosed purchasing card expenditures totaling $15,446 that were also not approved by the employees' supervisors or appointed representatives. Although District records indicate these expenditures were for valid District purposes, independent written approval of purchasing card charges documents management's responsibility for such charges and serves to establish authorization to pay purchasing card billings.

Recommendation: The District should strengthen controls over its purchasing card program to ensure that purchases are properly approved.

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the District had taken corrective actions for findings included in our report No. 2011-060. The following table provides information on recurring District audit findings:

Current Fiscal Year Finding Numbers	2010-11 Fiscal Year Audit Report and Finding Numbers	2009-10 Fiscal Year Audit Report and Finding Numbers
1	Audit Report No. 2011-060, Finding No. 1	NA
4	Audit Report No. 2011-060, Finding No. 2	Audit Report No. 2008-090, Finding No. 7
5	Audit Report No. 2011-060, Finding No. 4	NA
6	Audit Report No. 2011-060, Finding No. 5	NA
7	Audit Report No. 2011-060, Finding No. 7	Audit Report No. 2008-090, Finding No. 4

NA – Not Applicable

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 February 2012 to August 2012 and from October 2012 to November 2012 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:

- Evaluate management's performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse, and in administering assigned responsibilities in accordance with applicable laws, rules, regulations, contracts, grant agreements, and other guidelines.

- Examine internal controls designed and placed in operation to promote and encourage the achievement of management's control objectives in the categories of compliance, economic and efficient operations, reliability of records and reports, and the safeguarding of assets, and identify weaknesses in those controls.
- Determine whether management had taken corrective actions for findings included in our report No. 2011-060.
- Identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

This audit was designed to identify, for those programs, activities, or functions included within the scope of the audit, deficiencies in management's internal controls, instances of noncompliance with applicable laws, rules, regulations, contracts, grant agreements, and other guidelines, and instances of inefficient or ineffective operational policies, procedures, or practices. The focus of this audit was to identify problems so that they may be corrected in such a way as to improve government accountability and efficiency and the stewardship of management. Professional judgment has been used in determining significance and audit risk and in selecting the particular transactions, legal compliance matters, records, and controls considered.

For those programs, activities, and functions included within the scope of our audit, our audit work included, but was not limited to, communicating to management and those charged with governance the scope, objectives, timing, overall methodology, and reporting of our audit; obtaining an understanding of the program, activity, or function; exercising professional judgment in considering significance and audit risk in the design and execution of the research, interviews, tests, analyses, and other procedures included in the audit methodology; obtaining reasonable assurance of the overall sufficiency and appropriateness of the evidence gathered in support of our audit findings and conclusions; and reporting on the results of the audit as required by governing laws and auditing standards.

The scope and methodology of this operational audit are described in Exhibit A. Our audit included the selection and examination of various records and transactions occurring during the 2011-12 fiscal year. Unless otherwise indicated in this report, these records and transactions were not selected with the intent of statistically projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

An audit by its nature does not include a review of all records and actions of agency management, staff, and vendors, and as a consequence, cannot be relied upon to identify all instances of noncompliance, fraud, waste, abuse, or inefficiency.

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) access privileges and separation of duties.	Reviewed 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.
Procedures for granting access to IT resources.	Examined documentation to determine the adequacy of the District's process for requesting, approving, implementing, and reviewing system access to IT resources.
Fraud policy and related procedures.	Examined written policies, procedures, and supporting documentation related to the District's fraud policy and related procedures.
Board and committee meetings.	Read Board minutes and, for selected Board meetings, examined supporting documentation evidencing compliance with Sunshine Law requirements.
Financial condition.	Applied analytical procedures to determine whether the percent of the General Fund total unassigned and assigned fund balances at June 30, 2012, compared 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.
Earmarked capital project resources.	Applied analytical procedures, tested payments made from nonvoted capital outlay tax levy proceeds and impact fee funds, and examined supporting documentation to determine whether the District complied with requirements related to the use of nonvoted capital outlay proceeds and impact fee funds.
Restrictions on use of Workforce Development funds.	Applied analytical procedures to determine whether the District used funds for authorized purposes (i.e., not used to support K-12 programs or District K-12 administrative costs).
Adult general education program enrollment reporting.	Examined supporting documentation on a test basis to determine whether the District reported instructional contact hours in accordance with Florida Department of Education requirements.
Qualified public depositories.	Determined whether deposits of District moneys were secured in a qualified public depository, unless exempted by law, as required by Section 280.03, Florida Statutes.
Banking services.	Reviewed procedures to determine whether the District effectively obtained banking services by periodically soliciting proposals from financial institutions.
Health self-insurance program.	Determined whether the Board established a minimum net asset balance for the health self-insurance program.
Compensation for appointed superintendents.	Determined whether the appointed Superintendent's compensation was in accordance with Florida law, rules, and Board policies.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Compensation and salary schedules.	Examined supporting documentation to determine whether the Board adopted a salary schedule with differentiated pay for both 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.
Overtime payments.	Reviewed District policies, procedures, and supporting documentation evidencing the approval of, and necessity for, overtime payments. Performed analytical procedures to determine the reasonableness of overtime payments.
Bonuses.	Determined whether bonuses paid were in compliance with Section 215.425(3), Florida Statutes.
Time records.	Determined whether employee time records were properly approved.
Capital asset records.	Determined existence and adequacy of capital asset subsidiary records for land, buildings and fixed equipment, and improvements other than buildings.
Procurement.	Reviewed District policies and procedures related to the procurement of goods and services to ensure the competitive vendor selection process. Tested significant dollar purchases and examined supporting documentation to determine compliance with bid requirements.
Purchasing card transactions.	Tested transactions to determine whether purchasing cards were administered in accordance with District policies and procedures. Also, tested former employees to determine whether purchasing cards were timely canceled upon termination of employment.
Electronic transfers and payments.	Reviewed District policies and procedures relating to electronic funds transfers and vendor payments. Tested supporting documentation to determine if selected electronic funds transfers and payments were properly authorized and supported, and complied with State Board of Education Rule 6A-1.0012, Florida Administrative Code.
School district fees.	Reviewed policies and procedures to determine whether the District assessed fees to parents or students, or required parents or students to contribute supplies, as a condition of the student attending school or taking classes, contrary to the Florida Constitution.
Charter school fiscal viability.	Examined records to determine whether the District evaluated the charter school application for the fiscal viability of the charter school and the competency of the staff responsible for operating the charter school before the charter was granted using the FDOE evaluation instrument required by Section 1002.33(6)(b), Florida Statutes, and Section 6A-6.0786, Florida Administrative Code.

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

February 28, 2013

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 preliminary and tentative audit findings and recommendations for the operational audit dated January 16, 2013. These reports were provided to the School Board of Brevard County for the fiscal year ending June 30, 2012.

Finding No. 1: Policies and Procedures for Reporting Fraud:
The Board should enhance its policies and procedures to provide for anonymous reporting of known or suspected unethical or fraudulent behavior and to specify consequences for policy violators.

School Board Policy 1210, entitled *Standards of Ethical Conduct*, establishes the Board's strong commitment for the highest ethical standards and educates employees about the ethical conduct that should be maintained by all. Each formal ethics complaint, along with consequences to the violator, is addressed by the District's Ethics Panel; however, individual cases will vary depending on the circumstances and the degree of violation. As recommended, District staff will seek to clarify the Board's position on expanding the current policy to clarify procedures for anonymous reporting and other specific consequences to violators for unethical and fraudulent acts.

Finding No. 2: Board Minutes:
The District should enhance its procedures to ensure that minutes of the Board and insurance advisory committee are appropriately maintained and timely approved.

Currently, video of all Board meetings is available on the School Board website for public review immediately after each Board meeting. Additionally, detailed minutes are provided to the Board for each meeting, albeit not immediately thereafter. Staff will seek Board approval to create a shortened version of the minutes to be presented for approval at the following Board meeting. If this new procedure is approved by the Board, the shortened version of the minutes will contain only the action items along with each related motion, second to the motion and the record of each member's vote, as required by Florida Statute.

The Insurance Advisory Committee will maintain minutes of the advisory committee meetings and seek timely approval by the committee at each subsequent meeting.

Judy R. Preston, Associate Superintendent
Division of Financial Services
Phone: (321) 633-1000, ext. 600 • Fax: (321) 633-3562

An Equal Opportunity Employer

EXHIBIT B (Continued)
MANAGEMENT'S RESPONSE

Finding No. 3: Electronic Funds Transfer:
The District should adopt written policies related to controls over EFT's, including the use of electronic signatures.

District Staff is currently working to create a written policy related to the controls over EFT's and electronic signatures. Staff will seek Board approval and adoption of the policy by the end of fiscal year 2012-13.

Finding No. 4: Financial Condition-Group Health Self-Insurance Plan:
The Board should establish policies identifying a target net asset balance or funding level for the health self-insured plan and continue to take actions, as necessary, to ensure adequate funding of the plan.

The Board has informally established a net asset target balance as an amount equal to 60 days of claims for the Health Insurance Fund, but has fallen short of meeting this targeted balance at year-end for the past several years. The Patient Protection and Affordable Care Act (PPACA – also known as Obamacare) has presented an additional set of unique challenges for maintaining sustained stability in the self-insurance plan. As a sustainability measure, the School Board has been making plan design changes since January 2010 and has provided additional funding in the total amount of $4.4 million from the District's operating fund, to help rebuild fund reserves during fiscal years 2010-11 and 2011-12. An additional transfer of operating funds in the amount of $3.8 million is budgeted for the 2012-13 fiscal year, of which $1.6 million will be a recurring transfer to the fund each year thereafter. If needed, sufficient reserves are available in other funds and could be transferred to meet the State's requirements, pending School Board approval.

Finding No. 5: Compensation and Salary Schedules:
The Board should establish a documented process for ensuring that differentiated pay of instructional personnel is appropriately identified on salary schedules, consistent with Section 1012.22(1) (c) 4.b., Florida Statutes.

The School Board and Union, in the negotiations for the 2012-2013 school year, agreed to freeze the current salary schedule as our grandfathered schedule. Negotiations for a performance pay and a differentiated salary schedule will be discussed between these parties during the next negotiation cycle (summer of 2013).

Finding No. 6: Time Records:
The District should continue its efforts to enhance payroll processing procedures to ensure that District records appropriately document employee attendance and absences, and supervisory review and approval of time records.

The District continues to examine best practices for documenting employee attendance and absences. Staff is currently working with the district's payroll software provider to pilot an online approval process for timekeeping and employee leaves; however, a full automation of time and attendance, district wide, will require considerable design and programming changes to the current software. Staff has made some progress with the automation of time and attendance over the past year and is planning for a 2014-15 full implementation; however, funding and personnel constraints could negatively impact the feasibility of this action.

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EXHIBIT B (Continued)
MANAGEMENT'S RESPONSE

Finding No. 7: Subsidiary Records:
The District should strengthen procedures to ensure the adequacy of its records supporting land, buildings and fixed equipment, and improvements other than buildings.

The District believes that its current recordkeeping is adequate for providing accurate financial reporting of district assets; however, staff is exploring options to begin the implementation of a more detailed historical cost subsidiary, beginning with fiscal year 2012-13 reporting. This implementation could require changes in the design of current software or the purchase of new software. Funding and personnel constraints could negatively impact the feasibility of this action.

Finding No. 8: Purchasing Cards:
The District should strengthen controls over its purchasing card program to ensure that purchases are properly approved.

All purchasing cards are approved by the cardholder's immediate supervisor, except for cards issued to Principals, Directors and Senior Staff members. The exception group represents approximately 133 of the 620 cards or 22%. Every cardholder's monthly invoice (for all employee classifications) along with all back-up documentation for the invoice amounts is scrutinized by Accounting Services during the month end review process. The review verifies that the charges appear valid, accurate and provide appropriate use of district funds; anomalies are brought to the attention of the cardholder who is subsequently required to reimburse the District for any inappropriate use of funds. As recommended, Accounting will confer with the Superintendent to seek methods by which purchases for all employee classifications can be approved by an immediate supervisor or designee.

I would like to thank you and your staff for your support and cooperation during the FY12 audit. I look forward to the completion of the final report.

Sincerely,

Judy R. Preston

Judy R. Preston, Associate Superintendent
Financial Services

C: Board Members
Audit Committee
Dr. Brian Binggeli

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