REPORT NO. 2014-071
DECEMBER 2013

OSCEOLA COUNTY

DISTRICT SCHOOL BOARD

Operational Audit

STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD MEMBERS AND SUPERINTENDENTS

Board members and the Superintendents who served during the 2012-13 fiscal year are listed below:

	District No.
Jay Wheeler, Chair from 11-26-12	1
Julius Melendez to 11-25-12, Vice Chair	2
Kelvin Soto from 11-26-12	2
Cindy Lou Hartig to 11-25-12, Chair	3
Timothy P. Weisheyer from 11-26-12	3
Barbara Horn, Vice Chair from 11-26-12	4
Thomas E. Long	5

Terry Andrews, Superintendent to July 8, 2012
Melba Luciano, Superintendent from July 9, 2012

The audit team leader was Mary W. Lynn, CPA, and the audit was supervised by David A. Blanton, CPA. For the information technology portion of this audit, the audit team leader was Shawn McCormick CPA, 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 or by telephone at (850) 412-2863.

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) 412-2722; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

OSCEOLA COUNTY

District School Board

EXECUTIVE SUMMARY

Our operational audit disclosed the following:

PERSONNEL AND PAYROLL

Finding No. 1: 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. 2: The District did not obtain required background screenings of certain District employees.

CASH CONTROLS

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

CAPITAL OUTLAY FUNDING

Finding No. 4: District records did not always evidence that ad valorem tax levy proceeds were only used for authorized purposes, resulting in $20,136 of questioned costs.

CONSTRUCTION ADMINISTRATION

Finding No. 5: Contrary to Section 287.055, Florida Statutes, the District entered into two construction projects that had total expenditures in excess of $2 million each, without competitively selecting the construction management entities.

Finding No. 6: The District needed to establish policies and procedures for negotiating, documenting, and monitoring general conditions costs for guaranteed maximum price projects.

Finding No. 7: The District needed to enhance its procedures for monitoring the subcontractor selection process for construction projects.

Finding No. 8: The District needed to enhance its procedures for monitoring payment requests from construction management entities.

Finding No. 9: The District needed to strengthen its controls to ensure that the Board approves all construction project change orders.

FACILITIES ADMINISTRATION AND MONITORING

Finding No. 10: Controls over facilities construction and maintenance activities could be enhanced.

PROCUREMENT

Finding No. 11: Controls over payments for contractual services could be enhanced.

Finding No. 12: Controls over the use of purchasing cards could be strengthened.

ADULT EDUCATION PROGRAMS

Finding No. 13: Improvements were needed in controls over workforce development expenditures and unspent funds associated with workforce development funds and adult education tuition and fees.

Finding No. 14: The District needed to strengthen its controls to ensure the accurate reporting of instructional contact hours for adult general education classes to the Florida Department of Education.

INVENTORIES

Finding No. 15: Controls over transportation and food service inventories could be enhanced.

VIRTUAL INSTRUCTION PROGRAM

Finding No. 16: Controls over virtual instruction program (VIP) operations and related activities could be enhanced by developing and maintaining comprehensive, written VIP policies and procedures.

Finding No. 17: VIP provider contracts were deficient in that contracts did not include all provisions required by State law.

Finding No. 18: The District could enhance its procedures to ensure that, in the future, the required number of VIP options is offered.

Finding No. 19: The District needed to strengthen controls to ensure that VIP students and their parents are notified of the availability of computing resources and that qualified VIP students are provided computing resources.

Finding No. 20: District records did not evidence that required background screenings were performed for VIP provider employees and contracted personnel.

Finding No. 21: The District needed to enhance its procedures to ensure that residual VIP funds are properly restricted for use as required by State law.

INFORMATION TECHNOLOGY

Finding No. 22: Some inappropriate or unnecessary information technology (IT) access privileges existed.

Finding No. 23: The District did not timely deactivate network access privileges of former employees.

Finding No. 24: District IT security controls related to user authentication and configuration management needed improvement.

BACKGROUND

The Osceola County School District (District) is part of the State system of public education under the general direction of the Florida Department of Education, and is governed by State law and State Board of Education rules. Geographic boundaries of the District correspond with those of Osceola County. The governing body of the District is the Osceola 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 2012-13 fiscal year, the District operated 56 elementary, middle, high, specialized schools, and alternative education programs; sponsored 12 charter schools; and reported 55,892 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, 2013, will be presented in a separate report.

FINDINGS AND RECOMMENDATIONS

Personnel and Payroll

Finding No. 1: 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.

While the salary schedule and union contract provided for certain types of differentiated pay, without a Board-established documented process for determining which instructional personnel are to receive 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. 2011-051.

Recommendation: The Board should establish a documented process for identifying instructional personnel entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4.b., Florida Statutes.

Finding No. 2: Background Screenings

Sections 1012.56(10) and 1012.465, Florida Statutes, require that instructional personnel renewing their teaching certificates and noninstructional personnel that have direct contact with students undergo required background screenings every five years following the initial screening upon employment.

The District maintains separate databases for personnel records and background screenings, and we reviewed information from the databases to determine whether instructional and noninstructional personnel received the required background screenings. However, District records did not evidence that 66 employees received background screenings, including 34 criminal justice program employees assigned to the vocational high school that the District erroneously considered as exempt from the requirements, or that 47 other employees were rescreened in the last five years. These employees had direct contact with students and included teachers, bus drivers, food service personnel, and various others. District personnel indicated that they were in the process of identifying those subject to the required background screenings and ensuring that the required screenings are performed. Without documented evidence of the required background screenings of instructional and noninstructional employees, there is an increased risk that individuals with unsuitable backgrounds may be allowed access to students. Similar findings were noted in the 2011-12 fiscal year financial audit report, and regarding virtual instruction program provider personnel as discussed in Finding No. 20.

Recommendation: The District should continue its efforts to ensure that District personnel undergo the background screenings as required by law.

Cash Controls

Finding No. 3: Electronic Fund Transfers

Section 1010.11, Florida Statutes, requires each school board to adopt written policies prescribing the accounting and control procedures under which 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 requires 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.

Board policy requires that the chief business officer establish a system of internal controls in written operational procedures. The internal controls are required to prevent losses of funds, which might arise from fraud, error, or imprudent actions by employees. Further, Board policy requires that the procedures ensure separation of transaction authority from accounting and recordkeeping, and use of agreements to authorize EFTs.

During the 2012-13 fiscal year, the District regularly used EFTs for vendor payments, the purchasing card program, debt service payments, purchases and sales of investments, and direct deposit of employee pay and other payroll related activity, such as child support. According to District records, cash and cash equivalents and investments totaling $176.1 million were available for electronic transfer at June 30, 2013. The Board established a bank agreement with a bank and an investment agreement with the State Board of Administration to provide various services, such as EFTs.

The District had written directions on how to prepare an EFT and used informal processes, such as use of EFT control documents that identified employees who initiated and authorized EFTs and other reviews to monitor and control electronic transmission of funds. However, the Board policy did not prescribe the accounting and control procedures for EFTs, including the use of electronic signatures, contrary to Section 1010.11 and Chapter 668, Florida Statutes. In addition, the bank agreement did not contain the manual signatures of the employees authorized to initiate and authorize EFTs, nor did the District maintain documentation signed by initiators and authorizers of EFTs to authenticate EFTs, contrary to SBE Rule 6A-1.0012, FAC.

While the District had established certain controls over EFTs, such as management review of EFT transactions and independent bank reconciliations, and our tests did not disclose any EFTs for unauthorized purposes, the lack of specific guidance in the form of Board-approved written policies and procedures, required signatures on the bank agreement of employees authorized to make EFTs, and documentation signed by initiators and authorizers of EFTs to authenticate EFTs increase the risk of misappropriation of funds without timely detection.

Recommendation: The Board should enhance its written policies and procedures to address accounting and control procedures for EFTs, including the use of electronic signatures. In addition, the banking agreement should contain the signatures of employees authorized to initiate and authorize EFTs, and the District should maintain documentation signed by initiators and authorizers of EFTs to authenticate EFTs.

Capital Outlay Funding

Finding No. 4: Ad Valorem Taxation

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; costs associated with the library media center of a new school; and purchase of certain enterprise resource software applications that are used to

support district-wide administration subject to certain conditions and limitations. The District accounts for the ad valorem tax levy proceeds in the Capital Projects – Local Capital Improvement (LCI) Fund.

For the 2012-13 fiscal year, the District reported LCI Fund expenditures and transfers to other funds totaling $6.7 million and $14.4 million, respectively. Our tests disclosed that the District used LCI Funds totaling $19,636 to purchase library books at preexisting schools that had undergone renovation, and $500 for software used to format food service menus at Gateway High School. District personnel indicated that the library book costs were allowable uses of ad valorem tax levy proceeds since they resulted from the addition of new student stations, and the software purchase cost was allowable because it electronically displayed cafeteria menus and was included within the costs of cafeteria remodeling. However, as Section 1011.71, Florida Statutes, does not explicitly authorize these uses, these costs represent questioned costs of ad valorem tax levy proceeds. Without adequate controls to ensure that ad valorem tax levy proceeds are expended only for authorized capital outlay related purposes, the risk is increased that the District will violate applicable expenditure restrictions.

Recommendation: The District should enhance controls to ensure that expenditures of ad valorem tax levy proceeds are expended only for authorized purposes. In addition, the District should document the allowability of the $20,136 of questioned costs or restore this amount to the LCI Fund.

Construction Administration

Pursuant to Section 1013.45(1), Florida Statutes, the District may contract for the construction or renovation of facilities with a construction management entity (CME). Under the CME process, contractor profit and overhead are contractually agreed upon, and the CME is responsible for all scheduling and coordination in both design and construction phases and is generally responsible for the successful, timely, and economical completion of the construction project. In addition, the CME may be required to offer a guaranteed maximum price (GMP), which allows for the difference between certain costs of the project and the GMP amount, or the net cost savings, to be returned to the District. As such, a GMP contract requires District personnel to closely monitor the construction costs and award of bids to subcontractors. To monitor these costs, the District routinely contracts with an independent firm to conduct comprehensive construction project contract cost compliance reviews at the conclusion of major construction projects rather than establishing such controls themselves.

In September 2009, the Board approved GMP contracts with CMEs for the Osceola High School (OHS) Renovation project and St. Cloud High School (SCHS) with total costs of $42.2 million and $32.9 million, respectively. Also, in April 2013, the Board approved a GMP contract with a CME for the Kissimmee Elementary School (KES) Wing Addition project with total costs of $1.978 million. The OHS project was substantially complete in August 2012, the KES project was substantially complete in August 2013, and the SCHS project was substantially complete in September 2013. Our review disclosed that the District's construction contract administration procedures could be improved, as discussed in Finding Nos. 5 through 9.

Finding No. 5: Construction Contract - Selection of Construction Management Entity

Pursuant to Section 1013.45(1)(c), Florida Statutes, the District must select a CME pursuant to Section 287.055, Florida Statutes. Section 287.055(3), Florida Statutes, requires that the District publicly announce, in a uniform and consistent manner, each occasion when professional services must be purchased for a project in which the basic construction cost is estimated to exceed $325,000. The public notice must include a general description of the project and must indicate how interested consultants may apply for consideration. Sections 287.055(4) and (5), Florida

Statutes, require the District to select in order of preference no fewer than three firms deemed to be the most highly qualified to perform the required services for each proposed project. Should the District be unable to negotiate a satisfactory contract with the firm considered to be the most qualified at a price the District determines to be fair, competitive, and reasonable, negotiations with that firm must be formally terminated, and the District must then undertake negotiations with the remaining selected CMEs, in the order they were ranked, until a satisfactory contract is negotiated.

Pursuant to Section 255.103(4), Florida Statutes, the District may enter into a continuing contract for a defined period with a CME for construction projects in which the estimated construction cost of each individual project under the contract does not exceed $2 million. In August 2010, the District solicited a request for qualifications (RFQ) for a construction manager at risk for minor projects under $2 million, and the Board approved a list of nine CMEs that it could enter into contracts with once minor projects under $2 million were identified.

During the 2012-13 fiscal year, the Board assigned CMEs from the Board-approved list to construct wing additions at Kissimmee Elementary and Osceola High School as follows:

Project	CME Contract Amount	Total Budgeted Project Costs
Kissimmee Elementary Wing Addition	$1,978,000	$2,058,050
Osceola High School Wing Addition	$1,907,562	$2,063,671

The District entered continuing contracts with the CMEs without following the competitive selection process as the CME contract amounts were each below $2 million. However, combining the CME costs with other project-related costs, such as direct materials purchases, results in total project costs of each project exceeding the $2 million continuing contract cost threshold. As such, the District was required to follow the prescribed competitive selection process in Section 287.055, Florida Statutes, for selection of the CMEs. Without this process, District records did not evidence that the most highly qualified firms were selected for these projects.

Recommendation: The District should continue its efforts to ensure that CMEs are ranked and competitively selected using the process prescribed by Section 287.055, Florida Statutes.

Finding No. 6: Construction Contract - General Conditions Costs

The GMP agreement for the OHS project included a provision to pay the CME a fee for certain general conditions overhead costs, such as salaries and benefits of supervisory and administrative personnel ($3.1 million); relocation and setup of temporary buildings costs ($339,000); and vehicles ($171,600). District personnel indicated that the construction phase general conditions fee was a negotiated fee established prior to Board approval of the GMP agreement. The District had not established written policies and procedures addressing the methodology to be applied and factors to be considered during the negotiation process for general conditions costs. Such procedures should include comparing costs to general conditions for similar projects or projects of other school districts, and negotiating a reasonable amount for a total budgeted figure for all general conditions costs. Although requested, we were not provided documentation of the methodology applied and the factors considered during the negotiation process for general conditions costs. Effectively negotiating and documenting the reasonableness of general conditions costs are essential to ensuring that potential cost savings are realized under GMP contracts.

Recommendation: The District should establish written policies and procedures addressing negotiation and monitoring of general conditions costs. Such policies and procedures should require documentation of the methodology used and factors considered in negotiating such costs.

Finding No. 7: Construction Contract - Subcontractor Selection

District personnel indicated that the CMEs solicited bids and awarded subcontracts, as necessary, for the OHS and KES projects and, prior to payment to the CMEs, the District project manager inspected the job site with the architect and CME representatives to determine the status of the projects. While the project manager signed the CME applications for payment to evidence approval of the construction work, District personnel did not attend the subcontractor bid openings or obtain subcontractor bids and contracts. Without District procedures to appropriately monitor the award of subcontractor bids, the risk increases that the District may not obtain subcontractor services at the lowest cost consistent with acceptable quality and realize maximum cost savings.

Recommendation: The District should enhance its procedures to ensure that subcontractors are competitively selected and District personnel monitor the subcontractor selection process.

Finding No. 8: Construction Contract - Monitoring Payment Requests

The District contracted with an independent firm to conduct comprehensive contract cost compliance reviews of the SCHS and OHS projects, and the results of these reviews were included in separate reports dated February 2013. Our review of District records supporting these projects and the independent reviews disclosed certain control deficiencies, as discussed below.

Duplicate Billings and Non-reimbursable Costs. The independent review for the SCHS project identified duplicate billings for accounting labor, resulting in questioned costs of $45,686. The independent review further reported that such costs exceeded the GMP original estimate for the subcontractor work by 84 percent. District personnel indicated that the additional costs were for accounting labor costs and recovery of these costs was not sought because District personnel verbally agreed to the charges. However, District records did not evidence that these additional costs were based on Board-approved additional services, resulting in the questioned costs. Similarly, the independent review of OHS identified $25,262 for travel and promotion costs that was billed to the OHS project, although the District was not responsible pursuant to the GMP contract to reimburse the CME for such costs. As of September 2013, District records did not demonstrate that these questioned costs, reported by the independent review in February 2013, had been refunded to the District.

Our review of the OHS project disclosed a CME charge of $452,470 that District personnel indicated was project savings that the CME retained after the CME provided certain services at less costs than would have been incurred had such services been provided by subcontractors. Given that the GMP contract requires that any project savings be applied to reduce the GMP, District records did not demonstrate why the District did not realize these cost savings.

Billings in Excess of Job Costs. The independent review for the SCHS project disclosed a difference of $189,365 between project costs paid and incurred. In response to our inquiry, District personnel explained that the difference was inaccurate because the independent review did not use final job cost data. Further, in response to the independent review, District personnel indicated that they normally perform a full reconciliation of costs incurred to those billed at the end of each job and before processing the CME's final pay application. However, although requested, we were not provided documentation evidencing that District personnel prepared such a reconciliation for

the SCHS project prior to the final payout to the CME. Without appropriate procedures to reconcile project costs billed, paid, and incurred, there is an increased risk that the District may not realize maximum cost savings afforded by GMP contracts.

Advance Billings. The independent review for the OHS project reported that pay application procedures could be improved because the CME did not provide support for certain portions of monthly billings and, consequently, the CME advance-billed for approximately $500,000 of general conditions and other fees. As a result of these advance billings, the District prepaid for six months of CME services and the independent review calculated lost interest earnings of approximately $26,000 from these prepayments, resulting in questioned costs of that amount. Further, prepayment for such services increases the risk of overpayment and for services to be inconsistent with Board intent. As of September 2013, District records did not demonstrate that these questioned costs, reported by the independent review in February 2013, had been refunded to the District.

Audit Costs and Interest on Questioned Costs. Each GMP contract for OHS and SCHS provided that if project overcharges exceeded $10,000, the CME must pay the District the overcharged amount, subject to interest at 12 percent, and the audit amount. The OHS and SCHS independent reviews each had questioned costs exceeding $10,000; however, the District did not seek to recover the $45,000 cost of each audit or interest on questioned costs.

When payments to CMEs and related subcontractors are not appropriately monitored, the District's ability to realize maximum cost savings may be limited.

Recommendation: The District should enhance its monitoring procedures over CME contracts to realize the maximum cost savings available under GMP contracts. Such procedures should ensure that payments for reimbursable items do not exceed established amounts pursuant to CME contracts, and no payments are made in advance of CME and subcontractor services. In addition, the District should take action, as appropriate, to recover the above-noted questioned costs, and associated interest and audit costs.

Finding No. 9: Construction Contract - Project Changes

Section 1013.48, Florida Statutes, allows the Board, at its option and by written policy duly adopted and entered in its official minutes, to authorize the Superintendent or other designated individual to approve change orders in the name of the Board for pre-established amounts. Approvals must be for expediting work in progress and reported to the Board and entered into the official minutes. Board Policy 8.52 requires that the Superintendent submit change orders that increase construction contracts more than $25,000 to the Board for review and action thereon. The policy further provides that no such action would be binding until the Board approved and executed the change orders and that the total of all change orders on any project shall not increase the original construction cost by more than 8 percent or $100,000, whichever is less, without prior Board approval. Further, the Superintendent has authority to approve emergency change orders in contracts for construction or alteration of school facilities, although such emergency change orders must be submitted to the Board for information and entered into its official minutes.

The OHS contract established three contingencies of $719,317 each, totaling $2,157,951, which included the District's contingency for coordination of items with a direct cost to the project, CME contingency for unforeseen field conditions beyond reasonable planning requirements, and a design contingency for design coordination and unanticipated site constraints. Through Board approval, these contractual provisions established the extenuating circumstances by which certain costs could be charged as contingency to the contract, although the contingency provision did not provide for changes in scope, systems, kinds and quality of materials, or finishes and equipment that would be subject to Board-approved change order.

Our review disclosed various changes to the scope of the project were made and paid for as a contingency cost rather than authorizing such changes through the Board-established procedures for project change orders. For example, one project change of $624,163 was charged to contingencies for repurposing a building and provided for additional student stations and square footage. Similar contingency costs were noted in our testing for additional sodding ($43,423), football field sidewalks ($40,544), and football field drainage ($80,439), without use of Board-approved change orders. District records evidenced approvals of the contingency costs by District facilities personnel, the CME, and the architect on contingency transfer authorization forms and construction change directive forms; however, the Board did not review or approve these changes. By completion of the project, all three contingencies totaling $2,157,951 were spent and included in the total project costs. Without appropriate Board approval of project changes, the Board's ability to control project costs and realize savings on construction contracts may be limited.

Recommendation: The District should enhance its procedures to ensure Board approval of changes to the scope of construction projects as required by Board policy and Section 1013.48, Florida Statutes.

Facilities Administration and Monitoring

Finding No. 10: Facilities Management

The facilities and operations (facilities) department is responsible for managing construction and renovation projects. During the 2012-13 fiscal year, the department employed 42 employees, including construction personnel, and the department's operating cost was $1 million. Also, during this fiscal year, the District had expenditures totaling $16 million for construction and renovation projects and, as shown on the District's Five-Year Facilities Work Plan as approved by the Board on October 15, 2013, the District planned to spend an additional $6 million on construction projects over the next five fiscal years. At June 30, 2013, the historical cost of the District's educational and ancillary facilities was $1 billion and, as shown in the Florida Department of Education's Inventory of School Houses data, the average ages of District permanent and relocatable facilities were 17 and 13 years, respectively.

The facilities maintenance (maintenance) department is responsible for ensuring facilities are safe and suitable for their intended use. The maintenance department performed heating, ventilating, air-conditioning (HVAC), electrical, plumbing, and other maintenance-related jobs. During the 2012-13 fiscal year, this department employed 156 employees, including grounds and maintenance personnel, and the department's operating cost was $7 million.

Given the significant commitment of public funds to construct and maintain educational facilities, it is important that the District establish written policies and procedures for evaluating the effectiveness and efficiency of facility operations at least annually using performance data and established benchmarks, and establishing documented processes for evaluating facilities construction methods and maintenance techniques to determine the most cost-effective and efficient method or technique. In addition, performance evaluations could include established goals for facility and maintenance operations, and measurable objectives or benchmarks that are clearly defined, to document the extent to which goals and accountability for facilities and maintenance department employees are achieved. While our review indicated that District procedures were generally adequate, we noted the following procedural enhancements could be made:

- **Alternative Construction Methods or Maintenance Techniques.** The District primarily awards construction contracts to design professionals and construction contractors using the construction manager at risk method. In addition, maintenance-related jobs, such as HVAC replacement and repair, are routinely performed by maintenance personnel based on safety and suitability priorities. District personnel indicated that they had not established written policies and procedures for evaluating the various construction methods

or maintenance-related job techniques and, while they consider alternative methods and techniques, they have not documented evaluations of the various approaches to determine, for each major construction project or significant maintenance-related job, 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 or maintenance technique.

- **Accountability**. The District's facilities and maintenance departments had mission statements, such as timely delivery of educational facilities, products, and related services of the highest professional quality, within Board-approved budget amounts, and ensuring schools and facilities are safe and well maintained; however, District records did not evidence written goals to address accountability for these departments. For example, the District could set goals such as completing construction or maintenance projects that meet or exceed building code industry standards at the lowest possible cost. Progress in attaining the goals could be measured by developing accountability systems to monitor work orders for return assignments or corrective action because an aspect of a project did not initially meet building code requirements, and to compare project costs to industry standards for similar work. Additional goals could include setting benchmark time frames for routine projects or jobs and progress toward meeting the goals could be measured by comparing project or job completion times to industry standards for similar work. Establishing goals that focus on accountability and measurable objectives and benchmarks could assist the District in determining whether its facilities and maintenance departments are operating as cost-effectively and as efficiently as possible.

Recommendation: The District should develop written policies and procedures requiring periodic evaluations of alternative facilities construction methods and significant maintenance-related job techniques, and document these evaluations. In addition, the District should develop goals and objectives for the facilities and maintenance departments to identify cost-effectiveness or efficiency outcomes for department personnel.

Procurement

Finding No. 11: Contractual Services

The Board routinely enters into contracts for services, and internal controls have been designed and implemented to ensure payments are generally consistent with contract terms and conditions. To determine the propriety of payments for contractual services, we tested 15 payments totaling $2.2 million for a total of 10 purchase orders and contacts and noted that controls could be enhanced as discussed below.

Energy Education Training and Monitoring Services. In June 2009, the Board approved a five-year contract with a company to provide energy education training and monitoring services and pays quarterly payments based on 35 percent of the net energy savings. Pursuant to the contract, net energy savings are the energy use reductions, comparing base and subsequent period energy use, net of the costs of salaries, benefits, travel and training for two District-employed energy educational specialists. Also, the contract provides that the energy education specialists and the contractor will calculate the energy savings using the contractor's software. Since the inception of this agreement, the District paid $3.8 million to the contractor, including $1.3 million during the 2012-13 fiscal year. Our review of this agreement disclosed the following:

- The District had not established procedures to adequately verify the reported energy savings calculated by the contractor, which directly affects the District's quarterly payments. As a result, energy savings billings were approved for payment based on an overall summary prepared and provided by the contractor. While the energy specialists were trained and responsible for such tasks as making adjustments to the programming of the District's energy management system, including changes in the temperature settings and run times of electrical equipment, entering energy use into the contractor-provided software, energy audits, and various other energy savings measures, they were unable to use the contractor's software purchased by the District to generate sufficient detail to analyze the purported savings. In response to our request for documentation

evidencing the savings for one quarter tested, the District had to request such information from the contractor. However, documentation provided by the contractor lacked sufficient detail to ensure that purported savings were net of District costs and reasonable in relation to established baselines. Such verification procedures could include the independent comparison of the actual energy costs, as recorded in the District's accounting records, or appropriate training of District energy education specialists in using software to generate sufficient detail to be used in the review of purported savings.

To determine the reasonableness of the energy cost avoidance amount, we performed an analysis of actual energy costs for electricity, and natural gas from the 2008-09 to the 2012-13 fiscal years, which indicated that total energy costs were reasonably consistent (i.e., increased slightly from $10.4 million to $10.8 million, or 3.8 percent), with costs per kilowatt hour remaining relatively constant due to an agreement between the District and the largest provider of electrical service. Consequently, District records did not evidence or corroborate the purported savings of $10.9 million and the related cost avoidance fees paid by the District totaling $3.8 million since the inception of the contract.

- The contract provided that appropriate adjustments would be made to the base year to accurately determine the effect of savings on the District's capital improvement projects and new construction. However, the District had not established procedures to ensure that the base line energy consumption used to determine the savings had been properly adjusted for recent capital improvement projects and new construction. For instance, St. Cloud High School and Osceola High School underwent major renovations that were completed subsequent to the establishment of the baseline; however, the District had not established procedures to ensure that appropriate adjustments were made to the savings calculation for these renovations. Consequently, adjustments were not made to the base year to determine the effect of savings on the District's capital improvement projects and new construction.

Lobbyist Services. In January 2013, the Board approved a one-year agreement for $60,000 with a company to provide lobbyist services for the District, and the agreement included additional costs totaling $80,000 and $40,000 to the County and City of Kissimmee, respectively, for similar services. Our review disclosed the following:

- The agreement required each of the governmental entities to provide a unified list of issues and instructions for the company to pursue during the legislative session. District records evidenced the legislative priorities set forth for the City of Kissimmee and that the three governmental entities were responsible for the costs; however, District records did not evidence the District's legislative priorities or the basis upon which the District incurred 33 percent of the agreement's total costs while the County incurred 44 percent and the City incurred 23 percent of the costs. Without documentation to specifically identify the basis for the agreement and expected results, there is an increased risk that the Board may not receive the services consistent with its intent or may over pay for services.
- The agreement required that the District pay the company $30,000 within 30 days after execution of the contract, and the remaining balance by February 15, 2013. The agreement also required the company to maintain records and accounts of agreement activities, allow District personnel to inspect those records, deliver a final written report of the lobbying effort outcomes at the conclusion of the legislative session, and provide a presentation to the Board of the lobbying efforts. The District paid $60,000 to the company on February 8, 2013; however, District records did not evidence that the required deliverables were received or any efforts to inspect the company's records and accounts of agreement activities. Further, District personnel indicated that, as of October 2013, the company had not provided its final report or made a presentation of its efforts to the Board. Without satisfactory receipt of the contract deliverables before payment, and documentation to evidence satisfactory receipt, there is an increased risk that the Board may not receive the services consistent with its intent.

Resource Officers. Pursuant to Section 1006.12, Florida Statutes, and a Board-approved contract, the Sheriff provided 17 school resource officers (SROs) and an SRO supervisor at various schools and the District paid $718,000 for the services. If an SRO was absent three consecutive days, the contract required the Sheriff to provide law enforcement coverage on the fourth consecutive day of the SRO absence for affected school(s). Also, the contract required that certain SROs provide instructional services, depending on the SRO's school assignment. The contract

further provided that the SROs are hourly employees whose pay is based on 80-hour, two-week cycles for determining overtime, and the District made payments to the Sheriff based on approval by the secretary of the Deputy Superintendent of Operations. However, neither the contract nor District records defined the minimum service hours required, and District personnel with direct knowledge of the SRO services did not document receipt of the services through time records, such as SRO sign-in, sign-out sheets, or class rosters. District personnel indicated that the time records were not maintained because SROs report their hours to the Sheriff and the District does not pay them individually; however, without records to confirm receipt of SRO services, there is an increased risk of overpayment for these services.

Without contractual provisions to establish required services and related service times, there is an increased risk that the services may not be received consistent with the Board's intent. In addition, without effective procedures to confirm that services are received prior to payment and in compliance with provisions of the contract, there is an increased risk that errors or fraud could occur without timely detection.

Recommendation: The District should ensure that written agreements clearly describe the nature of deliverables, and enhance procedures to ensure that contractual services are received prior to payment, and that payments for services are in accordance with governing contracts.

Finding No. 12: Purchasing Cards

The District uses purchasing cards to expedite the payment of certain purchases in an efficient manner. Purchases made with purchasing cards are subject to the same rules and regulations that apply to other District purchases and are subject to guidelines in the purchasing card manual. While the manual prohibits purchasing card meal purchases as travel expenses, cards can be used for purchasing prepared meals for meetings and events that are related to District business. The purchasing card administrator issues cards and ensures cancellation of cards for terminated employees. District personnel indicated that, for card cancellations, cardholders or their supervisors are responsible for completing a purchasing card request form, identifying card destruction date, and submitting the form to the purchasing card administrator.

During the 2012-13 fiscal year, the District assigned 372 purchasing cards to District personnel, and the cards were used to make purchases totaling $2.6 million. The District contracted with a financial institution to provide the purchasing cards and process transactions. To determine the propriety of purchasing card expenditures and whether controls were operating effectively, we tested 45 purchasing card transactions and reviewed purchasing cards assigned to seven individuals that terminated employment during the 2012-13 fiscal year to determine if the purchasing cards were cancelled timely. Our review disclosed the following:

- Four purchases totaling $834 were for prepared meals and food items for District personnel for which District records did not demonstrate the public purpose, including $319 for a catering event at a local school, $342 for nine District administrators at a restaurant while traveling, $100 for turkeys at a District event, and $73 for food at an administrative breakfast.
- Three of the cards for the individuals who terminated employment were not timely cancelled. The cancellations were from 7 to 32 days after the employees' termination dates, and one of the three cards was used for a $46 purchase after the employee's termination date, although the purchase was for a valid District purpose. When purchasing cards are not timely cancelled, there is an increased risk that the cards could be misused by former employees or others.

Recommendation: The District should enhance controls to ensure that purchasing card privileges are timely cancelled upon employment termination and purchases are limited to those that serve a public purpose.

Adult Education Programs

Finding No. 13: Workforce Development and Adult Education Funds

Chapter 2012-118, Laws of Florida, Specific Appropriation 106, provided that workforce development program funds are not to be used to support K-12 programs. The Legislature appropriated State funding totaling $5.9 million to the District for the 2012-13 fiscal year for workforce development program funds. The District provides adult education programs at two District locations funded by workforce development funds and adult education tuition and fees. Our review disclosed that procedures over workforce development and adult education programs could be enhanced, as follows:

- Workforce development program revenues expended in the adult education program totaled $4.3 million, representing 73 percent of that available during the 2012-13 fiscal year, and the unencumbered balance carried forward into the 2013-14 fiscal year was $1.6 million. Further, District records indicated that workforce development program revenues have exceeded expenditures over the last two fiscal years, with an average accumulation of $620,000 per fiscal year. Similarly, student tuition and fees for the District's adult education programs maintained an unspent balance of $2.2 million at June 30, 2013. As such, the District's workforce development and adult education programs unspent funding totaled $3.8 million at June 30, 2013. District personnel indicated that they intended to use these unspent funds as required; however, the Board had not adopted a formal plan establishing the goals and priorities for the use of unspent workforce development and adult education program funds. Although such funds are restricted for adult education purposes and not subject to reversion, carrying forward large balances into subsequent years does not appear to be consistent with legislative intent or benefit the persons and programs for which these funds were generated.
- For the 2012-13 fiscal year, the District charged 15 percent of the amount appropriated, or $887,000, in indirect costs to the workforce development program. These costs represent reimbursement to the District's unrestricted accounts for school and district level indirect costs allocable to the program. However, District records did not evidence the reasonableness of this indirect cost charge or the basis upon which the 15 percent was calculated. Without such, District records did not demonstrate that such costs were reasonable charges to the workforce development program, resulting in $887,000 of questioned costs.

Recommendation: The Board should adopt a spending plan for unspent workforce development and adult education program funds to serve as a guide to ensure that these resources will have a direct, positive impact on these programs. Also, the District should enhance controls to ensure that indirect costs of the workforce education program are appropriate and reasonably calculated. In addition, the District should document the allowability of the $887,000 of questioned costs or restore this amount to the workforce development program.

Finding No. 14: Adult General Education Reporting

Section 1004.02(3), Florida Statutes, defines adult general education, in part, as comprehensive instructional programs designed to improve the employability of the State's workforce. The District received State funding for adult general education, and proviso language in Chapter 2012-118, Laws of Florida, Specific Appropriation 106, required that each school district report enrollment for adult general education programs identified in Section 1004.02, Florida Statutes, in accordance with the Florida Department of Education (FDOE) instructional hours reporting procedures.

FDOE procedures stated that fundable instructional contact hours are those scheduled hours that occur between the date of enrollment in a class and the withdrawal date or end-of-class date, whichever is sooner. FDOE procedures also provided that school districts develop a procedure for withdrawing students for nonattendance and that the standard for setting the withdrawal date be six consecutive absences from a class schedule, with the withdrawal date reported as the day after the last date of attendance. Instructional contact hours for online classes and on-campus labs must be within the constraints of reasonable attendance hours, which should be the number of hours students are reasonably expected to attend.

For the 2012-13 fiscal year, the District initially reported to the FDOE 330,578 instructional contact hours for 2,460 students enrolled in 11,945 adult general education classes at the two adult education centers. Our comparison of District records maintained for adult general education to data transmitted to the FDOE for reporting purposes, and tests of 4,340 hours reported for 22 students enrolled in 53 classes, disclosed 329 net over-reported hours, ranging from 73 hours under-reported to 248 hours over-reported, for 14 students enrolled in 43 classes. District personnel indicated that data entry errors, such as inputting incorrect student enrollment and exit dates, caused the misreported hours. In addition, District personnel input student attendance information into the adult general education reporting system from manual attendance sign-in sheets and, at fiscal year-end, software extracted and transmitted reporting data to the FDOE. District personnel indicated that adult general education hourly reporting information was not maintained at the District as the District relied on the FDOE to maintain the information. Subsequent to our request for support for data reported to the FDOE, District personnel identified a difference of 26,529 hours over-reported and filed a corrected report with the FDOE. District personnel indicated that the software responsible for extracting and transmitting the data the FDOE corrupted certain records in the process of extracting and transmitting the data, resulting in the misreported hours.

Since future funding may be based, in part, on enrollment data reported to the FDOE, it is important that the District reports data correctly. A similar finding was noted in our report 2011-051.

Recommendation: The District should strengthen its controls to ensure accurate reporting of instructional contact hours for adult general education classes to the FDOE.

Inventories

Finding No. 15: Inventories

At June 30, 2013, the food service and transportation inventories totaled $724,000 and $380,000 for the Special Revenue – Food Service (SRFS) Fund and General Fund, respectively. These inventories consisted primarily of purchased food and nonfood items and parts used to maintain and repair vehicles. Our review disclosed that the duties of recordkeeping and custody of inventories was not appropriately separated, as discussed below:

- At the three schools we tested, food service inventories totaled $14,571; however, food service managers performed year-end physical inventory counts, recorded year-end physical inventory counts, prepared production reports, and documented comparisons of production report inventory usage to meals served. For these three schools, we noted daily differences for each of the 35 days tested between the production reports total servings prepared and left over and the total meals served on the food sales reports. The differences ranged from 8 to 115 meals, or up to a 17 percent difference. District personnel independent of inventory custody had not researched or documented explanations for these differences. While the food service department established written procedures that provided for proper separation of duties during inventory counts, all food service managers were not aware of these procedures.

- Four parts clerks in the transportation department had unrestricted access to the inventory and recorded receipt and issuance of inventory in the perpetual records. Also, one of the parts clerks made adjustments to the inventory records and District records did not evidence independent supervisory review and approval of the adjustments. Transportation department personnel indicated that supervisory review of employee activities reduced the risk associated with the inappropriate separation of duties.

  Our physical observation and test of 20 physical inventory items, totaling $23,034, disclosed 6 items on the final reported inventory values that were not adjusted by a total of $1,887 for discrepancies noted during the physical inventory counts. District personnel indicated that these errors occurred, in part, from the uncertainty of accounting for inventory returns on warranty, and clerical errors.

Without effectively separating the duties of inventory record keeping and asset custody, there is an increased risk of theft or inappropriate use of inventories without timely detection.

Recommendation: The District should enhance controls to ensure the separation of duties for food service and transportation inventories, to the extent practicable with existing personnel, or implement compensating controls such as periodic review of inventory purchases and issues by personnel independent of the inventory function. In addition, all adjustments to the inventory records should be reviewed and approved by supervisory personnel independent of the transaction process.

Virtual Instruction Program

Finding No. 16: Virtual Instruction Program Policies and Procedures

Pursuant to Section 1001.41(3), Florida Statutes, school districts are responsible for prescribing and adopting standards and policies to provide each student the opportunity to receive a complete education. Education methods to implement such standards and policies may include the delivery of learning courses through traditional school settings, blended courses consisting of both traditional classroom and online instructional techniques, participation in a virtual instruction program (VIP), or other methods. Section 1002.45, Florida Statutes, establishes the requirements for VIPs and requires school districts to include mandatory provisions in VIP provider contracts; make available optional types of virtual instruction; provide timely written parental notification of VIP options; ensure the eligibility of students participating in VIPs; and provide computer equipment, Internet access, and instructional materials to eligible students.

The Districts' records (e.g., pupil progression plans, parent guides, and staff and student handbooks) identified certain instruction methods, the basis for eligibility in instructional programs, and enrollment and withdrawal information; however, the District did not have comprehensive, written VIP policies and procedures to identify the processes necessary to ensure compliance with statutory requirements, document personnel responsibilities, provide consistent guidance to staff during personnel changes, ensure sufficient and appropriate training of personnel, and establish a reliable standard to measure the effectiveness and efficiency of operations.

Written policies and procedures would promote compliance with the VIP statutory requirements and evidence management's expectations of key personnel and communicate management's commitment to, and support of, effective controls. Written policies and procedures could also provide guidance for monitoring VIP teacher qualifications and certifications. For example, policies and procedures could require District personnel to confirm Florida teaching certificates with the FDOE and to survey a sample of parents to confirm that the contracted VIP teachers were the teachers who provided the services. Further, the absence of comprehensive, written VIP policies and procedures may have contributed to the instances of the District's noncompliance and control deficiencies identified in Finding Nos. 17 through 21.

Recommendation: The District should develop and maintain comprehensive, written VIP policies and procedures to enhance the effectiveness of their VIP operations and related activities.

Finding No. 17: Provider Contracts

Section 1002.45(4), Florida Statutes, requires that each contract with a FDOE-approved VIP provider contain certain provisions. For example, contracts must require that approved providers be responsible for all debts of the VIP if the contract is not renewed or is terminated, specify the authorized reasons for contract termination, specify a method for resolving conflicts among the parties, and require the approved provider to comply with all requirements of Section 1002.45, Florida Statutes. The District entered into two contracts with FDOE-approved VIP providers; however, the contracts contained deficiencies and lacked some statutorily required provisions as discussed below:

- One contract did not limit the contract term to the length of the approved provider status, contrary to 1002.45(2)(b), Florida Statutes. Excluding such a provision could result in the District contracting with an unqualified provider.
- Neither contract included agreed-upon student-teacher ratios. This is contrary to Section 1002.45(2)(a)7.[1], Florida Statutes (2012), which require that FDOE-approved VIP providers publish student-teacher ratios and other instructional information in all contracts negotiated pursuant to Section 1002.45, Florida Statutes. Further, the District did not establish a student-teacher ratio threshold for the contracted VIP classes to allow for evaluations of the reasonableness of such ratios. Without establishing such ratios or ratio thresholds in the contracts or documenting evaluations of the reasonableness of the ratios, the number of students in the VIP classes may exceed the District's expectation and the District's abilities to monitor the quality of the provider's virtual instruction may be limited.
- Neither contract provided for the District to monitor the provider's compliance with contract terms. Without such a provision in the contract, the District may be limited in its ability to perform such monitoring. Such monitoring could include confirmation or verification that the VIP providers protected the confidentiality of student records and supplied students with necessary instructional materials.
- Neither contract provided for the District to monitor the provider's quality of virtual instruction. Without such a provision in the contract, the District may be limited in its ability to ensure that students are receiving sufficient instruction to complete academic benchmarks.
- The District's providers maintain significant amounts of education data used to support the administration of the VIPs and to meet District reporting needs to ensure compliance with State funding, information, and accountability requirements as set forth in State law. Accordingly, it is essential that accurate and complete data maintained by the providers on behalf of the District be available in a timely manner. However, neither contract provided for data quality requirements. Inclusion of data quality requirements would help ensure that District expectations for the timeliness, accuracy, and completeness of education data are clearly communicated to the providers.

Recommendation: The District should establish or enhance procedures to ensure that statutorily required and other necessary provisions are included in contracts with FDOE-approved VIP providers.

Finding No. 18: Virtual Instruction Options

Section 1002.45(1)(b), Florida Statutes, requires school districts, under certain conditions, to provide students the option of participating in VIPs. For example, students may choose VIP services provided by the school district, Florida Virtual School (FLVS), another approved provider, another school district, or a virtual charter school.

[1] Renumbered as Section 1002.45(2)(a)8., Florida Statutes.

Pursuant to Section 1002.45(1)(b), Florida Statutes, school districts that are not considered to be in sparsely-populated counties as discussed in Section 1011.62(7), Florida Statutes, must provide students with at least three options to participate in virtual instruction. As the District is not considered to be in a sparsely-populated county, the District must offer the three VIP types for all grade levels within the District's VIP and may not include contracting with the FLVS for direct enrollment by students.

The District provided students the opportunity to participate in virtual instruction. However, the District did not provide all students at least three options, contrary to Section 1002.45(1)(b), Florida Statutes, and thus limited student access to the different virtual instruction types. Our review disclosed that while the District provided three options for grades 6 through 12, the District provided only two options for grades K through 5. District personnel indicated that this error occurred because of a personnel change, and the new personnel were not aware of these requirements.

Recommendation: The District should ensure that it offers the minimum number of VIP options for all grade levels as required by law.

Finding No. 19: Computing Resources

Section 1002.45(3)(d), Florida Statutes, requires the District to provide all necessary equipment, such as computers, monitors, and printers, and Internet access for online instruction, to full-time VIP students who are eligible for free or reduced price school lunches, or who are on the direct certification list, and who do not have a computer or Internet access in the student's home.

District personnel indicated that they verbally notified families during the application and enrollment process of the availability of computing resources to qualified students; however, District records did not evidence direct communication with the families. Consequently, the District provided computers to only 3 of 22 students that were eligible for computing resources. Without appropriately notifying parents of students in VIPs of the availability of computer equipment and Internet access, students may not have the computing resources required to successfully complete VIP courses.

Recommendation: The District should enhance its procedures to ensure that VIP students and their parents are properly notified of the availability of computing resources and that qualified VIP students are provided computing resources.

Finding No. 20: Provider Background Screenings

Section 1002.45(2)(a)3., Florida Statutes, requires VIP providers to conduct background screenings for all employees or contracted personnel as a condition of approval by the FDOE as a VIP provider in the State, and that VIP provider contracts provide assurances that required background screenings were performed. The District did not obtain, from either of its two contracted FDOE-approved VIP providers, a list of provider employees and contracted personnel subjected to the required background screenings. In response to our inquiry, District personnel indicated that they believed the assurances submitted by the VIP providers in their contracts were sufficient to evidence that the appropriate background screenings had been performed. Subsequent to our inquiry, the District requested and obtained an employee list from one of the providers.

As similarly discussed in Finding No. 2 for background screenings of employees in traditional classrooms, without effective controls to ensure that background screenings of VIP provider employees are performed, there is an

increased risk that these individuals may have backgrounds that are inappropriate for communicating with students and accessing confidential or sensitive District data and IT resources.

Recommendation: The District should ensure that the required background screenings are performed for all VIP provider employees and contracted personnel.

Finding No. 21: Residual Funds

Pursuant to Section 1002.45(1)(e).2., Florida Statutes, after deducting District VIP-contracted service expenditures from Florida Education Finance Program (FEFP) VIP funding, the District is required to spend these residual funds on the District's local instructional improvement system (LIIS) or other technological tools required to access electronic and digital instructional materials. Section 1006.281, Florida Statutes, defines the LIIS as a system that uses electronic and digital tools that provide teachers, administrators, students, and parents with data and resources to systematically manage continuous instructional improvement.

For the 2012-13 fiscal year, the District generated $283,000 of FEFP VIP funding. Although District personnel indicated that there were no residual VIP funds for the 2012-13 fiscal year, our review disclosed that VIP-contracted service expenditures totaled $206,000, resulting in $77,000 of residual VIP funds. District personnel overstated VIP expenditures and incorrectly considered all VIP funding to have been expended. Because the District did not properly determine and separately account for expenditures of the VIP funds, the District did not identify the amount of residual VIP funds or the purpose for which the residual VIP funds were to be expended. Without separate accountability of residual VIP funds, there is an increased risk that the funds may be used for purposes inconsistent with the restrictions on these resources.

Recommendation: The District should enhance procedures to ensure that residual VIP funds are properly calculated, separately accounted for, and used for the purposes specified in Section 1002.45(1)(e)2., Florida Statutes.

Information Technology

Finding No. 22: Access Privileges

Access controls are intended to protect data and information technology (IT) resources from unauthorized disclosure, modification, or destruction. Effective access controls provide employees access to IT resources based on a demonstrated need to view, change, or delete data and restrict employees from performing incompatible functions or functions inconsistent with their assigned job responsibilities. Periodic reviews of assigned IT access privileges are necessary to ensure that employees can only access IT resources that are necessary to perform their assigned job responsibilities and that assigned access privileges enforce an appropriate separation of incompatible responsibilities.

Our tests of selected access privileges to the District's business application and the network disclosed that some District employees had access privileges that permitted the employees to perform incompatible functions. Specifically, six Information Services (IS) employees had update access privileges to security and application maintenance functions within the finance module of the District's business application. One of the six IS employees, along with two other IS employees, had update access privileges to security and application maintenance functions within the human resources (HR) module. In addition, two employees from various departments had update access privileges to security and application maintenance functions within the finance module and an additional five

employees from various departments had update access to finance security functions. These access privileges were not appropriate for these employees as their job responsibilities did not include security and application maintenance within the business application modules.

Although the District had certain compensating controls in place (e.g., supervisory monitoring of expenditures and annual review of user group profiles), the existence of these inappropriate or unnecessary access privileges indicated a need for an improved review of access privileges and increased the risk of unauthorized disclosure, modification, or destruction of District data and IT resources. In response to our inquiry, District personnel indicated that the above-noted access privileges were modified to reflect employees' current job responsibilities. A similar finding was noted in our report No. 2011-051.

Recommendation: The District should improve its review of IT access privileges and remove any inappropriate or unnecessary access privileges detected.

Finding No. 23: Timely Deactivation of Access Privileges

Effective management of IT access privileges includes the timely deactivation of employee IT access privileges when an employee is reassigned or terminated. As the District's network allows access to certain critical application systems and confidential or sensitive information stored within documents and files, prompt action is necessary to ensure that IT access privileges are not misused by former employees or others to compromise data or IT resources.

District procedures provide for the HR department, upon employment termination, to enter the employee's termination date into the HR module of the District's business application. Daily, an automated process reads the updated business application file and changes the terminated employee's network account to a deactivated status. District procedures also provide for the payroll department to send a list of employment terminations twice a month to the security administrator for the District's mid-range computing system. As the mid-range system provides access to the business application, it is important that the security administrator promptly deactivates terminated employees' user profiles on the mid-range system.

Our review of employee terminations from July 1, 2012, through March 29, 2013, disclosed that the District's procedures were generally adequate to ensure timely deactivation of terminated employees; however, we noted that the network access privileges of four former employees remained active for 144 to 340 days after employment termination. Subsequent to our inquiry in May 2013, District personnel indicated that the network access privileges for these employees were deactivated. District personnel indicated that these employees' network privileges were not deactivated because the HR department did not enter the termination dates into the business application.

While the District determined that these employees' network privileges were not used subsequent to employment termination, when network access privileges of former employees are not timely deactivated, the risk is increased that access privileges may be misused by the former employees or others. A similar finding was noted in our report No. 2011-051.

Recommendation: The District should ensure that access privileges of former employees are timely deactivated.

Finding No. 24: Security Controls – User Authentication and Configuration Management

Security controls are intended to protect the confidentiality, integrity, and availability of data and IT resources. Our audit disclosed that certain District security controls related to user authentication and configuration management 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 configuration management, the risk is increased that the confidentiality, integrity, and availability of District data and IT resources may be compromised. Similar findings were noted in the 2011-12 fiscal year financial audit report and in our report No. 2011-051.

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

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the District had taken corrective actions for findings included in in previous audit reports. The following table provides information on District recurring audit findings:

	Financial		Operational	
Current Fiscal Year Finding Numbers	2011-12 Fiscal Year Audit Report and Finding Numbers	2010-11 Fiscal Year Audit Report and Finding Numbers	2009-10 Fiscal Year Audit Report and Finding Numbers	2006-07 Fiscal Year Audit Report and Finding Numbers
1	NA	NA	Audit Report No. 2011-051, Finding No. 2	NA
2	CPA Firm, Finding No. 2012-1	NA	NA	NA
14	NA	NA	Audit Report No. 2011-051, Finding No. 4	NA
22	NA	NA	Audit Report No. 2011-051, Finding No. 5	NA
23	NA	NA	Audit Report No. 2011-051, Finding No. 6	NA
24	CPA Firm, Finding No. 2012-2	NA	Audit Report No. 2011-051, Finding No. 7	NA

NA – Not Applicable (Note: Above chart limits recurring findings to two previous audit reports.)

OBJECTIVES, SCOPE, AND METHODOLOGY

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

We conducted this operational audit from January 2013 to October 2013 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 previous audit reports.
- 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 records and transactions occurring during the 2012-13 fiscal year. Unless otherwise indicated in this report, these records and transactions were not selected with the intent of 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) policies and procedures.	Reviewed the District's written IT policies and procedures to determine whether they addressed certain important IT control functions.
IT access privileges and separation of duties.	Tested selected access privileges over the operating system, network, and finance and human resources modules to determine the appropriateness and necessity based on the employees' job duties and user account functions and adequacy with regard to preventing the performance of incompatible duties.
Deactivation of employee IT 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 deactivated.
IT data loss prevention.	Reviewed written security policies, procedures, and programs in effect governing the classification, management, and protection of sensitive and confidential information.
IT logical access controls and user authentication.	Reviewed selected operating system, network, and application security settings to determine whether authentication controls were configured and enforced in accordance with IT best practices.
IT security awareness and training.	Determined whether a comprehensive IT security awareness and training program was in place.
IT program change management controls.	Reviewed IT procedures for requesting, testing, approving, and implementing changes to the District's business system.
IT audit logging and monitoring.	Examined written policies, procedures, and supporting documentation to determine whether audit logging and monitoring controls were configured in accordance with IT best practices.
IT security incident response.	Reviewed the District's written policies and procedures, plans, and forms related to security incident response and reporting.
Financial condition.	Applied analytical procedures to determine whether the percent of the General Fund total unassigned and assigned fund balances at June 30, 2013, 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.	Determined, on a test basis, whether nonvoted capital outlay tax levy proceeds, infrastructure sales surtax proceeds, and Public Education Capital Outlay funds, were expended in compliance with the restrictions imposed on the use of these resources.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Restrictions on use of Workforce Development funds.	Reviewed District records and 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 (FDOE) requirements.
Statements of financial interest requirements of Section 112.3145(2), Florida Statutes.	Determined whether the District Superintendent, Board members, and certain purchasing agents filed statements of financial interest in accordance with law.
Transparency.	Determined whether the District's Web site included the proposed, tentative, and official budgets pursuant to Section 1011.035(2), Florida Statutes.
Budgetary controls.	Determined whether District procedures for preparing the budget were sufficient to ensure that all potential expenditures were budgeted. Also, examined supporting documentation to determine whether budgets and amendments to budgets were prepared and adopted in accordance with applicable laws and State Board of Education rules.
Inventories.	Reviewed the District's controls over safeguarding of food service and transportation parts inventories.
Investments.	Determined whether the Board established investment policies and procedures as required by Section 218.415, Florida Statutes, and whether investments during the fiscal year were in accordance with those policies and procedures.
Conflicts of interest.	Determined whether the Board had established policies and procedures to avoid potential conflicts of interest with employees and vendors who are doing business with the District. Obtained the financial disclosure forms for Board members and certain District staff and reviewed for potential conflicts.
Compensation for appointed superintendents.	Determined whether the appointed Superintendent's compensation was in accordance with Florida law, rules, and Board policies.
Compensation and salary schedules.	Determined whether the Board established a documented process for ensuring that differentiated pay of instructional personnel and school administrators is based upon District-determined factors, including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties.
Terminal pay.	Reviewed the District's policies and procedures for terminal pay to ensure consistency with Florida law. Tested former employees to determine appropriateness of terminal pay.
Severance pay.	Reviewed severance pay provisions in selected contracts to determine whether the District was in compliance with Florida Statutes.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Bonuses.	Determined whether employee bonuses were paid in accordance with Section 215.425(3), Florida Statutes.
Background screenings.	Reviewed District personnel records to determine whether instructional and noninstructional personnel had been subject to background screenings upon employment and every five years as required by Sections 1012.56(10) and 1012.465, Florida Statutes.
Bus drivers.	Determined whether District procedures were adequate to ensure that bus drivers were properly licensed and monitored.
Purchase of software applications.	Determined whether the District evaluated the effectiveness and suitability of the software application prior to purchase and if the purchase was performed through the competitive vendor selection process. Also, determined if the deliverables met the terms and conditions of the contract.
Construction administration.	Reviewed District-contracted independent reviews of recent major construction projects. For selected major construction projects, tested payments and supporting documentation to determine compliance with District policies and procedures and provisions of law and rules. Also, for construction management contracts, determined whether the District monitored the selection process of architects and engineers, construction managers, and subcontractors by the construction manager.
Selection process and insurance for architects and engineers.	Tested significant or representative major construction projects in progress during the audit period to determine whether architects and engineers engaged during the audit period were properly selected and, where applicable, had evidence of required insurance.
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 funds 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.
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.

EXHIBIT A (Continued)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Charter school fiscal viability.	Determined 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.
Charter school audits.	Reviewed the audit reports for District sponsored charter schools to determine whether the required audit was performed.
Construction contractor selection.	Tested selected construction project records to determine whether contractors were awarded construction projects in accordance with applicable laws and rules.
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.
Identifying and prioritizing facility maintenance needs.	Evaluated procedures for identifying facility maintenance needs and establishing resources to address those needs.
Evaluating 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 information.
Contractual services.	Tested selected contracts to determine compliance with competitive selection requirements and whether the contract clearly specified deliverables, time frames, documentation requirements, and compensation. Also tested selected payments for proper support and compliance with contract terms.
Virtual instruction program (VIP) parent options.	Reviewed District records to determine whether the District provided the VIP options required by State law and provided parents and students with information about their rights to participate in VIPs as well as timely written notification of VIP enrollment periods.
VIP fees.	Reviewed District accounting records to ensure that the District refrained from assessing registration or tuition fees for participation in the VIPs.
VIP Sunshine State Standards.	Reviewed records to determine whether VIP curriculum and course content was aligned with Sunshine State Standards and whether the instruction offered was designed to enable students to gain proficiency in each virtually delivered course of study.

EXHIBIT A (Continued)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
VIP instructional materials.	Reviewed student records and, on a test basis, determined whether the District ensured that VIP students were provided with all necessary instructional materials, and with the computing resources necessary for program participation for those eligible students that did not already have such resources in their home.
VIP background screenings.	For FDOE-approved VIP providers for which the District contracted, verified whether the District obtained a list of provider employees and contracted personnel, who could have direct contact with students, for whom background screenings were completed in accordance with Section 1012.32, Florida Statutes.
VIP eligibility.	Tested student records to determine whether students enrolled in VIPs met statutory eligibility requirements.
VIP participation requirements.	Tested student records to determine whether students enrolled in VIPs met statutory participation requirements, including compulsory attendance and State assessment testing requirements.
VIP FDOE-approved contract provisions.	For District-contracted FDOE-approved VIP providers, determined whether contracts with the providers contained provisions required by State law, including: (1) a detailed curriculum plan; (2) a method for satisfying graduation requirements; (3) a method for resolving conflicts; (4) authorized reasons for contract terminations; (5) a requirement that the provider be responsible for all debts of the VIP should the contract be terminated or not renewed; and (6) a requirement that the provider comply with Section 1002.45, Florida Statutes. Also, reviewed contracts to determine whether provisions were included to address compliance with contact terms, the confidentiality of student records, monitoring of the providers' quality of virtual instruction, data quality, and the availability of provider accounts and records for review and audit by the school districts and other external parties.
VIP FDOE-approved contract fees.	Reviewed contract fee provisions, inquired as to how fees were determined, and reviewed District payments to FDOE-approved providers for services rendered.
VIP residual funds.	Determined whether the District had established controls to ensure that residual VIP funds are restricted and used on the District's local instructional improvement system or other technological tools, as required by law.

EXHIBIT B
MANAGEMENT'S RESPONSE

THE SCHOOL DISTRICT OF OSCEOLA COUNTY, FLORIDA

817 Bill Beck Boulevard • Kissimmee• Florida 34744-4492
Phone: 407-870-4600 • Fax: 407-870-4010 • www.osceola.k12.fl.us

SCHOOL BOARD MEMBERS
District 1 – Jay Wheeler
407-973-4141
District 2 – Kelvin Soto – Vice Chair
407-361-2462
District 3 – Tim Weisheyer - Chair
407-361-0235
District 4 – Barbara Horn
407-462-5642
District 5 – Tom Long
407-462-5782

Superintendent of Schools
Melba Luciano

December 20, 2013

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

Dear Mr. Martin:

We appreciate the thorough review of the District's operations and its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements. Following are management's responses to the preliminary findings and recommendations relative to our operational audit for the fiscal year ended June 30, 2013.

Finding No. 1: Compensation and Salary Schedules
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.

Recommendation: The Board should establish a documented process for identifying instructional personnel entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4.b.

Response: The information originally provided to the auditor inadvertently did not include the Differentiated Pay Plan. The School Board and the Osceola County Education Association (OCEA) ratified the differentiated pay plan as part of their collective bargaining agreement. This agreement can be found in Appendix C to the teachers' contract. The School Board appropriates funds for these supplements in budget line items each year. This supplement has not been paid to employees since the 2012 fiscal year. Both the Osceola County School Board and OCEA are in negotiations to produce a performance pay plan that will also address differentiated pay in the near future. In addition, the School Board will adopt a school board policy that addresses the differentiated pay plan.

Finding No. 2: Background Screenings
The District did not obtain required background screenings of certain District employees.

Recommendation: The District should continue its efforts to ensure that District personnel undergo the background screenings as required by law.

Response: The District has identified certain staff that require background screenings. All regular staff that are on active status have been screened. Staff that are on a leave of absence will not be permitted to return to their position until they have completed the required background screening.

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

EXHIBIT B (Continued)
MANAGEMENT'S RESPONSE

December 20, 2013
Page 2

Criminal Justice Academy adjunct staff will be notified that they must comply with background screening requirements before a contract of employment will be authorized.

School Board members are considered constitutional officers and can agree to be screened. In the event the School Board member chooses not to submit to the background screening, the member is escorted by staff when visiting school facilities.

Finding No. 3: Electronic Fund Transfers
Controls over electronic funds transfers could be enhanced.

Recommendation: The Board should enhance its written policies and procedures to address accounting and control procedures for EFTs, including the use of electronic signatures. In addition, the banking agreement should contain the signatures of employees authorized to initiate and authorize EFTs, and the District should maintain documentation signed by initiators and authorizers of EFTs to authenticate EFTs.

Response: The District will expand School Board policy to include the prescribed accounting and control procedures for the processing of EFTs and the use of electronic signatures. The District will also work with the appropriate banking institution to provide manual signatures of employees authorized to initiate EFTs on behalf of the School Board in accordance with SBE Rule 6A-1.0012, FAC.

Finding No. 4: Ad Valorem Taxation
District records did not always evidence that ad valorem tax levy proceeds were only used for authorized purposes, resulting in $20,136 of questioned costs.

Recommendation: The District should enhance controls to ensure that expenditures of ad valorem tax levy proceeds are expended only for authorized purposes. In addition, the District should document the allowability of the $20,136 of questioned costs or restore this amount to the LCI Fund.

Response: The District will contact the Florida Department of Education for clarification as to the appropriate use of the LCI Fund. The District will not object to restoring this amount to the fund if DOE deems it an unallowable cost.

Finding No. 5: Construction Contract – Selection of Construction Management Entity
Contrary to Section 287.055, Florida Statutes, the District entered into two construction projects that had total expenditures in excess of $2 million each, without competitively selecting the construction management entities.

Recommendation: The District should continue its efforts to ensure that CMEs are ranked and competitively selected using the process prescribed by Section 287.055, Florida Statutes.

Response: The District and the Auditor General's (AG) Office acknowledge the potential ambiguity in Section 287.055, Florida Statutes which defines the proper use of a continuing contract. A continuing contract is a contract for professional services between an agency and a firm whereby the firm provides professional services to the agency for projects in which the estimated construction cost of each individual project under the contract does not exceed $2 million. The District's literal interpretation of the statute called for the contracted price not to exceed $2 million with a single firm. At the request of the District's counsel, the Attorney General's Office issued a clarifying opinion on December 12, 2013, which states, "Section 287.055(2)(g), Florida Statutes, requires that a "continuing contract" for professional services involve "projects in which the estimated construction cost" of each individual project does not exceed $2 million. The statute limits consideration to "construction costs" and would not include professional fees for such things as design services."

EXHIBIT B (Continued)
MANAGEMENT'S RESPONSE

December 20, 2013
Page 3

Although estimated cost did not exceed $2 million per project, actual costs exceeded the threshold by approximately 3%. The District will continue to ensure that estimated project costs do not exceed the $2 million threshold as clarified by the Attorney General.

Finding No. 6: Construction Contract – General Conditions Costs
The District needed to establish policies and procedures for negotiating, documenting, and monitoring general conditions costs for guaranteed maximum price projects.

Recommendation: The District should establish written policies and procedures addressing negotiation and monitoring of general conditions costs. Such policies and procedures should require documentation of the methodology used and factors considered in negotiating such costs.

Response: The District has implemented policies for the negotiation and monitoring of general condition costs on future projects. The District will continue its efforts to ensure future projects are properly documented and reviewed for reasonableness in conjunction with predefined benchmarks.

Finding No. 7: Construction Contract – Subcontractor Selection
The District needed to enhance its procedures for monitoring the subcontractor selection process for construction projects.

Recommendation: The District should enhance its procedures to ensure that subcontractors are competitively selected and District personnel monitor the subcontractor selection process.

Response: The District will continue to enhance procedures for monitoring the subcontractor selection process by the construction manager, when applicable, to ensure subcontractors are competitively selected.

Finding No. 8: Construction Contract – Monitoring Payment Requests
The District needed to enhance its procedures for monitoring payment requests from construction management entities.

Recommendation: The District should enhance its monitoring procedures over CME contracts to realize the maximum cost savings available under GMP contracts. Such procedures should ensure that payments for reimbursable items do not exceed established amounts pursuant to CME contracts, and no payments are made in advance of CME and subcontractor services. In addition, the District should take action, as appropriate, to recover the above-noted questioned costs, and associated interest and audit costs.

Response: The District will review the questioned costs and continue to enhance its monitoring procedures over CME contracts.

Finding No. 9: Construction Contract – Project Changes
The District needed to strengthen its controls to ensure that the Board approves all construction project change orders.

Recommendation: The District should enhance its procedures to ensure Board approval of changes to the scope of construction projects as required by Board policy and Section 1013.48, Florida Statutes.

Response: The District will continue to enhance its procedures and monitor activity to ensure Board approval of changes to the scope of construction projects as required by Board policy and statute.

Finding No. 10: Facilities Management
Controls over facilities construction and maintenance activities should be enhanced.

EXHIBIT B (Continued)
MANAGEMENT'S RESPONSE

December 20, 2013
Page 4

Recommendation: The District should develop written policies and procedures requiring periodic evaluations of alternative facilities construction methods and significant maintenance-related job techniques, and document these evaluations. In addition, the District should develop goals and objectives for the facilities and maintenance departments to identify cost-effectiveness or efficiency outcomes for department personnel.

Response: The District will continue its effort at tightening controls in the Facilities area that lead to creating efficiencies. The District will also seek additional support and training relating to the evaluation of construction methods, ensuring the proper documentation and review of future projects are based on predefined benchmarks.

Finding No. 11: Contractual Services
Controls over payments for contractual services could be enhanced.

Recommendation: The District should ensure that written agreements clearly describe the nature of deliverables, and enhance procedures to ensure that contractual services are received prior to payment, and that payments for services are in accordance with governing contracts.

Response: The District will improve its procedures for contract administration to ensure that written agreements clearly describe the nature of deliverables. Internal controls will be enhanced to ensure that all service and deliverables have been received prior to final payment and that payments are in accordance with governing contracts.

Finding No. 12: Purchasing Card
Controls over the use of purchasing cards could be strengthened.

Recommendation: The District should enhance controls to ensure that purchasing card privileges are timely cancelled upon employment termination and purchases are limited to those that serve a public purpose.

Response: The District will review procedures related to the administration of its purchasing card program and enhance controls accordingly.

Finding No. 13: Workforce Development and Adult Education Funds
Improvements were needed in controls over workforce development expenditures and unspent funds associated with workforce development funds and adult education tuition and fees.

Recommendation: The Board should adopt a spending plan for unspent workforce development and adult education program funds to serve as a guide to ensure that these resources will have a direct, positive impact on these programs. Also, the District should enhance controls to ensure that indirect costs of the workforce education program are appropriate and reasonably-calculated. In addition, the District should document the allowability of the $887,000 of questioned costs or restore this amount to the workforce development program.

Response: The District will develop and implement a plan for the timely use of workforce funds.

Finding No. 14: Adult General Education Reporting
The District needed to strengthen its controls to ensure the accurate reporting of instructional contact hours for adult general education classes to the Florida Department of Education.

Recommendation: The District should strengthen its controls to ensure accurate reporting of instructional contact hours for adult general education classes to the FDOE.

EXHIBIT B (Continued)
MANAGEMENT'S RESPONSE

December 20, 2013
Page 5

Response: To ensure accurate reporting, the District will develop a report that can be reviewed by the Career & Technical Education Department staff prior to reporting data to the FDOE during each survey period.

Finding No. 15: Inventories
Controls over transportation and food service inventories could be enhanced.

Recommendation: The District should enhance controls to ensure the separation of duties for food service and transportation inventories, to the extent practicable with existing personnel, or implement compensating controls such as periodic review of inventory purchases and issues by personnel independent of the inventory function. In addition, all adjustments to the inventory records should be reviewed and approved by supervisory personnel independent of the transaction process.

Response: The District has enhanced controls to ensure the separation of duties for food service and transportation inventories. A supervisor or administrator must approve any adjustments to inventory and the software has been updated to properly account for inventory returns on warranty.

Finding No. 16: Virtual Instruction Program Policies and Procedures
Controls over virtual instruction program (VIP) operations and related activities could be enhanced by developing and maintaining comprehensive, written VIP policies and procedures.

Recommendation: The District should develop and maintain comprehensive, written VIP policies and procedures to enhance the effectiveness of their VIP operations and related activities.

Response: The School District will develop and maintain comprehensive, written VIP policies and procedures to enhance the effectiveness of our VIP operations and related activities.

Finding No. 17: Provider Contracts
VIP provider contracts were deficient in that contracts did not include all provisions required by State law.

Recommendation: The District should establish or enhance procedures to ensure that statutorily required and other necessary provisions are included in contracts with FDOE-approved VIP providers.

Response: The School District will establish procedures to ensure that statutorily required and other necessary provisions are included in contracts with FDOE-approved VIP providers.

Finding No. 18: Virtual Instruction Options
The District could enhance its procedures to ensure that, in the future, the required number of VIP options is offered.

Recommendation: The District should ensure that it offers the minimum number of VIP options for all grade levels as required by law.

Response: The District offered the three required virtual options for students in grades K through 5 during the 2012-2013 school year. Those options were: K-12, Little Lincoln, and Virtual Charter Schools. The School District will continue to ensure that it offers the minimum number of VIP options for all grade levels as required by law.

Finding No. 19: Computing Resources
The District needed to strengthen controls to ensure that VIP students and their parents are notified of the availability of computing resources and that only qualified VIP students are provided computing resources.

EXHIBIT B (Continued)
MANAGEMENT'S RESPONSE

December 20, 2013
Page 6

Recommendation: The District should enhance its procedures to ensure that VIP students and their parents are properly notified of the availability of computing resources and that qualified VIP students are provided computing resources.

Response: The School District will enhance its procedures to ensure that VIP students and their parents are properly notified of the availability of computing resources and that qualified VIP students are provided computing resources.

Finding No. 20: Provider Background Screenings
District records did not evidence that required background screenings were performed for VIP provider employees and contracted personnel.

Recommendation: The District should ensure that the required background screenings are performed for all VIP provider employees and contracted personnel.

Response: The School District will ensure that the required background screenings are performed for all VIP provider employees and contracted personnel.

Finding No. 21: Residual Funds
The District needed to enhance its procedures to ensure that residual VIP funds are properly restricted for use as required by State law.

Recommendation: The District should enhance procedures to ensure that residual VIP funds are properly calculated, separately accounted for, and used for the purposes specified in Section 1002.45(1)(e)2., Florida Statutes.

Response: The District will contact DOE for clarification on the appropriate use of VIP funds.

Finding No. 22: Access Privileges
Some inappropriate or unnecessary information technology (IT) access privileges existed.

Recommendation: The District should improve its review of IT access privileges and remove any inappropriate or unnecessary access privileges detected.

Response: The District will develop a process to review access privileges that will become part of its standard operating procedures.

Finding No. 23: Timely Deactivation of Access Privileges
The District did not timely deactivate network access privileges of former employees.

Recommendation: The District should ensure that access privileges of former employees are timely deactivated.

Response: The District will review a list of terminated employees every two weeks in order to ensure that accounts have been deactivated. This practice will add additional assurance as the District already has an automated process to deactivate active directory accounts. The District will develop and implement a procedure to monitor any account in exception to active directory accounts.

Finding No. 24: Security Controls – User Authentication and Configuration Management
District IT security controls related to user authentication and configuration management needed improvement.

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

EXHIBIT B (Continued)
MANAGEMENT'S RESPONSE

December 20, 2013
Page 7

Response: The District is implementing a new Forefront Identity Management system to address concerns in this area and has implemented some of the specific recommendations in this area.

We would like to thank your audit staff for their assistance and technical advice during the audit and for bringing to light areas upon which the District can improve.

Sincerely,

Melba Luciano
Superintendent