REPORT NO. 2014-079
JANUARY 2014

MANATEE 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.[1]
Barbara A. Harvey	1
Harry G. Kinnan to 11-19-12, Chair	
David Miner from 11-20-12	2
Julie B Aranibar, Vice Chair from 11-20-12	3
Robert C. Gause	4
Karen Carpenter, Vice Chair to 11-19-12, Chair from 11-20-12	5

Dr. Tim McGonegal, Superintendent to September 10, 2012
Robert Gagnon, Interim Superintendent from September 11, 2012 to October 14, 2012
Dr. David E. Gayler, Interim Superintendent from October 15, 2012 to March 19, 2013
Rick W. Mills, Superintendent from March 20, 2013

The audit team leader was Elba M. Guzik, CPA, and the audit was supervised by Karen J. Collington, CPA. For the information technology portion of this audit, the audit team leader was Earl Butler, CISA, CFE, and the supervisor was Heidi G. Burns, CPA, CISA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Director, by e-mail at gregcenters@aud.state.fl.us or by telephone at (850) 412-2863.

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[1] Effective March 2013, Manatee school board member districts were redistricted. As such, board members initially in district numbers 1, 2, 3, 4, and 5, as shown above were redistricted to numbers 2, 3, 5, 1, and 4, respectively.

MANATEE COUNTY

District School Board

EXECUTIVE SUMMARY

Our operational audit disclosed the following:

FINANCIAL CONDITION

Finding No. 1: During the 2012-13 fiscal year, the District's General Fund total assigned and unassigned fund balance declined 109 percent from a deficit of $4,127,328 at June 30, 2012, to a deficit of $8,634,431 at June 30, 2013, representing a reduction of $4,507,103. Under these circumstances, the District has significantly less resources for emergencies and unforeseen situations than other school districts of comparable size.

CASH CONTROLS

Finding No. 2: The District needed to enhance procedures to ensure timely bank account reconciliations.

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

Finding No. 4: Controls over food service collections could be improved.

Finding No. 5: Controls over miscellaneous cash collections could be enhanced.

CAPITAL OUTLAY FUNDING

Finding No. 6: District records did not evidence that sales surtax proceeds were used only for authorized purposes, resulting in $4.1 million of questioned costs.

Finding No. 7: District records did not evidence that ad valorem tax levy proceeds were used only for authorized purposes, resulting in $1.4 million of questioned costs.

Finding No. 8: District records did not evidence that Qualified School Construction Bond, State Board of Education Bond, Capital Outlay and Debt Service, and Public Education Capital Outlay proceeds were used for authorized purposes, resulting in $616,227, $196,861, $185,258, and $16,498, respectively, of questioned costs.

Finding No. 9: The District retained $728,815 of a 2008-09 fiscal year Public Education Capital Outlay appropriation that was subject to reversion to the State.

PERSONNEL AND PAYROLL

Finding No. 10: 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. 11: Controls over terminal leave payments needed enhancement.

Finding No. 12: The District classified one worker as an independent contractor rather than a District employee, although the worker appears to be an employee based on Internal Revenue Service guidelines.

Finding No. 13: Controls over monitoring school bus drivers could be enhanced.

Finding No. 14: The District did not timely obtain required background screenings for certain instructional and noninstructional contracted workers.

RESTRICTED RESOURCES

Finding No. 15: The District did not allocate E-payable and purchasing card program rebates generated by restricted resources to the appropriate District funds.

PROCUREMENT

Finding No. 16: Controls over the competitive selection of certain professional services could be enhanced.

Finding No. 17: Controls over contractual payment processing needed to be enhanced.

DIRECT-SUPPORT ORGANIZATIONS

Finding No. 18: District records did not evidence the basis upon which the District allowed employees of a former direct-support organization to participate in the Florida Retirement System and the District's health insurance programs.

FACILITIES ADMINISTRATION AND MONITORING

Finding No. 19: Controls over facilities construction and maintenance activities could be enhanced.

CONFIDENTIAL INFORMATION

Finding No. 20: Controls could be enhanced to ensure compliance with Section 119.071(5)(a), Florida Statutes, regarding notifying individuals of the need for and use of social security numbers.

INSURANCE

Finding No. 21: Controls over workers' compensation claims expenses could be enhanced.

Finding No. 22: The workers' compensation, property, and general liability self-insurance plan had an ending deficit net position balance of $1.7 million at June 30, 2013, resulting in significantly less resources for emergencies and unforeseen situations of the self-insurance plan.

ADULT GENERAL EDUCATION

Finding No. 23: 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.

VIRTUAL INSTRUCTION PROGRAM

Finding No. 24: 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. 25: VIP provider contracts were deficient in that contracts did not include all provisions required by State law.

Finding No. 26: Procedural enhancements were needed to ensure that the required number of VIP options is offered.

Finding No. 27: District records did not evidence that timely written notifications were provided to parents about student opportunities to participate in VIPs and the dates of the open enrollment periods.

Finding No. 28: District records did not evidence that required background screenings were performed for VIP employees and contracted personnel.

Finding No. 29: The District's procedures did not always require written documented verification that VIP students complied with compulsory attendance requirements.

Finding No. 30: The District had not established procedures to document that VIP students received necessary VIP instructional materials. In addition, procedures needed to be enhanced to ensure that VIP students and their parents are notified about the availability of computing resources and that qualified VIP students are provided computing resources.

INFORMATION TECHNOLOGY

Finding No. 31: Some inappropriate or unnecessary information technology (IT) access privileges existed.

Finding No. 32: The District had not developed a written IT security incident response plan.

Finding No. 33: District IT security controls related to user authentication, data loss prevention, information security program development, and monitoring of system activity needed improvement.

BACKGROUND

The Manatee 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 Manatee County. The governing body of the District is the Manatee 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, and specialized schools; sponsored 11 charter schools; and reported 45,150 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

Financial Condition

Finding No. 1: Financial Condition

In governmental funds, nonspendable, restricted, and committed accounts are used to indicate the portion of fund balance that is limited for specific purposes and not available for general appropriation by the Board, while the assigned and unassigned fund balance accounts are designed to serve as a measure of net current financial resources available for general appropriation by the Board. The assigned and unassigned portions represent the amount to be used with the most flexibility for emergencies and unforeseen situations.

Section 1011.051, Florida Statutes, requires that the District maintain a General Fund ending fund balance that is sufficient to address normal contingencies. If at any time the portion of the General Fund's ending fund balance not classified as restricted, committed, or nonspendable (i.e., the total assigned and unassigned fund balances) in the District's approved operating budget as a percent of General Fund total revenue (i.e., financial condition ratio) is projected to fall below 3 percent during the fiscal year, the Superintendent must provide written notification to the Board and the Florida Department of Education (FDOE). Further, if at any time the financial condition ratio is projected to fall below 2 percent, the Board should have a reasonable plan to avoid a financial emergency, or the FDOE will appoint a financial emergency board to implement measures to assist the Board in resolving the financial emergency. Also, Section 218.503(3), Florida Statutes, provides that the FDOE may determine whether a district school board needs State assistance to resolve or prevent a financial emergency condition.

In September 2012, the former Superintendent notified the Board and the FDOE of a $3.4 million deficit total fund balance in the General Fund at June 30, 2012. The Board prepared a fiscal recovery plan, forecasting a $6.6 million positive General Fund total fund balance at June 30, 2013, and, in October 2012, the FDOE approved the plan. The Board also approved a proposal for a forensic investigation to determine the cause of the deficit and, in January 2013, the Board accepted the forensic investigation report, which identified contributing factors that caused the deficit. The contributing factors included, in part, ineffective budgetary monitoring processes caused by errors in computer-generated and manually-prepared expenditure projections of employee salary and benefit costs, unbudgeted recurring expenditures for substitute teachers and overtime pay for plant operations personnel, and instructional personnel pay reductions that were not made.

Although the Board established a fiscal recovery plan in October 2012, the District was unsuccessful in implementing the plan as it continued to experience a decline in its financial condition. During the 2012-13 fiscal year, the General Fund total assigned and unassigned fund balance declined 109 percent from a deficit of $4,127,328 at June 30, 2012, to a deficit of $8,634,431 at June 30, 2013, representing a $4,507,103 increase in the deficit. A summary of the General Fund financial condition ratios for the past three fiscal years is shown below:

Fiscal Year Ended June 30	Total Assigned and Unassigned Fund Balance (A)	Total General Fund Revenues (B)	Financial Conditon Ratio (A)/(B)
2011	$ 4,974,102	$ 300,722,362	1.65%
2012	(4,127,328)	295,243,037	-1.40%
2013	(8,634,431)	308,347,961	-2.80%

As noted above, the financial condition ratio had declined to negative 2.80 percent at June 30, 2013. Also, the fund balance may be further reduced, as follows:

- As discussed in Finding Nos. 6, 7, and 8, the District may be required to use General Fund moneys to restore questioned costs of certain restricted capital outlay resources, including $4,081,829 of sales surtax proceeds, $1,400,175 of ad valorem taxes, and $1,014,844 of proceeds from the issuance of various bonds.
- As discussed in Finding No. 15, the District reported rebates of $65,255, generated by purchases using restricted District moneys, in the General Fund and, in the future, such rebates may be required to be restored to other funds.
- As discussed in Finding No. 22, in the future, the Board may be required to contribute additional General Fund moneys to fund its Workers' Compensation, Property, and General Liability Internal Service (WCPGL-IS) self-insurance program as the program had a deficit net position balance of $1,712,448 at June 30, 2013.
- The District may be required to use General Fund moneys to restore Federal questioned costs disclosed by our separate audit of the District's financial statements and Federal awards.

To comply with Section 1011.051, Florida Statutes, on June 10, 2013, the District submitted a fiscal recovery plan to the FDOE, which projected a General Fund total assigned and unassigned fund balance deficit at June 30, 2013. The District accounting manager confirmed that, as of June 30, 2013, the District was not in a state of financial emergency pursuant to Section 218.503, Florida Statutes, as the District had not failed to timely pay any of its financial obligations. As of that date, pursuant to Section 1011.09(2), Florida Statutes, the District's General Fund temporarily borrowed $19,342,358 from its health insurance program, $7,261,363 from restricted Federal and State resources, and $1,462,487 from its school internal accounts.

On June 27, 2013, the FDOE notified the Superintendent that the District's fiscal recovery plan for the 2013-14 fiscal year was approved. The plan projected that if no recovery strategies were implemented, the General Fund total assigned and unassigned fund balance at June 30, 2014, would be a deficit $4,448,289, or a negative 1.3 percent financial condition ratio. The plan identified certain recommended fiscal recovery strategies such as staffing reductions, closing a high school, eliminating the internal audit department, and decreasing energy and maintenance costs. The plan stated that, if implemented, these strategies would increase the projected General Fund total assigned and unassigned fund balance by $14,702,251 to $10,253,962 at June 30, 2014, or a positive 3.32 percent financial condition ratio.

A similar finding was noted in the 2011-12 fiscal year financial audit report.

Recommendation: The Board and Superintendent should continue to closely monitor the District's budget and take the necessary actions to ensure that an adequate fund balance is maintained in the General Fund.

Cash Controls

Finding No. 2: Bank Account Reconciliations

Effective internal controls require that reconciliations of bank account balances to general ledger balances be performed on a timely, routine basis. Such reconciliations are necessary to provide reasonable assurance that cash assets agree with recorded amounts, permit prompt detection and correction of unrecorded or improperly recorded transactions or bank errors, and provide for the efficient and economic management of cash resources. During the 2012-13 fiscal year, the ending monthly cash balance of the District's main operating account ranged from $7.1 million to $57.4 million, with an average ending monthly balance of $14.8 million.

Our review disclosed that the bank account reconciliations for the months of October and November 2012 and June 2013 were completed from 53 to 83 days, or an average of 69 days, after month-end. District personnel indicated that the District established a schedule to timely complete bank account reconciliations, but due to extenuating circumstances, completion dates were not always met. Untimely bank account reconciliations increase the risk that errors or fraud could occur and not be promptly detected. A similar finding was noted in our report No. 2011-050.

Recommendation: The District should enhance its procedures to ensure that bank account reconciliations are timely completed, reviewed, and approved.

Finding No. 3: Electronic Funds Transfers

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

During the 2012-13 fiscal year, the District regularly used EFTs to make electronic disbursements for debt service payments, workers' compensation and self-insurance payments, purchases and sales of investments, and direct deposit of employee pay. According to District records, cash and cash equivalents and investments totaling $32.4 million were available for electronic transfer at June 30, 2013. The Board established a bank agreement with one bank and five investment agreements with four financial institutions to provide various services, such as EFTs. Our review disclosed that controls over the EFT process could be enhanced, as follows:

- While the District had informal EFT processes, such as use of EFT control documents that identified employees who initiated and authorized EFTs, the Board had not adopted written policies prescribing the accounting and control procedures of EFTs, including the use of electronic signatures, contrary to Section 1010.11 and Chapter 668, Florida Statutes.
- As of October 2013, outdated information was in each of the five investment agreements as they continued to allow certain former employees and elected officials authorization in the EFT process. For example, the April 2008 investment agreement with one of the financial institutions authorized EFTs and changes in accounts designated to receive EFTs by:
  - An employee that discontinued EFT duties in November 2010.
  - A former assistant superintendent that discontinued District employment in February 2012.
  - A former director of finance that discontinued District employment in June 2013.
- The bank agreement, and a December 2009 investment agreement with one of the financial institutions, did not provide for an appropriate separation of duties as the bank agreement authorized the finance manager and the school accounting specialist to initiate and authorize EFTs, and the December 2009 investment agreement authorized the finance manager to initiate and authorize EFTs and make changes in accounts designated to receive EFTs. An appropriate separation of duties would restrict EFT initiation and account changes from the finance manager, who also authorized EFTs, and EFT authorization from the school accounting specialist, who also performed bank account reconciliations.

While the District had established certain controls over EFTs, such as supervisory review and approval of journal entries, 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, EFT agreements containing outdated information, and inappropriate separation of duties increase the risk of misappropriation of funds without timely detection.

Recommendation: The Board should adopt written policies and procedures to address accounting and control procedures for EFTs, including the use of electronic signatures. Such policies and procedures should ensure that EFT agreements are timely updated for changes in personnel and appropriately separate the duties of initiating and authorizing EFTs.

Finding No. 4: Food Service Collections

The District reported local food service collections totaling $6 million for 52 school cafeterias for the 2012-13 fiscal year. Food service collections at the District's schools are processed through a point-of-sale computer system that uses codes assigned to students to determine student payment status (full-price, reduced-price, or free) and to classify food sales collections. The system generates a daily summary for breakfast and lunch showing the type and number of meals served for Federal reimbursement purposes, cash received, voided transactions details, and other relevant information. Our review of 3 school cafeterias disclosed that controls over food service collections could be improved. Specifically, we noted the following:

- Food service records for October 2012 and February 2013 at the three schools disclosed that no transactions voided by cashiers were, of record, subjected to supervisory review and approval. Without such review and approval, there is an increased risk that errors or fraud, should they occur, may not be timely detected.
- Our tests of collections totaling $14,810 for 30 serving days at the three schools disclosed collections totaling $4,791 for 16 of 20 days tested at two schools were transferred between employees without documented evidence of the collections transferred. Without transfer documents, the District may be limited in its ability to fix responsibility should a loss of collections occur.
- The daily cash collections totaling $62,754 for the 2012-13 fiscal year at one of three schools tested were not always kept in a secure location. Subsequent to audit inquiry, the cafeteria manager indicated that cash

collections would be secured in a locked location. Cash collections awaiting deposit are more susceptible to theft when stored in unsecure locations.

Although the District had prescribed food service collection procedures that required supervisory review and approval of voided transactions, transfer documents to establish responsibility for collections exchanged, and collections to be appropriately secured, District personnel did not consistently follow these procedures.

Recommendation: The District should enhance its procedures to ensure that school cafeterias follow prescribed cash collection procedures by documenting supervisory review and approval of voided transactions, establishing responsibility for collections through use of transfer documents, and appropriately securing collections.

Finding No. 5: Miscellaneous Cash Collections

The Manatee County Tax Collector and certain State agencies, such as the Florida Department of Education, wire transferred or directly deposited the majority of the District's revenue into the Board's depository accounts, and the District maintained correspondence from these agencies to support this revenue. Also, the District reported revenues totaling $21 million for other collections received at the District office and various decentralized locations in the form of currency or checks for miscellaneous revenues such as adult education program fees, retiree insurance premiums, and fingerprinting and teacher certification fees. However, the District needed to enhance its controls over these miscellaneous collections, as follows:

- The District did not provide for an appropriate separation of recordkeeping and cash receipting duties as an accounting clerk recorded accounts receivable, prepared receivable invoices, and received and recorded collection of the receivables. In these circumstances, this employee had control over the transaction process such that errors or fraud, should they occur, may not be timely detected.
- The accounting clerk generally received cash and checks directly or through the mail, and provided the collections to the finance secretary. The secretary completed a daily cash deposit log which included the check number, check date, amount of check, and payor; however, transfer documents were not used to establish accountability for the collections from the initial point of receipt. Without transfer documents, the District may be limited in its ability to fix responsibility should a loss of collections occur.

While we confirmed the majority of the District's revenue to amounts reported by remitting agencies, our procedures cannot substitute for the District's responsibility to implement adequate controls over miscellaneous cash collections.

Recommendation: The District should enhance its controls over miscellaneous cash collections to ensure recordkeeping and cash receipting duties are appropriately separated and use of transfer documents to establish accountability for collections.

Capital Outlay Funding

Finding No. 6: Sales Surtax Proceeds

The District receives a discretionary sales surtax pursuant to Section 212.055(6), Florida Statutes, and accounts for these proceeds in a subfund of the Capital Projects - Other Funds. Proceeds from the discretionary sales surtax can be used for various purposes, such as construction, renovation, and refurbishment of educational facilities, including hardware and software for various District sites. Section 212.055(6), Florida Statutes, further provides that neither the proceeds of the surtax nor any interest accrued may be used for operational purposes.

The 2011-12 fiscal year financial audit report cited the District for using $919,000 of sales surtax proceeds to pay copier lease operating costs, contrary to Section 212.055(6), Florida Statutes, and recommended restoration of all current and prior fiscal year costs. The District analyzed its records and identified $4,081,829 of sales surtax proceeds expended on the copier lease for the 2005-06 through 2011-12 fiscal years; however, as of June 30, 2013, the District had not restored these costs to the sales surtax subfund. A similar finding was noted in our report No. 2011-050.

Recommendation: The District should restore the $4,081,829 of questioned costs to the sales surtax subfund of the Capital Projects – Other Fund.

Finding No. 7: Ad Valorem Taxation

Section 1011.71, Florida Statutes, allows the District to levy ad valorem taxes for capital outlay related 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, and maintenance, renovation, and repair of existing schools. Also, Section 1013.01(12), Florida Statutes, provides a definition of maintenance and repair that excludes custodial and groundskeeping functions. 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 out to other funds totaling $4,172,122 and $29,885,720, respectively. We reviewed LCI Fund expenditures and transfers totaling $20,476,845 to determine their propriety. Our review disclosed $1,400,175 of LCI expenditures and transfers to the General Fund for purposes that did not appear to be authorized by Section 1011.71, Florida Statutes as follows.

Description		Amount
Expenditures:		
Groundskeeping (1)	$	407,233
Transfers to the General Fund for:		
Salaries and benefits for certain maintenance personnel (2)		318,896
Salaries and benefits of lawn equipment personnel and related expenditures (3)		230,054
Information Technology personnel (4)		150,343
Salaries and benefits of data management personnel and related expenditures (5)		151,592
Salaries and benefits of energy and recycling specialist and related expenditures (6)		67,177
Gasoline (7)		40,145
Groundskeeping supplies (8)		34,735
Total	$	1,400,175

Notes:

(1) District records indicated that these groundskeeping costs included payments for services such as mowing, edging, tree trimming, maintenance of playground mulch and clay fields, and purchases of mulch for playgrounds, supplies, and fertilizer. District personnel indicated the maintenance of playground mulch and purchase of mulch for playgrounds are allowable for safety purposes. Also, District personnel indicated that costs to maintain clay fields are allowable to comply with safety standards and the special needs of athletic programs. However, these costs do not appear to represent allowable uses of ad valorem tax levy proceeds.

(2) These costs represented the salaries and benefits of the director of maintenance and operations, secretary of maintenance and operations, two clerical assistants of maintenance and operations, and the accounting clerk of maintenance and operations. The maintenance and operations department included duties over groundskeeping, which is an unallowable use of ad valorem tax proceeds, and the District did not maintain records such as personal activity reports or other documentation to evidence the amount of time these employees spent on activities representing allowable uses of ad valorem tax levy proceeds.

(3) These costs represented salaries and benefits totaling $175,471 for 24 employees from the lawn equipment repair department and other expenditures such as supplies, oil, and grease totaling $54,583. District personnel indicated that these costs were charged to ad valorem tax levy proceeds in error, and agreed that such charges were not allowable uses of these proceeds.

(4) These costs represented allocations, ranging from 25 to 90 percent, of the salaries and benefits of a network supervisor, communications and technical systems manager, network manager, and 100 percent of the salaries and benefits of a communications associate. As the communications associate was responsible for maintaining records for the Federal E-Rate program and reviewing telephone service bills for appropriate charges, the salaries and benefits of this employee are not allowable uses of ad valorem tax proceeds. Further, District records such as personnel activity reports or other documentation were not maintained to evidence the amount of time the other three employees spent on activities representing allowable uses of ad valorem tax levy proceeds.

(5) These costs represented salaries and benefits totaling $150,899 for an analysis and improvement coordinator and an analysis and improvement analyst, and travel and printing charges of $693. District personnel indicated that these costs were charged to ad valorem tax levy proceeds in error, and agreed that such charges were not allowable uses of these proceeds.

(6) District records indicated that 100 percent of the salary and benefits totaling $43,660 for the energy and recycling specialist and other recycling expenditures totaling $23,517 were expended from ad valorem tax levy proceeds. District records did not evidence the allowability of these charges to ad valorem tax levy proceeds, and District personnel agreed that these costs were not allowable uses of these proceeds.

(7) These costs represented fuel for vehicles and equipment such as lawnmowers, weed eaters, and other gas powered tools, although groundskeeping functions are unallowable uses of ad valorem tax levy proceeds.

(8) These costs were for groundskeeping supplies such as pest control services, which are unallowable uses of ad valorem tax levy proceeds.

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. A similar finding was noted in our report No. 2011-050.

Recommendation: The District should enhance controls to ensure that expenditures of ad valorem tax levy proceeds are expended only for authorized purposes. Such controls should include District records, such as personnel activity reports or other documentation, to evidence the allowable activities funded from ad valorem tax levy proceeds. In addition, the District should document the allowability of the $1,400,175 of questioned costs or restore that amount to the LCI Fund.

Finding No. 8: Qualified School Construction Bond, State Board of Education Bond, Capital Outlay and Debt Service, and Public Education Capital Outlay Proceeds

Pursuant to Board resolution, and certain provisions of Florida law, the District issued Qualified School Construction Bonds (QSCB), Series 2010A, for $21,600,000. The proceeds can be used for the acquisition, construction, renovation, remodeling, and equipping of educational facilities included in the Board resolution, and the District accounts for these proceeds in the Capital Projects – ARRA Economic Stimulus Fund.

Also, Section 9(d) Article XII, of the Constitution of the State of Florida provides for the allocation of bonds and motor vehicle license revenue to school districts for funding capital outlay projects in priority order of need, as shown in a District-prepared survey. The FDOE Office of Educational Facilities *State Requirements for Educational Facilities – 2012* (*SREF*), Section 2.1(5) requires the District to prepare a project priority list as the basis for use of SBE Bonds and Capital Outlay and Debt Service (CO&DS) proceeds. The District accounts for these proceeds in the Capital Projects – SBE Bonds Fund and Capital Projects – CO&DS Fund, respectively.

In addition, the State allocates Public Education Capital Outlay (PECO) funds to the District on an annual basis. The District's annual PECO allocation consists of specific State-defined project categories and appropriation amounts,

each of which has its own restrictions governing use, including remodeling, renovation, maintenance, repair or site improvement projects to expand or upgrade current educational plants. Further, the FDOE has provided guidance that software purchases using PECO funds is limited to those that make equipment operational. The District accounts for these proceeds in the Capital Projects - PECO Fund.

For the 2012-13 fiscal year, the District had Capital Project – ARRA Economic Stimulus Fund expenditures of $786,614; Capital Projects - SBE Bonds Fund expenditures of $206,241; Capital Projects - CO&DS Fund expenditures and transfers out to the Debt Service Fund of $961 and $185,258, respectively; and Capital Projects - PECO Fund expenditures of $2,084,128. Our tests disclosed:

- The Board approved a resolution to use QSCB Series 2010A bond proceeds for the Manatee High School Davis Building Project; however, during the 2012-13 fiscal year, the District used $616,227 of the bond proceeds for other Manatee High School projects, which included a storm water system alteration, cafeteria serving line renovation, and kitchen floor replacement. District personnel confirmed that these projects were not part of the Davis Building Project and no amendments to the Board resolution were made to authorize these expenditures. As such, these expenditures represent questioned costs of $616,227.
- The District inadvertently used $196,861 of SBE Bond, Series 2010-A, proceeds for an auditorium sound system upgrade at Lakewood Ranch High School, although the SBE Bond resolution did not list Lakewood Ranch High School as an approved project, resulting in SBE Bond questioned costs of $196,861.
- The District inadvertently used $185,258 of CO&DS proceeds for principal and interest payments for the Series 2009 Certificates of Participation, although the District's project priority list did not include lease payments for the Series 2009 Certificates of Participation, resulting in CO&DS questioned costs of $185,258.
- The District used $16,498 of PECO proceeds for software licenses, although such purchases are not allowable uses of PECO proceeds as they were not necessary to make equipment operational.

Without adequate controls to ensure that proceeds from restricted resources are expended only for authorized purposes, the risk is increased that the District will violate applicable expenditure restrictions.

Recommendation: The District should enhance controls to ensure that expenditures of QSCB bond, SBE bond, CO&DS, and PECO proceeds are expended only for authorized purposes. In addition, the District should document the allowability of the questioned costs or restore $616,227 to the Capital Projects – ARRA Economic Stimulus Fund, $196,861 to the Capital Projects - SBE Bonds Fund, $185,258 to the Capital Projects - CO&DS Fund, and $16,498 to the Capital Projects - PECO Fund.

Finding No. 9: Public Education Capital Outlay Appropriations

Section 216.301(2), Florida Statutes, provides that the unexpended balance of any appropriation for fixed capital outlay for an educational facility that is not contracted, or committed to be expended, prior to February 1 of the third fiscal year, shall revert on February 1 of such year to the fund from which it was appropriated. Consequently, the 2008-09 fiscal year fixed capital outlay appropriations for educational facilities were subject to reversion on February 1, 2011, if the Board had not approved a contract, received bids, issued notice of intent to award a contract, or issued a purchase order to accomplish the work with in-house personnel.

During the 2008-09 fiscal year, the District received PECO appropriations for new construction totaling $1,917,946. We performed an analysis of the 2008-09 and subsequent fiscal year legislative appropriations, and the District's reported use of the appropriations over the past five fiscal years. The results of our analysis disclosed that, as of February 1, 2011 (date the PECO appropriation was subject to reversion), $728,815 of the appropriations remained unexpended and was not committed under terms of a binding contract or otherwise committed to be expended. According to District personnel, these funds had not been expended due to oversight. As these moneys remained

unexpended on June 30, 2013, District records did not demonstrate compliance with spending timeframes for these resources and the District is at risk of losing this funding. A similar finding was noted in the 2011-12 fiscal year financial audit report.

Recommendation: The District should establish procedures to ensure adequate accountability for State appropriations subject to reversion pursuant to Section 216.301(2), Florida Statutes. In addition, the District should document its compliance with this statute, or revert the $728,815 of uncommitted funds to the FDOE.

Personnel and Payroll

Finding No. 10: 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 differentiated pay based upon District-determined factors, including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties.

While compensation of instruction personnel is typically subject to collective bargaining, the Board had not established a documented process to identify the 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 identifying 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. 2011-050.

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. 11: Terminal Leave Payments

Section 1012.65, Florida Statutes, governs terminal pay for accumulated vacation leave to employees upon employment termination or retirement. Terminal pay for vacation leave accumulated before July 1, 2001, must comply with Board policies in effect on June 30, 2001, and terminal pay for vacation leave accumulated after June 30, 2001, is limited to 60 days per employee.

During the 2012-13 fiscal year, the District made payments to 118 employees totaling $708,140 for accumulated vacation leave. Our review of these terminal leave payments disclosed that 10 of these employees were overpaid by amounts ranging from $86 to $14,169, totaling $29,352, because accumulated vacation leave for each of the 10 employees exceeded the 60-day statutory limit. In March 2013, the District changed its procedures to limit terminal leave pay based on the 60-day limit. A similar finding was noted in the 2011-12 fiscal year financial audit report.

Recommendation: The District should enhance its procedures to ensure terminal pay for accumulated vacation leave complies with Section 1012.65, Florida Statutes. The District should also take appropriate action to recover the overpayments.

Finding No. 12: Employee/Independent Contractor Status

The Internal Revenue Service (IRS) established certain guidelines to assist employers in making the distinction between classifying individuals as employees or independent contractors. Such distinctions are important because there are certain laws that apply when an individual serves in the role of an employee rather than an independent contractor. For example, compensation to independent contractors is not subject to withholding for employment taxes, such as Federal Insurance Contributions Act (FICA) and Medicare taxes, and retirement plan contributions may be required for employees that are not required for independent contractors.

To help employers consider relevant facts and circumstances when making employee or independent contractor determinations, the IRS developed a list of factors such as whether workers are required to comply with employer instructions, training requirements, and established work hours. For circumstances in which an employer is unable to establish the basis upon which a worker is an employee or independent contractor, an employer may file Form SS-8, *Determination of Worker Status for Purposes of Federal Employment Taxes and Income Tax Withholding*, with the IRS for it to make the determination.

The District contracted with an individual to act as a community involvement coordinator. The District had previously employed the individual before the individual terminated employment in June 2011. During the 2011-12 and 2012-13 fiscal years, the District paid the individual $76,947 as an independent contractor, although the individual's services appeared to be the same as a District employee. For example, the District required the individual to comply with District instructions and report daily by phone, in person, or by e-mail to a District supervisor, and the District provided office space and related equipment for the individual to perform the services. In addition, District records did not evidence documented evaluations to establish the basis upon which the independent contractor classification was made.

District personnel indicated the community involvement coordinator position was outsourced because of budget reductions. Without adequate and sufficient information in public records to evidence the relevant facts and circumstances for classifying individuals as employees or independent contractors, there is an increased risk that the District may be subject to additional payroll taxes and penalties for individuals classified as independent contractors that should have been classified as employees.

Recommendation: The District should establish procedures to document the relevant facts and circumstances upon which individuals are classified as independent contractors rather than employees. The District should also contact the IRS to determine whether the individual discussed above should be classified as an employee rather than an independent contractor and, if appropriate, amend its payroll reporting and remit any required payroll taxes and retirement contributions for the employee to the appropriate Federal and State agencies.

Finding No. 13: Bus Drivers

SBE Rule 6A-3.0141(6), FAC, requires the District to obtain and review the Florida Department of Highway Safety and Motor Vehicles (FDHSMV) driver's history record for school bus drivers prior to the first day of the fall semester, and thereafter using automated weekly updates. The District's Board policy and School Bus Safe Operator

Plan provide, in part, a point system for driving infractions that requires administrative actions against drivers, ranging from a letter of warning to employment termination, based on the points accumulated. Also, SBE Rule 6A-3.0141(8), FAC, and Board policy provide that school bus drivers with expired, suspended, or revoked commercial vehicle driving licenses, or infractions making the driver unqualified for the position in accordance with the District's School Bus Safe Operator Plan, will not be allowed to drive a school bus.

The District employed 236 bus drivers during the 2012-13 fiscal year and monitoring procedures over school bus drivers were generally adequate. However, comparison of District records and FDHSMV records disclosed 2 bus drivers had suspended commercial vehicle driving licenses while one operated a school bus from September 27, 2012, through November 8, 2012, and the other operated a school bus from March 4, 2013, through October 1, 2013. District personnel indicated that a report notifying the District for one of the suspensions had been overlooked and that the District did not receive notification of the other driver's suspension. To promote school bus safety and to reduce the risk of accidents caused by school bus drivers, it is important that the District ensure that drivers meet the requirements to operate the buses.

Recommendation: The District should enhance its procedures to ensure that school buses are only operated by drivers with valid licenses.

Finding No. 14: Background Screenings

Sections 1012.465, 1012.467, and 1012.468 Florida Statutes, provide that instructional and noninstructional contractors who are permitted access to school grounds when students are present or who have direct contact with students must undergo certain background screenings at least every five years. Also, Section 1012.468, Florida Statutes, provides exceptions to background screenings if the noninstructional contractors are under the direct supervision of District personnel or the contractor has met the screening requirements.

The Human Resource Department is responsible for maintaining records to evidence contractor background screenings. To determine whether the required background screenings were performed for instructional and noninstructional contractors provided access to school grounds when students were present, and not under the direct supervision of District employees, we tested 33 contracted workers, including 9 that worked for 1 instructional contractor and 24 that worked for 8 noninstructional contractors that provided services such as tutoring and therapy services. At the time of our tests, District records did not evidence required background screenings performed for 3 of the 9 workers of the instructional contractor. Also, at the time of our tests, District records did not evidence background screenings within the last five years for 4 workers of 3 noninstructional contractors. In addition, District records indicated that background screenings were untimely for 5 other workers of 2 contractors as the screenings were performed after the workers provided District services.

District personnel indicated that these exceptions occurred because of oversights. Without documented evidence of the required background screenings of instructional and noninstructional contractors, there is an increased risk that workers with unsuitable backgrounds may be allowed access to students. Similar findings were noted in our report Nos. 2008-100 and 2011-050, and regarding virtual instruction program provider personnel as discussed in Finding No. 28.

Recommendation: The District should enhance its procedures to ensure that required background screenings are performed for instructional and noninstructional contractors.

Restricted Resources

Finding No. 15: E-Payables and Purchasing Card Rebates

The District maintains a purchasing card (P-card) program, provided through a financial institution, as an available procurement option for its purchasing process. The District also maintains an e-Payables program with the financial institution as a convenient option for vendors to receive payments. As an incentive, the District receives annual rebates from the financial institution for each program, with the amounts determined based on the dollar amount of P-card purchases and e-Payables payments during annual periods. During the period January 2012 through December 2012, the District had P-card purchases totaling $11,554,836, resulting in receipt as of March 2013 of a $165,118 rebate. During the period October 2011 through September 2012, the District had e-Payables payments totaling $5,487,367, resulting in receipt as of November 2012 of a $61,470 rebate.

The $226,588 in rebates received by the District included $41,716 and $23,539 that were generated by purchases using restricted District moneys in the special revenue and capital project funds, respectively. However, the rebates were not allocated to the funds from which the P-card purchases and e-Payables payments were made. Instead, the $62,255 of rebates were recognized as revenue and applied to the General Fund, which is used for general operating purposes.

District personnel indicated they were unaware that the rebates should be accounted for in the specific fund type that generated the rebate. As certain Federal and State resources are typically restricted by Federal or State law, rebates generated by expenditures of those funds may be subject to the same restrictions. Without procedures to allocate rebates to the appropriate funding source, there is an increased risk that rebates generated by restricted sources may be used for purposes inconsistent with the restrictions on these resources.

Recommendation: The District should consult with the appropriate Federal cognizant agency and the Florida Department of Education for resolution on the use and allocation of rebates received on P-card purchases and e-Payables payments.

Procurement

Finding No. 16: Competitive Selection Process

The Legislature has recognized in Section 287.001, Florida Statutes, that fair and open competition is a basic tenet of public procurement and that such competition reduces the appearance and opportunity for favoritism and inspires public confidence that contracts are awarded equitably and economically. Absent use of a competitive selection process, the District's ability to demonstrate the fair, equitable, and economical procurement of professional services may be limited.

Pursuant to SBE Rule 6A-1.012, FAC, the District must generally request competitive solicitations from three or more sources for contractual services exceeding $50,000. In acceptance of responses to requests for proposals, the District may award contracts to one or more responsive, responsible proposers in accordance with the selection criteria published in the request for proposal. While competitive selection of contractual services is optional for certain professional services such as auditing and legal services, it is important that contracts are awarded equitably and economically if the Board exercises its judgment to procure services through competitive selection. Our review and

discussions with District personnel disclosed that enhancements could be made in competitively procuring professional services as follows:

- The Board solicited requests for qualifications (RFQ) for Board attorney services and received qualifications from seven attorneys. The RFQ indicated that the Board would identify the top three candidates, interview them, and select a firm based on factors such as experience, qualifications, technical abilities, accessibility and availability of individuals assigned, and related fees.

  At the June 3, 2013, workshop meeting, the Board identified four of the seven firms to interview and, at the June 10, 2013, workshop meeting, the Board interviewed the four firms and held various discussions. Using a ballot system that listed the four firms, identified the firm selected by each Board member and the Board member's signature, the Board selected a firm at the June 10, 2013, regular meeting. The Board contracted with the firm for $165 per hour and other miscellaneous costs with total costs not to exceed $50,000 through June 30, 2014. However, District records did not evidence the Board's application of the criteria in identifying the four firms to interview, ranking the firms, or in selecting the attorney.

- The Board solicited requests for proposals (RFP) for an internal accounts auditor and received proposals from ten certified public accounting (CPA) firms. The RFP indicated that an evaluation committee comprised of the Chief Financial Officer and at least two Board members, would evaluate proposals by assigning points for specific criteria, such as price, experience, technical approach, and references.

  At the July 22, 2013, workshop meeting, the Board decided that it would act as the evaluation committee and discussed the ten proposals received. The District staff attorney informed the Board that by State Board rule, the RFP was exempt from competitive bidding, allowing the Board flexibility in how to evaluate the bid results. At the July 22, 2013, regular meeting, Board members selected a firm using a ballot system that included the ten firms, allowed the Board members to circle the firm selected and sign the respective ballot. The Board, at the July 25, 2013, special meeting, voted to accept a letter of engagement with the firm for costs not to exceed $50,000 for the 2012-13 internal accounts audit. However, District records did not evidence the basis upon which the Board ranked the ten firms or the criteria applied that resulted in the internal accounts auditor selected.

- At the July 22, 2013, regular meeting, the Board discussed draft RFQs for internal audit services. The discussions included whether there was any benefit in competitively selecting a firm for the services, and the Superintendent indicated that the District would move forward with issuance of a RFQ and simultaneously enter negotiations with a designated CPA firm. However, no RFQ was issued. At the July 25, 2013, special Board meeting, the Superintendent presented a letter of engagement from a CPA firm to perform internal auditing services for costs not to exceed $97,500. District personnel indicated that the Board used draft RFQs as the basis for discussions, and the Board approved the letter of engagement with the CPA firm. However, District records did not evidence the basis upon which the Board discontinued its competitive negotiations process.

As the Board set forth initial intentions to acquire Board attorney, internal accounts auditor, and internal auditing services through competitive selection processes, it is important that District records evidence the application of appropriate competitive selection procedures to contract for these services or why not using a competitive selection process was more advantageous to the District. Absent documented competitive negotiations for these services, District records did not demonstrate that the services were competitively acquired and obtained at the lowest cost consistent with desired quality.

Recommendation: The Board should enhance its procedures to ensure, for future professional services, that a competitive selection process is used or that District records demonstrate why not using a competitive selection process is more advantageous to the District.

Finding No. 17: Contractual Services

The Board routinely enters into contracts for goods and services and internal controls have been designed and implemented to ensure payments are consistent with bid awards and contract terms. However, our review of 20 payments totaling $1,014,707 for contractual services disclosed that controls could be enhanced, as follows:

- The Board approved a contract with a company to provide educational programs for the District's at risk students. Based on the contract, the District paid the company $1,038,672 for 95 percent of the weighted full-time equivalent funding for students in the program and an allocated proportion of other costs. However, District personnel did not verify the accuracy of the number of students enrolled in the program by onsite visits or review of attendance records to ensure the payment was appropriate.
- The Board approved a bid for floor resurfacing services, ranging from $5.30 to $8.07 per square foot. The Board contracted with, and paid, the company $59,742 for these services at Palmetto High and King Middle Schools; however, the payment was based on an invoice total and District records did not evidence the square footage resurfaced or a reconciliation between the cost of the square footage resurfaced and the bid and contract costs.
- The Board approved a low bid from a company for a video surveillance system based on rates ranging from $60 to $90 per hour and a materials cost markup of 15 to 45 percent. The Board contracted with and paid the company $41,685 for the system at Horizons Academy. However, District records did not evidence the contractual personnel work hours, hourly rate applied, or a reconciliation between the materials cost and the bid and contract costs.

Without effective procedures to confirm satisfactory receipt of goods and services prior to payment and reconciliation of amounts billed to bid and related contract terms and conditions, there is an increased risk of overpayments or that errors or fraud could occur without timely detection.

Recommendation: The District should enhance its monitoring procedures to confirm satisfactory receipt of goods and services at agreed upon rates prior to payment. In addition, the District should obtain and review sufficient documentation to support the above-noted payments for contractual services and seek recovery of any overpayments, as appropriate.

Direct-Support Organizations

Finding No. 18: Manatee Education Foundation

Pursuant to Section 1001.453, Florida Statutes, a school board direct-support organization (DSO) must be a Florida nonprofit organization, approved by the Board to operate exclusively to receive, hold, invest, and administer property and to make expenditures to or for the benefit of District school and adult career and community education programs. A school board is authorized to permit a DSO to use District property, facilities, and personal services. In addition, Section 1001.43(5), Florida Statutes, allows community use of school facilities, and District guidelines requires a lease agreement be signed and approved in order to enter into rental agreements to allow use of facilities. Such agreements typically establish the facility use fees and liability insurance responsibilities of the organizations that use District facilities.

The Manatee Education Foundation, Inc. (MEF), a Florida nonprofit corporation, was organized to promote education of District students and provide student scholarships, and used property, facilities, and personal services of the District. The Board approved the MEF as a DSO in February 1987; however, in February 2012, the MEF restructured its by-laws and is no longer considered a DSO.

During the 2012-13 fiscal year, the District paid $192,120 in salaries and benefits for the MEF employees, including $162,430 for salaries, $12,027 for social security taxes, $9,264 for premiums to participate in the District's health, life, and workers' compensation insurance programs, and $8,399 for Florida retirement system (FRS) contributions. In addition, the MEF paid $3,500 to the District to rent space. While the MEF reimbursed the District for most costs incurred by the District for the MEF, District records did not evidence the basis upon which the District determined the MEF employees' eligibility to participate in District employee benefit plans and the FRS. In addition, District records did not evidence a lease agreement for the space rented to the MEF or the reasonableness of the rent assessed the MEF.

DSOs are provided certain privileges to use District property and personal services pursuant to Section 1001.453, Florida Statutes, and are annually subject to audit; however, for entities not approved as DSOs, the basis for use of District property and services should be consistent with law and established through Board-approved contracts.

Recommendation: The Board should document the basis upon which MEF employees are determined eligible to participate in District employee benefit plans and the FRS, or discontinue such practices. Also, the Board should enhance its procedures to ensure that rental charges to the MEF are reasonable and pursuant to a Board-approved lease agreement.

Facilities Administration and Monitoring

Finding No. 19: Facilities Management

The facilities department is responsible for managing construction and renovation projects. During the 2012-13 fiscal year, the facilities department employed nine employees, including construction personnel, and the department's operating cost was $748,262. Also, during this fiscal year, the District had expenditures totaling approximately $12 million for capital projects fund construction and renovation projects and, as shown on the District's Five-Year Facilities Work Plan as approved by the Board on September 23, 2013, the District planned to spend $75 million on construction and renovation projects and $25 million on maintenance over the next five fiscal years. At June 30, 2013, the historical cost of the District's educational and ancillary facilities, including land purchases, was $1 billion and, as shown in the FDOE's Florida Inventory of School Houses data, District facilities had an average age of approximately 18 years.

The 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 137 employees, including grounds and maintenance personnel, and the department's operating cost was $9 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 establish 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 are achieved and accountability for facilities and maintenance department employees are archieved. While our review of facilities management procedures indicated that procedures were generally adequate, we noted the following procedural enhancements could be made:

- **Construction Planning**. School districts benefit from long-range facilities construction planning activities that include consideration of stakeholder input, including District personnel, parents, real estate and construction professionals, county long-range planning personnel, and other community stakeholders. A committee comprised of such individuals may help the District with facility construction decisions based on actual or anticipated commercial or residential expansion efforts and population demographics.

  The District communicates information regarding long-range planning and the status of the facilities program through Board-approved educational plant surveys, which are completed every five years and the FDOE-required Five-Year and Twenty-Year Facilities and Work Plans, which are updated each year. In addition, stakeholders are involved in the development of long-range priorities through the planning process, interlocal agreements with affected municipalities, and mandatory public hearings. However, except for the sales tax accountability committee, which includes community members appointed by the Board and specifically plans for projects funded from the sales tax referendum, the District has not established formal committees to consider stakeholder input, comprised of District personnel, parents, real estate and construction professionals, county long-range planning personnel, and other community stakeholders, with the responsibility of developing long-range construction priorities. District personnel indicated that they usually determine construction priorities; however, the use of a long-range facilities construction planning committee may help the District establish facility planning opportunities and cost savings not considered by the District's current process.

- **Alternative Construction Methods or Maintenance Techniques.** The District primarily awards high dollar construction contracts to design professionals and construction contractors using the construction manager at risk method within guaranteed maximum price contracts. Typically, for small construction projects that cost less than $300,000, the District's Capital Building Construction Department personnel self-perform the work. 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 facilities and maintenance departments had not established written goals to address accountability for these departments. To identify cost-effectiveness or efficiency outcomes, the departments 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 a project did not initially meet building code requirements, and 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 measureable 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 consider establishing a long-range facilities planning committee comprised of various stakeholders to periodically meet and assist the District in identifying long-range construction needs. Also, 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.

Confidential Information

Finding No. 20: Social Security Numbers

The Legislature has acknowledged in Section 119.071(5)(a), Florida Statutes, the necessity of collecting social security numbers (SSNs) for certain purposes because of their acceptance over time as a unique numeric identifier for identity verification and other legitimate purposes. The Legislature has also recognized that SSNs can be used to acquire sensitive personal information, the release of which could result in fraud against individuals or cause other financial or personal harm. Therefore, public entities are required to provide extra care in maintaining such information to ensure its confidential status.

Section 119.071(5)(a), Florida Statutes, provides that the District may not collect an individual's SSN unless the District has stated in writing the purpose for its collection and unless it is specifically authorized by law to do so, or is imperative for the performance of the District's duties and responsibilities as prescribed by law. Additionally, this section requires that if the District collects an individual's SSN, it must provide that individual with a written statement indicating whether the collection of the SSN is authorized or mandatory under Federal or State law, and identifying the specific Federal or State law governing the collection, use, or release of SSNs for each purpose for which the SSN is collected. This section also provides that SSNs collected by the District may not be used for any purpose other than the purpose provided in the written statement. This section further requires that the District review whether its collection of SSNs is in compliance with the above requirements and immediately discontinue the collection of SSNs for purposes that are not in compliance.

The District collected SSNs such as those listed on employee applications; new employee information sheets; forms for retirement contributions, withholding taxes, and background checks; and from students for student registration and scholarship applications. Our review disclosed that, because of oversights, the District did not always follow the statutorily required procedures for collecting SSNs, as the District collected SSNs on:

- New employee information sheets and other new employee forms, but did not provide the employees with written notification of the reason for collection of the SSNs.
- Proximity access card request forms that gave individuals access to District buildings, but did not provide the individuals with written notification of the reason for the collection of SSNs.
- Student registration and scholarship applications, but did not provide written notification to parents or guardians of the reason for collection of the SSNs.

Effective controls to properly monitor the need for and use of SSNs and ensure compliance with statutory requirements reduce the risk that SSNs may be used for unauthorized purposes. A similar finding was noted in our report No. 2011-050.

Recommendation: The District should improve its efforts to comply with Section 119.071(5)(a), Florida Statutes.

Insurance

Finding No. 21: Self-Insurance Plan Claims Expenses

The District is self-insured for workers' compensation, property, and general liability. Pursuant to Section 1011.18(6), Florida Statutes, the District contracted with a third party administrator (TPA) to administer its workers'

compensation plan and process, investigate, and pay claims. During the 2012-13 fiscal year, the District reported workers' compensation claims expenses totaling $2,955,209.

District personnel indicated that District risk management personnel reviewed TPA-generated claims register check requisitions and confirmed whether workers' compensation claims were for District employees. If confirmed, risk management personnel forwarded the check requisition to the finance department for payment. District records also included an October 2012 TPA service organization report, as described in *Statement on Standards for Attestation Engagements No. 16* (SSAE 16), *Reporting on Controls at a Service Organization*, for the period May 2011 to April 2012. For that time period, the SSAE 16 report confirmed the suitability of policies and procedures placed in operation to achieve specified control objectives and discussed tests of controls that confirmed the operating effectiveness of such controls. Further, the TPA confirmed that controls over the District's claim processing had not changed since the October 2012 report.

While District procedures to confirm the eligibility of individuals who made workers' compensation claims, the October 2012 SSAE 16 report, and TPA confirmation that controls had not changed provide a measure of assurance that claims expenses were appropriate, District records did not evidence an independent assessment of the TPA's claim's process, or District tests of workers' compensation claim expenses, for the 2012-13 fiscal year. Without such assessment or tests of workers' compensation claim expenses there is an increased risk that worker's compensation claim expenses may be for unallowable or excessive charges.

While our claims expenses tests did not disclose any significant errors or fraud, our procedures do not substitute for the District's responsibility to establish adequate controls over workers' compensation claims expenses.

Recommendation: The District should enhance procedures to effectively monitor its workers' compensation claims expenses.

Finding No. 22: Self-Insurance Plan Net Position

As discussed in Finding No. 21, the District is self-insured for workers' compensation, property, and general liability. The self-insurance plan had a deficit ending net position balances at June 30, 2012, and June 30, 2013, of $2,409,399 and $1,712,448, respectively. District personnel indicated that contributing factors for the continued deficits were increased claims expenses and insufficient revenue adjustment to offset the expenses. District personnel indicated that actuarial projections in April 2013 and other considerations were used as a basis for adjusting 2013-14 fiscal year revenue, and forecasted a June 30, 2014, deficit of $987,660. Continued deficits in the workers' compensation, property, and general liability self-insurance plan may require other resources to fund the plan and increase the risk that the District may not meet its self-insurance obligations. A similar finding was noted in the 2011-12 fiscal year financial audit report and in our report No. 2011-050.

Recommendation: The District should continue its efforts to adequately fund the workers' compensation, property, and general liability self-insurance plan.

Adult General Education

Finding No. 23: Adult General Education Classes

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 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.

For the 2012-13 fiscal year, the District reported to the FDOE 462,127 instructional contact hours for 1,315 students enrolled in 46 adult general education classes. Our review of 3,705 hours reported for 11 students enrolled in 25 adult general education classes disclosed contact hours were over-reported for each student tested in each class tested by a net total of 1,460 hours. District personnel indicated that the reporting errors occurred, in part, from a programming design flaw, use of wrong student withdrawal dates, and incorrectly-accumulated online class hours. Given the number of errors, the full extent of the class hours misreported was not readily available.

Since future funding may be based, in part, on enrollment data reported to the FDOE, it is important that the District reports data correctly. Similar findings were noted in the two previous financial audit reports and in our report No. 2011-050.

Recommendation: The District should strengthen its controls to ensure accurate reporting of instructional contact hours for adult general education classes to the FDOE. The District should also determine the extent of adult general hours misreported and contact the FDOE for proper resolution.

Virtual Instruction Program

Finding No. 24: 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 District had written procedures addressing student eligibility, student progression requirements, attendance, mandated testing, and other procedures related to VIPs; however, the procedures could be expanded to include more

detailed instructions for staff charged with administering VIPs, as well as procedures for other VIP statutory requirements, such as provider contracts, required written notices, instructional materials, and computing resources. The procedures could also be expanded to provide guidance on monitoring VIP teacher qualifications and certifications. For example, policies and procedures could require school district personnel to confirm Florida teaching certificates with the FDOE and survey a sample of parents to confirm that the contracted VIP teachers were the teachers who provided the services.

Comprehensive 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. Further, the absence of comprehensive, written VIP policies and procedures may have contributed to the instances of District noncompliance and control deficiencies identified in Finding Nos. 25 through 30.

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

Finding No. 25: 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 and requires the approved provider to comply with all requirements of Section 1002.45, Florida Statutes. The District entered into a contract with a FDOE-approved VIP provider; however, the contract contained deficiencies and lacked some statutorily required provisions as discussed below:

- The contract did not require the provider to comply with all requirements of Section 1002.45, Florida Statutes. As this law contains specific program requirements, such as student eligibility and compulsory attendance requirements, excluding such requirements from the contracts may limit the District's ability to ensure compliance with these requirements in the event of a dispute.
- The contract did not include an agreed-upon student-teacher ratio. This is contrary to Section 1002.45(2)(a)7.[2], Florida Statutes (2012), which requires 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.
- The contract lacked a provision requiring the provider to be responsible for all debts of the VIP if the contract was not renewed or was terminated, contrary to Section 1002.45(4)(e), Florida Statutes. The inclusion of such a provision would strengthen the District's position in the event of a challenge by a provider.
- The contract did not provide for the District to monitor the provider's compliance with contract terms or quality of the virtual instruction. Without such provisions, the District may be limited in its ability to perform such monitoring. Such monitoring could include confirmation or verification that the VIP provider protected the confidentiality of student records and supplied students with necessary instructional materials. (See further discussion in Finding No. 30.)

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

- The District's FDOE-approved VIP provider maintains significant amounts of educational data used to support the administration of the VIP 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 provider on behalf of the District be available in a timely manner. Our review of the contract disclosed the following:
  - The contract included no provisions for data quality requirements. Inclusion of data quality requirements in contracts would help ensure that the District expectations for the timeliness, accuracy, and completeness of education data are clearly communicated to the provider.
  - The contract contained requirements for the provider to implement, maintain, and use appropriate administrative, technical, or physical security measures to the full extent required by The Family Educational Rights and Privacy Act (FERPA), to maintain the confidentiality of educational records. However, the contract did not specify any minimum required security controls that the District expected to be in place to protect the confidentiality, availability, and integrity of critical and sensitive education data.

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. 26: 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. 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 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. The District provided one full-time type virtual instruction for grades kindergarten through 5 from one available option and no part-time types. In addition, although full-time and part-time types were provided for grades 6 through 12, only two options were provided.

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

Finding No. 27: Written Parental Notifications

Section 1002.45(10), Florida Statutes, requires that each school district provide information to parents and students about their right to participate in a VIP. Further, Section 1002.45(1)(b), Florida Statutes, requires all school districts to provide parents with timely written notification of the open enrollment periods for their VIPs.

District personnel indicated there were several communication methods used to provide information about the District's VIP to parents and students. Such communication included the District's Web site and oral referrals from the Parent Information Center and school counselors to the Innovative Programs and Parental Options Office.

While these methods indicate efforts by District personnel to communicate with parents and students about two VIP options for the 2012-13 school year, District records did not evidence that written notifications were provided directly to parents of students for its two options. Also, personnel indicated that the notification of the open enrollment period was made on the District's Web site; however, because the information was purged from the Web site, District records did not evidence compliance with the statutory requirement. In addition, the District's Web site did not include information regarding courses offered by the FLVS.

Without evidence that timely written notification was provided directly to parents, some students may not have been informed of the available VIP options and the associated enrollment periods, contrary to State law and potentially resulting in limited student access to virtual instruction types.

Recommendation: The District should enhance its procedures to ensure that records are maintained evidencing timely written notifications to parents about student opportunities to participate in VIPs and open enrollment period dates.

Finding No. 28: 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. The District contracted with a FDOE-approved provider. The providers indicated in their assurances to the FDOE during the approval process that lists of provider employees or contracted personnel subjected to the required screening would be provided to each applicable school district; however, the District did not initially obtain such a list from its VIP provider. Subsequent to our inquiry, District personnel obtained an employee list from the provider to confirm the dates of the required background screenings of the provider's 81 employees.

As similarly discussed in Finding No. 14 for background screenings of instructional and noninstructional contractors, 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. 29: Student Compulsory Attendance

Section 1002.45(6)(a), Florida Statutes, requires each student enrolled in a VIP to comply with the compulsory attendance requirements prescribed in Section 1003.21, Florida Statutes, and requires school districts to verify attendance. Based on testing of District records, the District generally had control procedures to appropriately verify part time FLVS franchise student attendance; however, controls over other contracted VIP student attendance could be improved.

As of March 2013, the District reported 428 students enrolled part-time in a contracted FLVS franchise and their traditional schools documented attendance verification for those students. As of that date, the District also reported 28 students enrolled full-time in a contracted FLVS franchise and 104 students enrolled both full-time and part-time with another contracted VIP provider; however, District records did not evidence verification of daily attendance for those 132 students.

Absent effective procedures to verify student attendance and records documenting such verification, VIP students may not be satisfying the statutorily required compulsory attendance requirements.

Recommendation: The District should establish control procedures to require a documented verification that students enrolled with contracted VIP providers have complied with compulsory attendance requirements prescribed by law.

Finding No. 30: Computing Resources and Instructional Materials

Section 1002.45(3)(c), Florida Statutes, requires that each student enrolled in a VIP be provided with all necessary instructional materials. In addition, 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 procedures for providing instructional materials to students and communicating the availability of, and providing, computing resources to qualified VIP students could be enhanced as follows:

- District personnel indicated that they relied upon the VIP provider to ensure that all necessary instructional materials were appropriately delivered to the VIP students, without independently verifying delivery.
- District personnel indicated that they verbally notified counselors and they have been so accommodating that students and parents know of the availability of computing resources; however, District records did not evidence direct communication with families. Consequently, the District provided computer resources to only 2 of the 560 students that participated in VIP courses.

Without procedures to verify receipt of all the necessary instructional materials, there is an increased risk that VIP students may not possess the materials necessary to successfully complete VIP course requirements. Additionally, 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 establish documented procedures to ensure that all VIP students receive necessary instructional materials and qualified VIP students are provided computing resources.

Information Technology

Finding No. 31: 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 test of selected access privileges to the District's finance and human resources (HR) applications and the supporting operating system disclosed some access privileges that were unnecessary or that permitted certain employees to perform incompatible functions. Specifically, we noted the following:

- A system user identifier (ID) used for emulation software, a system ID used for the creation of a specific group profile, a contractor, a Network Specialist, a State Reports Specialist, and a Risk Management department employee were assigned two special operating system authorities, one of which allowed them to view the contents of confidential data files within the applications hosted by the operating system and is more appropriate for those employees or contractors who are assigned security or operations responsibilities. The other special operating system authority allowed them to hold, release, change, and end other users' jobs; shut down the system or subsystems; and control spooled files and printers and is more appropriate for those employees or contractors with operations responsibilities. In these circumstances, such authorities allow the employees to view the contents of confidential payroll information, such as social security numbers, which would be inappropriate access privileges for these employees. In addition, the contractor, the State Reports Specialist, the Risk Management department employee, and the Network Services Supervisor were assigned a special operating system authority that allowed them to create, change, and delete user and group profiles. While this authority is more appropriate for employees or contractors with security administrator responsibilities, such inappropriate access privileges allow creation of an erroneous user ID and the ability to jeopardize the integrity of the District's IT information.
- The emulation software ID described above and an additional State Reports Specialist had special operating system authority to change system communication configurations, including Internet connection settings. The ability to configure and change system communication configurations is more appropriate for those employees or contractors who are assigned system or network administration responsibilities.
- One system ID used for the District's legacy student information system had special operating system authority to access any resource on the system, which was unnecessary for this ID. In addition, two contractors were actively assigned this authority; however, as this special operating system authority is used for system administration, the authority should be enabled at the point in time the contractors are needed to perform this level of responsibility for the District.
- Eleven Technology and Information Services employees had unnecessary access privileges to finance and HR application transactions, including updating vendor, customer, and employee records; adding, changing, and deleting purchase order records from a requisition; and reposting general ledger transactions. One of the employees had additional access privileges to add, change, or delete a purchase order or requisition record and to add, change, or delete a journal entry or budget amendment record. In addition, this employee and three of the others had the ability to create a manual check and related voucher.
- Eight payroll employees within the HR module security group had the ability to add or update an employee to the master file, make changes to the salary, and change the employee address. These duties are contrary to an appropriate separation of duties. Although payroll edit reports were generated to show changes other than address changes, there was no independent review and approval of the reports, negating the usefulness of such reports.
- Five finance employees within the HR module security group had the ability to update employee or vendor files including changing addresses, although these access privileges are unnecessary for their job functions. Also, one of these five employees had access to the accounts receivable security group that was also unnecessary for job performance. Subsequent to our inquiry, the District deleted the accounts receivable security for this employee.
- The former Director of Finance with responsibilities of directing accounting and reporting of financial transactions could update employee and vendor files including changing addresses within the finance module security group, which was an unnecessary access privilege for the employee's job responsibilities. This employee's access was removed when the employee terminated employment on June 30, 2013.
- One business service employee, an executive secretary, was assigned accounts receivable and budget security groups access, which was unnecessary for the employee's job duties. In response to our inquiry, the District deleted both security groups for this employee.
- A custodian whose job responsibilities included cleaning tasks and general maintenance duties and a junior accountant with responsibilities of assisting bookkeepers in problem solving, payroll issues, and encumbrances had access to security groups that were not needed for their job functions. For example, the

custodian could input journal entries even though it was not needed for her position and the junior accountant could enter and approve her own purchase orders. District personnel indicated that the screen to approve the purchase order had been disabled several years ago and was no longer used, but District records did not evidence that the access was disabled. In response to our inquiry, the District deleted these employees' access to these security groups.

The District reviewed application access privileges annually, and the District had certain compensating controls in place (e.g., supervisory monitoring of expenditures and annual review of user group profiles). However, 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.

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

Finding No. 32: Security Incident Response Plan

Computer security incident response plans are established by management to ensure an appropriate, effective, and timely response to security incidents. These written plans typically detail responsibilities and procedures for identifying, logging, and analyzing security violations and include a centralized reporting structure, provision for a team trained in incident response, notification to affected parties, and incident analysis and assessment of additional actions needed.

Although the District may become aware of security incidents by employees contacting Help Desk or Network Services personnel and designate certain District employees to respond to such incidents, the District had not developed a written security incident response plan that included:

- A definition of computer security incidents and an established process for reporting a suspected incident;
- Established procedures for isolating and containing a security threat and capturing and maintaining events associated with an incident;
- Identification of response team members trained in roles and responsibilities;
- An established process for involving the appropriate local, State, and Federal authorities; and
- An established process, pursuant to Section 817.5681, Florida Statutes, of notifying affected parties whose personal information was, or was reasonably believed to have been, acquired by an unauthorized person.

Should an event occur that involves the potential or actual compromise, loss, or destruction of District data or IT resources, the lack of a written security incident response plan may result in the District's failure to take appropriate and timely actions to prevent further loss or damage to District data and IT resources.

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

Finding No. 33: Security Controls - User Authentication, Data Loss Prevention, Information Security Program Development, and Monitoring of System Activity

Security controls are intended to protect the confidentiality, integrity, and availability of data and IT resources. Our audit disclosed that certain District IT security controls related to user authentication, data loss prevention, information security program development, and monitoring of system activity 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, data loss prevention, information security program development, and monitoring of system activity, the risk is increased that the confidentiality, integrity, and availability of District data and IT resources may be compromised. A similar finding related to user authentication was communicated to District management in connection with our report No. 2011-050.

Recommendation: The District should improve IT security controls related to user authentication, data loss prevention, information security program development, and monitoring of system activity to ensure the continued confidentiality, integrity, and availability of District data and IT resources.

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the District had taken corrective actions for findings included in previous audit reports. 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	CPA Firm, Finding No. 12-5	NA	NA	NA
2	NA	NA	Audit Report No. 2011-050, Finding No. 10	NA
6	CPA Firm, Finding No. 12-2	NA	Audit Report No. 2011-050, Finding No. 1	NA
7	NA	NA	Audit Report No. 2011-050, Finding No. 1	NA
9	CPA Firm, Finding No. 12-4	NA	NA	NA
10	NA	NA	Audit Report No. 2011-050, Finding No. 3	NA
11	CPA Firm, Finding No. 12-3	NA	NA	NA
14	NA	NA	Audit Report No. 2011-050, Finding No. 4	Audit Report No. 2008-100, Finding No. 4
20	NA	NA	Audit Report No. 2011-050, Finding No. 5	NA
22	CPA Firm, Finding No. 12-5	NA	Audit Report No. 2011-050, Finding No. 8	NA
23	CPA Firm, Finding No. 12-1	CPA Firm, Finding No. 11-1	NA	NA
33	NA	NA	Audit Report No. 2011-050, Finding No. 13	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 March 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 (HR) applications to determine the appropriateness and necessity based on employees' job duties and user account functions and adequacy with regard to preventing the performance of incompatible duties.
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 finance and HR application security settings to determine whether authentication controls were configured and enforced in accordance with IT best practices.
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.
IT security awareness and training.	Determined whether a comprehensive IT security awareness and training program was in place.
Monitoring of charter schools.	Interviewed District personnel and reviewed supporting documentation to determine if the District effectively monitored charter schools.
Board minutes.	Read Board minutes and, for selected Board meetings, examined supporting documentation evidencing compliance with Sunshine Law requirements.
Financial condition.	Applied analytical procedures to determine whether the percent of the General Fund total unassigned and assigned fund balances at June 30, 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, Public Education Capital Outlay (PECO) funds, and other restricted capital project 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.	Determined, on a test basis, 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.
Social security number requirements of Section 119.071(5)(a), Florida Statutes.	Examined supporting documentation to determine whether the District had provided individuals with a written statement as to the purpose of collecting their social security numbers.
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 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.
Bank account reconciliations.	Reviewed bank account reconciliations and other supporting documentation to determine whether the District timely performed the reconciliations.
Interim financial reports presented to Board.	Examined financial review and analysis presented to the Board to ensure they included comparisons of financial results with budget estimates.
Inventories.	Reviewed the District's controls over safeguarding 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.
Self-insurance for workers' compensation and employee health.	Reviewed District procedures for filing the group health self-insurance plan with the Office of Insurance Regulation. Also, reviewed District procedures to inform the third-party administrator of the eligibility of employees and dependents. Tested claims processed by third-party administrator.
Food service collection procedures.	Reviewed food service collection procedures and tested daily cash collections at selected schools to determine the effectiveness of the District's collection procedures.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Background screenings.	Determined, on a test basis, whether contractual personnel who had direct contact with students had been subjected to required fingerprinting and background checks.
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.	Determine whether the Board established a documented process for ensuring that differentiated pay for 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 and Deferred Retirement Option Program participants to determine appropriateness of terminal pay.
Bus drivers.	Determined whether District procedures were adequate to ensure that bus drivers were properly licensed and monitored.
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.
Rebate revenues.	Determined whether rebate revenues received from purchasing card and e-Payable programs were allocated to the appropriate District funds.
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.
Charter school fiscal viability.	Determine whether the District evaluated the charter school application for the fiscal viability of the charter school and the competency of the staff responsible for operating the charter school before the charter was granted using the FDOE evaluation instrument required by Section 1002.33(6)(b), Florida Statutes, and Section 6A-6.0786, Florida Administrative Code.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Charter school audits.	Reviewed the audit reports for District sponsored charter schools to determine whether the required audit was performed.
Charter school termination.	For charter schools that were not renewed or are terminated, reviewed District procedures to determine whether applicable funds and property appropriately reverted to the District, and that the District did not assume debts of the school or center, except as previously agreed upon by the District.
Charter school expedited review.	Reviewed District procedures to determine whether they were sufficient and appropriate to determine whether its charter schools were required to be subjected to an expedited review pursuant to Section 1002.345, Florida Statutes.
Construction processes.	Examined records and evaluated construction planning processes to determine whether processes were comprehensive, including consideration of restricted resources and other alternatives to ensure the most economical and effective approach, and met District short-term and long-term needs.
Construction contractor selection.	Tested selected construction project records to determine whether contractors were awarded construction projects in accordance with applicable laws and rules.
Insurance for architects and engineers.	Determined whether Board policies and procedures adequately addressed liability insurance requirements for architects and engineers.
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.
Consultant contracts.	Tested selected consultant contracts to determine compliance with competitive selection requirements, whether the District contracted with its employees for services provided beyond that provided in the salary contract contrary to Section 112.313, Florida Statutes, 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.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Virtual instruction programs (VIPs) 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.
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 the contracts with the providers contained provisions required by State law, including: (1) a method for resolving conflicts; (2) authorized reasons for contract terminations; (3) a requirement that the provider be responsible for all debts of the VIP should the contract be terminated or not renewed; and (4) 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, and data quality.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
VIP FDOE-approved contract fees.	Reviewed contract fee provisions and inquired as to how fees were determined.
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

SCHOOL BOARD

Julie B. Aranibar

Chair

Dave "Watchdog" Miner
Vice Chair

Karen Carpenter
Robert C. Gause
Barbara A. Harvey

SUPERINTENDENT

Rick W. Mills

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SCHOOL DISTRICT OF MANATEE COUNTY

December 20, 2013

David W. Martin, CPA
Auditor General
Room 476A; Claude Pepper Bldg.
111 West Madison Street
Tallahassee, Florida 32399-1450

Dear Mr. Martin:

Noted below are Manatee County District School Board's responses to the Auditor General's management letter for the 2012-2013 fiscal year operational audit. The new executive leadership team of the District is committed to the implementation of the recommendations to increase accountability, transparency and to promote effective and efficient operations throughout the District. In support of our commitment, we have attached a working copy of our detailed action plans.

Operational Finding No. 1: During the 2012-13 fiscal year, the District's General Fund total assigned and unassigned fund balance declined 109 percent from a deficit of $4,127,328 at June 30, 2012, to a deficit of $8,634,431 at June 30, 2013, representing a reduction of $4,507,103. Under these circumstances, the District has significantly less resources for emergencies and unforeseen situations than other school districts of comparable size.

Response:
13-1) The District initiated enhancements to the Position Control, Employee Requisition, and Payroll Encumbrance processes, and is developing a detailed quarterly budget review that assesses the District's financial progress in attaining the budgeted fund balance. First, the District is continually refining business process within JDEdwards Requisition module through inter-departmental meetings. Second, the District has implemented business process improvements related to JDEdwards position control (PC) module that limits the number of positions to those authorized pursuant to the staff allocation worksheets for the schools and district level positions approved by the School Board. Next, the District will further refine the JDEdwards process that encumbers the salaries and benefits for all hired positions. The District has created a trend report to perform a detailed analyses prior to adoption of the final budget by comparing the prior year actual expenditures to the current year budget by cost center to ensure all salaries, benefits, programs, and recurring expenses are included and reasonable. Additionally, the District will improve communications with the audit committee and the internal auditors. Finally, the District will create a process to adjust the detailed budgets at least four times per year by the newly hired budget director for additional programs, positions, or other changes that fiscally impact the budget that are approved by the School Board.

EXHIBIT B (Continued)
MANAGEMENT'S RESPONSE

These are examples of some of the specific action steps that will be taken (Action Plan pg. 1).

- Develop detailed written policies and procedures for developing and amending the annual budget (at least four times per year).
- Conduct monthly reviews of budget amendments (Complete).
- Refine budget amendment monthly reports to the board.
- Develop a four year trend report to use for the budget adoption and quarterly budget reviews by object and cost center.
- Streamline the employee requisition approval process so requisitions can be fully processed in three business days.
- Turn the active link on between the Requisition and the Position Control modules.
- Audit the employee payroll encumbrance process from the PO encumbrance process.

Finding No. 2: The District needed to enhance procedures to ensure timely bank account reconciliations.

Response:
13-2) The District has implemented a bank reconciliation schedule to ensure completion within 10 days of closing the month. The Director of Finance must review and sign-off on the reconciliation within 15 days of closing. Proper controls have been established to ensure that District bank accounts are reconciled timely with documentation evidencing completion of duties for responsible staff involved in the monthly closing process. These are examples of some of the specific action steps that were taken (Action Plan pg. 2).

- Accounting Manager will notify School Accounting Specialist when a month is closed (complete).
- School Accounting Specialist will complete reconciliation within 10 working days of Month End and forward to the Director of Finance (complete).
- Director will review reconciliation for accuracy and completeness and sign-off within 5 working days (complete).
- Bank reconciliations will be kept on file for review (complete).

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

Response:
13-3) The District will prepare written policies for the Board to adopt and operational procedures to address accounting and control procedures for EFTs, including the use of electronic signatures, to ensure EFT agreements are timely updated for changes in personnel and appropriately separate the duties of initiating and authorizing EFTs. These are examples of some of the specific action steps that will be taken (Action Plan pg. 3).

- Develop new EFT policies and procedures for Board Approval.
- Establish employees authorized for EFT transactions.

EXHIBIT B (Continued)
MANAGEMENT'S RESPONSE

Finding No. 4: Controls over food service collections could be improved.

Response:
13-4) The Food and Nutrition Services Department has developed a revised cash collection procedure. All site managers have been trained on the new procedure. During regularly scheduled supervisory reviews the supervisors of each school will monitor the implementation and provide corrective action as needed. These are examples of some of the specific action steps that were taken (Action Plan pg. 4).

- Review cash collection procedure to assure best practice processes are in place (complete).
- Review and revise procedure for voiding transactions (complete).
- Conduct training for managers on procedure and provide follow up training as needed (complete).

Finding No. 5: Controls over miscellaneous cash collections could be enhanced.

Response:
13-5) The District has modified procedures and enhanced controls over miscellaneous cash collections to ensure recordkeeping and cash receipting duties are appropriately separated and implemented the use of transfer documents to establish accountability for collections. These are examples of some of the specific action steps that were taken (Action Plan pg. 5).

- Update procedure for clerks initially receipting funds with log and receipts for over-the-counter collections (complete).
- Develop transfer logs for cash and checks from the person initiating the receipt or to clerk completing deposit (complete).
- Use transfer log from clerk preparing deposit to mail room for armored car pick-up (complete).

Finding No. 6: District records did not evidence that sales surtax proceeds were used only for authorized purposes, resulting in $4.1 million of questioned costs.

Response:
13-6) The Sales Tax resolution adopted by the Board specifically includes the "Implementation of technological hardware and software needs" as a use of surtax proceeds. As such, the District will work with the Department of Education to determine the legitimacy of using such proceeds on copier leases.

EXHIBIT B (Continued)
MANAGEMENT'S RESPONSE

Finding No. 7: District records did not evidence that ad valorem tax levy proceeds were used only for authorized purposes, resulting in $1.4 million of questioned costs.

Response:
13-7) The District will review documentation on questioned cost from fiscal year 2012-2013 to determine how much is allowable based on the Local Capital Millage advertisement. The District will also review the 2013-2014 budget to ensure all current charges are appropriate and are adequately documented. The District will develop additional procedures in establishing annual budgets to ensure compliance with expenditure requirements for future years. Expenditures that were not used appropriately will be reimbursed to the Capital Fund. These are examples of some of the specific action steps that will be taken (Action Plan pg. 7).

- Establish procedures to develop capital funds budgets in conjunction with the Facilities Work Program.
- After budget preparation, but before Board approval, budgets will be reviewed by Capital Accountant to ensure appropriateness of the amounts and lines of coding.
- Use appropriate funding source and reimburse Local Capital Millage for inappropriate cost.

Finding No. 8: District records did not evidence that Qualified School Construction Bond, State Board of Education Bond, Capital Outlay and Debt Service, and Public Education Capital Outlay proceeds were used for authorized purposes, resulting in $616,227, $196,861, $185,258, and $16,498, respectively, of questioned costs.

Response:
13-8) The District will review capital expenditures, bond resolutions, encumbrance authorization request, Project Priority List, and the School Plant Survey to determine if additional documentation is needed, if other projects can be identified that are eligible for the funds, if the Board will be allowed to change existing resolutions, or if a reimbursement of funds is required. The annual budget process will be modified to require additional subject matter experts to ensure all budgeted projects are aligned with spending limitations.

Any reimbursements to the noted funds will be made as appropriate funding sources are identified for these purposes. These are examples of some of the specific action steps that will be taken (Action Plan pg. 8).

- Monthly financial and budget reviews of capital funds.
- Identify other Capital Funds that would be allowable for the questioned expenditures.
- Work with bond financial advisors to determine impact on Certificates of Participation.
- Establish procedures to develop capital funds budgets in conjunction with the Facilities Work Program
- After budget preparation, but before Board approval, budgets will be reviewed by Capital Accountant to ensure appropriateness of amounts and lines of coding.
- If needed develop Payment Plan Schedule with Florida Department of Education.

EXHIBIT B (Continued)
MANAGEMENT'S RESPONSE

Finding No. 9: The District retained $728,815 of a 2008-09 fiscal year Public Education Capital Outlay appropriation that was subject to reversion to the State.

Response:
13-9) The District will work with the Florida Department of Education, Office of Educational Facilities to determine if projects paid by other funds are eligible for PECO funds, and if so can the expenditures be transferred in lieu of reverting funds to the State. These are examples of some of the specific action steps that will be taken (Action Plan pg. 9).

- Provide revised Encumbrance authorization forms to Office off Educational Facilities.
- Establish Monthly financial and budget reviews of capital funds with Director of Finance.
- Establish procedures to develop capital funds budgets in conjunction with the Facilities Work Program.
- After budget preparation, but before Board approval, budgets will be reviewed by Capital Accountant to ensure appropriateness of amounts and validate the lines of coding.
- If needed develop Payment Plan Schedule with Florida Department of Education.

Finding No. 10: 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.

Response:
13-10) The district will implement a documented process for identifying instructional personnel and school administrators for differentiated pay using the factors prescribed in Section 1012.22(1)(c)4.b, Florida Statues. These are examples of some of the specific action steps that will be taken (Action Plan pg. 10).

- Determine criteria (i.e. school demographics, critical shortage areas, job performance difficulties, etc.).
- Include proposals in contract negotiations for differentiated pay for instructional staff based on criteria set.
- Draft proposal for differentiated pay for school administrators.
- Present the proposal to the Board for approval.

EXHIBIT B (Continued)
MANAGEMENT'S RESPONSE

Finding No. 11: Controls over terminal leave payments needed enhancement.

Response:
13-11) The District has implemented proper terminal pay calculations that comply with Statute and appropriate controls to ensure compliance to avoid overpayment of terminal pay. A list of employees overpaid, with amounts, in 2012-2013 will be presented to the Board for final disposition. These are examples of some of the specific action steps that will be taken (Action Plan pg. 11).

- Review current policy and procedures that include terminal vacation (complete).
- Document system steps to determine amount of terminal paid to date.
- Create a job aid and update policy and procedures to stop over payments associate.
- Have all terminal pay signed off by a Senior Payroll Specialist or Payroll Manager prior to final process (complete).
- Train Payroll Department on the new terminal payment process (complete).
- Determine balance overpaid and report to Board for collection action steps

Finding No. 12: The District classified one worker as an independent contractor rather than a District employee, although the worker appears to be an employee based on Internal Revenue Service guidelines.

Response:
13-12) The consultant contract in question ended on October 31, 2013 and was not renewed or extended. A full-time employee was hired through the district's formal hiring process to replace the consultant. There are several proposed procedures for the district to hire former employees as consultants in the future, including (Action Plan pg. 12).

- Having all consultant contracts vetted through a formal request for proposal (RFP) process.
- Implement a 90-day grace period for all former SDMC employees before they can be hired by the SDMC as a consultant/contractor.
- Consultants and contractors will be afforded no formal office space in any SDMC facility.
- Consultants and contractors will also have no access to SDMC computer and/or telecommunications or mobile communications systems and equipment.
- Consultants and contractors will have no access to the SDMC First Class email system.

EXHIBIT B (Continued)
MANAGEMENT'S RESPONSE

Finding No. 13: Controls over monitoring school bus drivers could be enhanced.

Response:
13-13) The Transportation Safety team is now reviewing Department of Motor Vehicle (DMV) records for all bus drivers in July and January. In addition, safety officers are receiving a weekly report from DMV when any change is made to the driver's license of any school bus driver. These weekly reports are reviewed and any changes are noted on the driver's personnel record. Any drivers with invalid license will not be permitted to operate a bus until proper documentation is presented demonstrating valid licensure. These are examples of some of the specific action steps that were taken (Action Plan pg. 13).

- Any changes to Driver's License status will be reviewed weekly by Frank Giles and noted in employee's file (complete).
- Safety team will review change reports and cross check with employee database to ensure all licenses are current (complete).
- Any discrepancies will be addressed with the bus operator and noted in the personnel file (complete).
- Any driver with invalid license will be unassigned from active bus duty unless corrected (complete).
- Employees with invalid license will not be allowed to operate school bus (complete).

Finding No. 14: The District did not timely obtain required background screenings for certain instructional and non-instructional contracted workers.

Response:
13-14) The District has enhanced its procedures for ensuring that required background screenings are performed for instructional and non-instructional contractors. On April 15, 2012 the district fully implemented changes requiring all contractors/vendors to undergo Level 2 screening which is monitored through the Human Resources Department. Once cleared by Human Resources, contractors/vendors are issued a badge which clearly displaces the date of expiration. In addition, an internal audit was completed of the District's Jessica Lunsford Act (JLA) compliance. These are examples of some of the specific action steps that will be taken (Action Plan pg. 14).

- Internal Audit of JLA procedures which indicate compliance (complete).
- Review Established Maintenance/tracking procedures of timely screenings.
- Increase communication to all sites through written correspondence.
- Establish a Point of Contact and communicate to sites.
- Create and Supply posters to all sites to display prominently summarizing JLA compliance.

EXHIBIT B (Continued)
MANAGEMENT'S RESPONSE

Finding No. 15: The District did not allocate E-payable and purchasing card program rebates generated by restricted resources to the appropriate District funds.

Response:
13-15) This issue is a state-wide concern noted in many District reports as a new finding. No direction on resolution has been provided from the Florida Department of Education, and the District has not determined that this proposed allocation is required or necessary. The District will continue to monitor direction from the FLDOE in this matter. If allowable, the District plans to allocate rebates received in order to offset or reduce expenditure items allocable to restricted funds as direct or indirect costs. These are examples of some of the specific action steps that will be taken (Action Plan pg. 15).

- Track receipt of rebates from financial institutions for purchasing cards and E-payable programs.
- If necessary, determine offset of rebates allocable to restricted funds.
- Establish additional procedures for fiscal year-end closeout to ensure rebates have been allocated to restricted funds.

Finding No. 16: Controls over the competitive selection of certain professional services could be enhanced.

Response:
13-16) Although the Board initiated competitive selection processes for a Board Attorney, an internal accounts auditor, and internal audit services; a forensic audit report from Navigant Consulting Inc., and a report from the Florida Association of District School Superintendents raised concerns with the Board to the point of following allowed exemptions to the selection process and directly selecting the firms with which to contract. Discussions were held at the Board meeting on how to proceed with the selection. In the future, if the Board so chooses to contract similar services through the exemption from the competitive selection process, it will provide documentation that clearly states why not using a competitive selection process is more advantageous to the District for items clearly allowed such exemptions.

Finding No. 17: Controls over contractual payment processing needed to be enhanced.

Response:
13-17) This summary of action is for all district departments that acquire goods and services. Procedures are in place to review receipts prior to payment. Procedures will be reduced to writing to assist staff with the process. These are examples of some of the specific action steps that will be taken (Action Plan pg. 17).

- The Maintenance & Operations Department personnel will collaborate with purchasing personnel on payment rates and fees, and questionable invoices from vendors. The Maintenance personnel will identify areas of opportunity for checks and balances, and will reduce to writing the procedures for best practices. Maintenance Personnel will elicit Purchasing's assistance for any possible recovery of overpayment, as appropriate.

EXHIBIT B (Continued)
MANAGEMENT'S RESPONSE

- In January 2014, Maintenance will identify areas of opportunity for checks and balances. Employees will use written procedures regarding appropriate invoice payment to verify satisfactory receipt of goods and services as agreed upon in Board approved contracts.
- In December 2013, Maintenance & Operations reduced to writing the procedures for Contractual Services.

  Additional Procedure to confirm satisfactory receipt of goods and services at agreed upon rates prior to payment.
- Supervisor or designee meets with purchasing agent to determine the parameters/specification of a bid for contracted services to establish bid requirements.
- Supervisor or designee meets with purchasing agent for opening of submitted bids for contracted services to select the vendor(s) who meet the requirements of the bid request.
- Submit agenda item for contracted services for Board approval to establish a legal agreement between the District and vendor(s).
- Utilize only those selected Board approved vendors.
- Review each proposal from the vendor for contracted services to ensure they are abiding by the requirements of Board approved bid specifications.
- Review each invoice submitted by the vendor to confirm satisfactory receipt of goods and services at agreed upon rates prior to approval for payment.
- Purpose to confirm satisfactory receipt of goods and services at agreed upon rates prior to payment.

Finding No. 18: District records did not evidence the basis upon which the District allowed employees of a former direct-support organization to participate in the Florida Retirement System and the District's health insurance programs.

Response: (13-18): This finding has been resolved as of November 29, 2013. The following action steps occurred:

- On June 26, 2013, the MEF relocated out of District facilities (complete).
- Effective November 29, 2013, all MEF employees were removed from the District's health care and the District's access to the Florida Retirement System (complete).

EXHIBIT B (Continued)
MANAGEMENT'S RESPONSE

Finding No. 19: Controls over facilities construction and maintenance activities could be enhanced.

Response:
13-19) This finding is essentially three parts: Long-Range Planning, Construction Delivery Method Evaluation and Goal Setting/Measurement for Department Personnel. These are examples of some of the specific action steps that will be taken (Action Plan pg. 19).

- Long Range Planning: The District has established a Capital Projects Committee. A "Kick-Off" meeting was held on 10/16/13 to begin creating a long-range facilities planning committee. It is currently comprised of district staff and will continue to meet to assist the District in identifying long-range capital needs. Other stakeholders will be included as the committee evolves and vacant district positions are filled. This committee will work toward having Facility Assessments completed and recommendations/priorities established based on data. This data will be included in the preparation of the District's 5-Year Capital Plan.
- Construction Delivery Method Evaluation: In January, DCP will provide an Executive Summary on the current delivery method, including current policy language. We will also identify areas that will require action/cost if the current delivery method is changed. For example, policy will need to be changed, contracts will need to be created, procedures will need to be established, and staff will need to be increased to provide proper oversight. Based on the outcomes, a Board Workshop on this topic may be necessary.
- Maintenance Delivery Method Evaluation: In January 2014, Maintenance Department will evaluate practices for the delivery of work. Current practices will be reviewed based on employee availability, employee expertise, type of work and or scope of work, and time lines associated with the jobs or tasks that may fall into this category. Procedural changes, if necessary, will be reduced to writing. In addition, we will also work with the Purchasing Department personnel to share the requirements or needs regarding service acquisition.
- Goal Setting/Measurement for Department Personnel: In January, DCP will provide an Executive Summary on the current DCP Mission, Vision and Goals. DCP and Maintenance will identify areas requiring evaluation and options for cost-effectiveness and efficiency outcomes for department personnel. These will be reviewed with the Deputy Superintendent for further action required.
- Goal Setting/Measurement for Maintenance Department Personnel: In January, the Maintenance & Operations Department will provide an Executive Summary on the current mission, vision and goals. The department intends to utilize the work order system to review self-performing work such as: time on task, supplies cost, payroll cost, and time to complete job. Based on the information obtained from the work order system review and payroll information connected to work orders, the Department will utilize this data to determine the best practice to deliver services in the District. The review will assist the department in revising, if needed, the mission, vision and goals.

EXHIBIT B (Continued)
MANAGEMENT'S RESPONSE

Finding No. 20: Controls could be enhanced to ensure compliance with Section 119.071(5)(a), Florida Statutes, regarding notifying individuals of the need for and use of social security numbers.

Response:
13-20) Effective controls have been put into place to properly monitor and inform employees and prospective employees the need for and use of social security numbers to ensure compliance with statutory requirements in order to reduce the risk that social security numbers may be used for unauthorized purposes. These are examples of some of the specific action steps that will be taken (Action Plan pg. 20).

- Paperless Application Tracking System (PATS) has been programmed to notify applicants why social security numbers are being requested (complete).
- Code of Conduct will be revised to include documentation explaining why social security numbers are being requested for students.
- The payroll department will conduct quarterly audits.
- Quarterly the payroll department will remind principals of our obligation to keep student social security numbers secure.

Finding No. 21: Controls over workers' compensation claims expenses could be enhanced.

Response:
13-21) The District will establish procedures to perform a periodic audit of TPA claim payments with a suggested sampling size of 20 claims. Services of a qualified professional audit service will be used to measure the Third Party Administrator's compliance with claim handling best practices. The expectations of the Statement of Work include the following factors: Approach, Supervision, Coverage, Notice/Assignment, Contact, Investigation, Reserving, Disability Management, Medical Management, Medical Cost Containment, Recovery, Litigation Management, Data Management, Claim Resolution, and Adherence to special account instructions or departmental policies and procedures. These are examples of some of the specific action steps that will be taken (Action Plan pg. 21).

- Secure quotes for a 20 workers compensation claim audit (complete).
- Initiate Corrective Action if findings are noted.
- Obtain approval and Initiate Professional Services Contract with provider
- Provide ongoing assistance to Shinn and Company for the audit of procedures as described.

EXHIBIT B (Continued)
MANAGEMENT'S RESPONSE

Finding No. 22: The workers' compensation, property, and general liability self-insurance plan had an ending deficit net position balance of $1.7 million at June 30, 2013, resulting in significantly less resources for emergencies and unforeseen situations of the self-insurance plan.

Response:
13-22) As of June 30, 2013, the Workers' Compensation fund deficit was reduced over $600k to ($1.7 million). Services of a professional actuary were retained to provide an in-depth analysis of all open claims for all years. This professional actuarial analysis included expense projections for the 2013-2014 fiscal year based on anticipated claim activity as well as the projected expenses associated with open claims that occurred in prior years with costs incurred and paid in 2013-2014 fiscal year. This information and the related funding recommendations were used to determine appropriate budget allocation funds which were consequently approved and funded for the 2013-2014 Fiscal Year. The actuarial services also provided projections of required funding for the 2014-2015 and 2015-2016 fiscal years. In the coming years this information will be updated in an annual actuarial review. Based on actual experience and with considerations and validations of assumed trend, future recommendations will be made to guide the necessary funding and budget recommendation. Based on the current projections and trend outcomes, and provided that future year's funding is provided as recommended, the current actuarial projection indicates that the deficit will be overcome and a positive balance in the fund will be generated by the end of fiscal year June 30, 2016. These are examples of some of the specific action steps that will be taken (Action Plan pg. 22).

- Monitor 2013-2014 Fund Year Claim Expense and compare to actuarial based trend (for current and 2 future fiscal years).
- Secure updated actuarial analysis to confirm 2014-2015 funding requirements with subsequent approval of budgeted revenue.
- Monitor 2014-2015 Fund Claim Expense and compare to actuarial based trend.
- Secure updated actuarial analysis to confirm 2015-2016 funding requirements with subsequent approval of budgeted revenue.
- Monitor 2015- 2016 Fund Claim Expense and compare to actuarial based trend for current fiscal year.
- Confirm Fund Surplus, or initiate further corrective action if needed, for Fiscal Year beginning July 1, 2016.
- Create a payment plan that generates a positive fund balance by June 30, 2016.

EXHIBIT B (Continued)
MANAGEMENT'S RESPONSE

Finding No. 23: 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.

Response:
13-23) This finding has been corrected, with action taken by the District. The adult general education audit findings are based on a student data system that since the start of the 2013-2014 school year is no longer being used in Manatee County. We are continuing to implement a new postsecondary student data system from FOCUS School Software that will advance effective student data reporting practices and procedures to ensure compliance with the Florida Department of Education data reporting calendar in accordance with FLDOE's instructional hours reporting procedures.

Not only are we addressing the adult education audit finding, but we are enhancing all of the postsecondary MTI student data reporting practices and procedures. Our goal is to be 100% compliant this school year with all postsecondary data reporting. The first survey period (F) that ended September 30, 2013 was 100% accurate. A detailed action plan has been implemented to ensure success this school year and beyond. These are examples of some of the specific action steps that were taken (Action Plan pg. 23).

- Continue to monitor the new FOCUS Schools Software student data system for effective student data reporting (complete and current).
- Survey Team and the Florida Department of Education reviewed Survey F's reporting, data and areas of success and concerns (complete).

Finding No. 24: Controls over virtual instruction program (VIP) operations and related activities could be enhanced by developing and maintaining comprehensive, written VIP policies and procedures.

Response:
13-24) The District will revise all district virtual program policies and procedures including those in the Student Progression Plan to incorporate the new legislation and recommendations from the FLDOE. Information for students and parents will be included on the district website. These are examples of some of the specific action steps that will be taken (Action Plan pg. 24).

- Research new legislation related to virtual educational program.
- Contact with other districts to review their policies and procedures.
- Work with the FLDOE contact for virtual education to review and revise the current district policies and procedures to enhance the effectiveness of the VIP operations. The proposed policies will be submitted for School Board approval through the APA process. Once approved, the policies and procedures will be shared with students, parents, guidance counselors, administrators, and others at each school and be posted on the district website.

EXHIBIT B (Continued)
MANAGEMENT'S RESPONSE

Finding No. 25: VIP provider contracts were deficient in that contracts did not include all provisions required by State law.

Response:
13-25) The District will develop comprehensive, written VIP policies and procedures for requesting and securing contracts with any virtual providers. Virtual providers will be required to sign an assurance document indicating that they will meet compliance with district expectations. All providers will be monitored for compliance with district policies and procedures. These are examples of some of the specific action steps that will be taken (Action Plan pg. 25).

- The District Support Team will work with the FLDOE as well as other school districts to research contract requirements for the virtual education providers.
- The District will develop an assurance document to accompany each contract to ensure vendors are meeting the requirements of statute.
- The District will only contract with State Approved Virtual Education Providers who meet all the assurances indicated in statute.

Finding No. 26: Procedural enhancements were needed to ensure that the required number of VIP options is offered.

Response:
13-26) The district will release a request for proposal from the approved Florida providers. A district team will review the VIP providers and make a recommendation to meet the minimum number of VIP options required by statute. These are examples of some of the specific action steps that will be taken (Action Plan pg. 26).

- Currently, the district is offering three virtual programs at middle and high school and two virtual options at the elementary level. The State of Florida requires three options at all grade levels. In order to secure three providers at each grade level, the District Support Team will work with the Purchasing Department to develop a request for proposal for the additional virtual program needed.
- The District will only consider providers that are approved by FLDOE.
- Once the request for proposal is submitted, the district will convene a review team to analyze the components of each virtual program submitted and recommend the third provider for our district.
- The district will move forward to contract with the provider so that students may enroll in these options for the 2014-2015 school year.

EXHIBIT B (Continued)
MANAGEMENT'S RESPONSE

Finding No. 27: District records did not evidence that timely written notifications were provided to parents about student opportunities to participate in VIPs and the dates of the open enrollment periods.

Response:
13-27) The District will develop an annual communication plan to notify students and their parents of district VIP opportunities and the dates of open enrollment periods. These are examples of some of the specific action steps that will be taken (Action Plan pg. 27).

- The District Support Team will use the revised VIP policies and procedures that incorporate the new legislation to develop a communication plan with timelines for the district. The communication plan will include:
  - Enrollment procedures and windows for VIP Programs,
  - Student eligibility requirements,
  - Open house events for students and parents to learn more about the VIP options,
  - Flyers and information for schools to share with students and parents,
  - Newsletter information for schools,
  - Press release timeline for important events, and School Fairs.

Finding No. 28: District records did not evidence that required background screenings were performed for VIP employees and contracted personnel.

Response:
13-28) The District will revise the district VIP policies and procedures including those in the Student Progression Plan. Background screenings for VIP teachers and contracted personnel will be monitored for compliance with Florida Statute. These are examples of some of the specific action steps that will be taken (Action Plan pg. 28).

- The District Support Team will develop a checklist and timeline for monitoring background screenings for all VIP provider employees and contracted personnel.
- Documentation will be maintained on required background screenings for all teachers, long term substitutes and others who are working with our students.
- Incorporate requirements into the revisions of the School Board policies and procedures.

EXHIBIT B (Continued)
MANAGEMENT'S RESPONSE

Finding No. 29: The District's procedures did not always require written documented verification that VIP students complied with compulsory attendance requirements.

Response:
13-29) The district will revise the district VIP policies and procedures including those in the Student Progression Plan to include procedures for documenting student attendance and consequences for not meeting district attendance policies. These are examples of some of the specific action steps that will be taken (Action Plan pg. 29).

- The District Support Team will work with FLDOE to identify legislative and department requirements for compulsory attendance on virtual programs.
- The Team will request attendance policies from other districts and develop requirements that will be included in the District Student Progression Plan.
- Once adopted, these requirements will be included in all policies and procedures and shared with students and parents.
- Attendance will be recorded in FOCUS and monitored monthly.

Finding No. 30: The District had not established procedures to document that VIP students received necessary VIP instructional materials. In addition, procedures needed to be enhanced to ensure that VIP students and their parents are notified about the availability of computing resources and that qualified VIP students are provided computing resources.

Response:
13-30) The district will revise the district VIP policies and procedures including those in the Student Progression Plan. The district will monitor student enrollment and the delivery/receipt of instructional materials and any computing resources. These are examples of some of the specific action steps that will be taken (Action Plan pg. 30).

- The District Support Team will revise the VIP policies to include procedures to ensure that students receive the necessary instructional materials and computing resources for eligible.
- The Team will monitor and ensure that instructional materials and any computing resources are sent by the VIP provider as soon as the student is registered for a course.
- The Team will follow up to secure documentation that the student received the materials.

EXHIBIT B (Continued)
MANAGEMENT'S RESPONSE

Finding No. 31: Some inappropriate or unnecessary information technology (IT) access privileges existed.

Response:
13-31) This issue has been resolved during the 2013-14 school year. This was accomplished through several specific action steps (Action Plan pg. 31).

- The district developed roles-based access controls (RBAC)for all Manatee Business World (MBW) credentials.
- Instituted RBAC with MBW upgrade to terminate "employee" based access.
- Implemented process for temporary access after a 24 hour period.
- RBAC decoupled System Instance for production and testing environment.

Finding No. 32: The District had not developed a written IT security incident response plan.

Response:
13-32) The District will craft an initial security incident response plan leveraging industry best practices, communicate, and evaluate its effectiveness. These are examples of some of the specific action steps that will be taken (Action Plan pg. 32).

- Determine risk of incident types most likely to occur.
- Form Computer System Incident Response Team (SCIRT).
- Define policy for incident handling.
- Obtain executive management support and buy-in to the changes.
- Design the CSIRT vision and operational plan for the District then communicate to stakeholders.
- Build the CSIRT strategic plan using appropriate stakeholders and communicate to stakeholders.
- Continually evaluate CSIRT effectiveness and make necessary modifications as needed.

EXHIBIT B (Continued)
MANAGEMENT'S RESPONSE

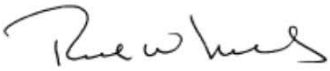
Finding No. 33: District IT security controls related to user authentication, data loss prevention, information security program development, and monitoring of system activity needed improvement.

Response:
13-33) Certain actions have already been implemented which remediate part of this audit finding. That includes beginning the implementation of Data Loss Prevention and Enterprise Computer Information System Security Practices, Policies and Procedures. In addition, these are examples of some of the additional specific action steps that will be taken (Action Plan pgs. 33-34).

- Develop requirements and implementation plan to enact and enforce strong Active Directory (AD) credentials.
- Institute AD credentials uplift to staff accounts.
- Complete AD Consolidation Project to bring all Staff/Students into a single AD instance applying the credential process.
- Develop list of most sensitive data that requires specialized levels of protection (I.e. SSN, PR, HIPPA)
- Develop taxonomy and methodology for identifying most sensitive data (I.e. Sensitive, Confidential)
- Develop, implement and test solution for protection of most sensitive data requires specialized level of protection based on the data loss protection plan.

We appreciate the professionalism and courtesy of the audit staff throughout the process. Please feel free to contact Michael Boyer, CFO at (941) 708-8770 extension 2110 if you have any questions.

Sincerely,



Rick W. Mills, Superintendent
Manatee County School District