REPORT NO. 2015-090
JANUARY 2015

PALM BEACH COUNTY

DISTRICT SCHOOL BOARD

Operational Audit

STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD MEMBERS AND SUPERINTENDENT

Board members and the Superintendent who served during the 2013-14 fiscal year are listed below:

	District No.
Mike Murgio	1
Chuck Shaw, Chair	2
Karen M. Brill	3
Jennifer Prior Brown, Esq.	4
Frank A. Barbieri, Jr., Esq.,Vice Chair from 11-19-13	5
Marcia Andrews	6
Dr. Debra Robinson, Vice Chair to 11-18-13	7

E. Wayne Gent, Superintendent

The audit team leader was Clare Waters, CPA, and the audit was supervised by Diana G. Garza, CPA. Please address inquiries regarding this report to Douglas R. Conner, CPA, Audit Manager, by e-mail at dougconner@aud.state.fl.us or by telephone at (850) 412-2730.

This report and other reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 412-2722; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

PALM BEACH COUNTY

District School Board

EXECUTIVE SUMMARY

Our operational audit disclosed the following:

CASH CONTROLS

Finding No. 1: Controls over electronic funds transfers could be enhanced.

PERSONNEL AND PAYROLL

Finding No. 2: Controls over monitoring school bus drivers could be improved.

PROCUREMENT

Finding No. 3: Controls over the procurement of computer hardware could be enhanced.

Finding No. 4: Procurement procedures could be enhanced to provide for routine review of required statements of financial interests for consideration in making procurement decisions.

Finding No. 5: Controls over the use of purchasing cards could be strengthened.

FACILITY SAFETY

Finding No. 6: The District did not always timely correct deficiencies identified by annual facility inspections.

AUDITS

Finding No. 7: The District could enhance the timeliness of its school internal funds audits.

ADULT GENERAL EDUCATION

Finding No. 8: Improvements were needed in controls over the reporting of instructional contact hours for adult general education classes to the Florida Department of Education.

VIRTUAL INSTRUCTION PROGRAM

Finding No. 9: Controls over virtual instruction program (VIP) operations and related activities could be enhanced by developing and maintaining comprehensive, written procedures.

Finding No. 10: VIP provider contracts did not include certain necessary or legally required provisions.

Finding No. 11: District records did not evidence that timely, written notifications were provided to parents about VIP options offered and open enrollment period dates.

INFORMATION TECHNOLOGY

Finding No. 12: District information technology security controls related to data loss prevention needed improvement.

BACKGROUND

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

During the 2013-14 fiscal year, the District operated 186 elementary, middle, high, and specialized schools; sponsored 47 charter schools; and reported 180,172 unweighted full-time equivalent students.

FINDINGS AND RECOMMENDATIONS

Cash Controls

Finding No. 1: 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 the 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 2013-14 fiscal year, the District regularly used EFTs to transfer funds between its bank accounts and to make EFTs for direct deposit for employee pay and other payroll-related activities, such as taxes withheld and matching contributions, and Florida Retirement System contributions. According to District records, cash and cash equivalents and investments, totaling $578 million, were available for electronic transfer at June 30, 2014. The Board established bank and investment agreements to provide services, such as EFTs.

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 for EFTs, including the use of electronic signatures, contrary to Section 1010.11 and Chapter 668, Florida Statutes. District personnel indicated that they were in the process of revising the District's investment and cash management policy to include provisions that address EFTs and the use of electronic signatures.

Although 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 increases the risk that electronic transactions will not be executed in accordance with Board directives and the provisions of Chapter 668, Florida Statutes.

Recommendation: The Board should adopt written policies and procedures to address accounting and control procedures for EFTs, including the use of electronic signatures.

Personnel and Payroll

Finding No. 2: 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 initial employment and the first day of the fall semester, and thereafter using automated weekly updates. Also, the District implemented safe driver standards and a point system for driving citations and preventable vehicle accidents that requires administrative actions against drivers, ranging from verbal warnings to employment termination, based on the points accumulated.

In addition, Board policy requires that school bus drivers have certain minimum qualifications, such as maintaining the required driver's license and medical certificate. The policy further requires that bus drivers who have license suspensions to self-report these to the Director of Transportation, and District personnel are responsible for reviewing weekly reports provided by the FDHSMV, identifying employees with license suspensions and citations, and ensuring those without the minimum qualifications are prohibited from driving District vehicles.

During the 2013-14 fiscal year, the District employed 718 school bus drivers. While District records indicated that monitoring procedures over school bus drivers were generally adequate, our review disclosed that the procedures could be improved, as follows:

- Our comparison of District records to the FDHSMV records disclosed that 29 bus drivers had license suspensions during the 2013-14 fiscal year for various reasons, such as expired medical certifications and failure to pay driving citations, and drove regularly scheduled bus routes, ranging from one driver who drove two days with a suspended license to one driver who drove seven months with a suspended license. District personnel indicated that permitting these drivers to operate school buses with suspended licenses resulted from oversights.
- Our test of District records for 30 bus drivers disclosed 3 bus drivers who received driving citations that should have resulted in points assessed or other types of disciplinary actions; however, District records did not evidence any actions against the 3 bus drivers. Also, the District assessed points on the driving records of 2 other bus drivers tested who were in preventable accidents while driving school buses; however, District records did not evidence that the drivers received warnings or reprimands, contrary to the District's safe driver standards and point system. District personnel indicated that errors in administering the safe driver standards and point system occurred because review procedures were not in place to ensure that assessed points are appropriately recorded and accumulated against bus drivers who receive driving citations or are responsible for preventable vehicle accidents.

To promote school bus safety and to reduce the risk of accidents caused by school bus drivers, it is important that District personnel appropriately monitor bus driver history records, and ensure that drivers meet the requirements to operate school buses and appropriate disciplinary action against drivers is taken and documented for driving citations and preventable vehicle accidents.

Recommendation: The District should enhance its procedures to ensure that school bus drivers are appropriately licensed to operate school buses and that appropriate disciplinary action against drivers is taken and documented for driving citations and preventable vehicle accidents.

Procurement

Finding No. 3: Computer Hardware Purchases

SBE Rule 6A-1.012(14), FAC, provides that the District may acquire information technology, such as computers, through the competitive solicitation process or by direct negotiation and contract with a provider as best fits the District's needs determined by the Board. Also, SBE Rule 6A-1.012(6), FAC, provides that in lieu of requesting competitive solicitations from three or more sources, the District may make purchases at or below the specified prices from contracts awarded by a college, school district, or other governmental entity, when the proposer awarded a contract by the other governmental entity permits purchases by the District at the same terms, conditions, and prices (or below such prices) awarded in such contract, and the purchases are to the District's economic advantage. Good business practice dictates that the selection and purchase of computer hardware include considerations of the costs in relation to user needs, and effective procurement procedures serve to increase public confidence in the procurement process.

The District established a technology advisory committee to provide the Board guidance regarding purchases of information technology, such as computer hardware and software, and consultant and training services. The District also established a computer-based testing taskforce to count the computers at each school and assess how many would be

needed for student testing purposes. District personnel indicated that, during the 2012 calendar year, the taskforce determined that the District needed to obtain approximately 25,000 additional computers for testing purposes and the technology advisory committee considered various options for acquiring the computers such as from a State college contract or vendor quotes, or by leasing the computers.

District personnel further indicated that a computer vendor offered to donate various quantities of computers and related equipment valued up to $7 million to the District if the District purchased similar type equipment up to a total of $12 million from the vendor. District personnel indicated, after consideration of various options, the technology advisory committee recommended, and the Board approved, the vendor's offer in October 2012. As of June 2014, the vendor had provided the District over 26,000 laptop and desktop computers and various other computer-related equipment at a total value of $17.45 million, including vendor donated equipment valued at $6.8 million and equipment costing $11.05 million paid by the District.

It was apparent that District personnel attempted to obtain information upon which to make this procurement decision, and the District's decision to contract with the computer vendor may, in fact, have been more advantageous than procuring the computer equipment from another vendor. However, District records provided for our review did not include current cost estimates for the computer equipment donations and purchases to be used in its direct negotiations with the vendor. Given the computer acquisition arrangement involving donated and purchased equipment, utilizing independently developed cost estimates for the desired equipment would have provided more complete evidence upon which to negotiate for this procurement and to demonstrate that this was the District's most economically advantageous option for obtaining the computer equipment.

Recommendation: The District should enhance its procedures to ensure, for future computer hardware purchases, that District records clearly demonstrate that such purchases are made at the lowest price consistent with desired quality.

Finding No. 4: Purchasing Procedures

Board-adopted policies prohibit conflicts of interest and the District had certain procedures to reduce the risk of contractual relationships that cause conflicts of interest. For example, the District requires Purchasing Department employees, employees involved in developing the scope of services for requests for proposals, employees evaluating responses to requests for proposals, and public officials serving on District advisory boards to disclose conflicts of interest.

The Superintendent, Board members, Purchasing Department employees, and four other employees were required to file a statement of financial interests pursuant to Section 112.3145, Florida Statutes. However, these statements of financial interests were not provided to the Purchasing Department for review. Providing for routine review of required statements of financial interests by the Purchasing Department would enhance the District's procurement practices and reduce the risk of questioned procurement transactions or contractual obligations.

Recommendation: The District should provide for routine review of required statements of financial interests by its Purchasing Department for consideration in making procurement decisions.

Finding No. 5: Purchasing Cards

To expedite the purchase of selected goods and services, the District used purchasing cards (P-cards). Purchases made with P-cards are subject to the same rules and regulations that apply to other District purchases and are subject to additional P-card guidelines. The District assigned P-cards to 893 employees, and incurred $14.1 million in P-card expenditures during the 2013-14 fiscal year. District procedures provide that when cardholders terminate employment with the District,

cardholders must contact the P-card administrator and return their card to their site administrator for shredding. Also, site administrators are responsible for emailing the P-card administrator when a card needs to be cancelled.

During the 2013-14 fiscal year, 20 P-cardholders terminated District employment; however, the District did not cancel cards assigned to 8 of these employees until 5 to 55 days after the cardholders' termination dates. District personnel indicated that the untimely cancellations occurred because the P-card administrator was not always timely notified of the employee terminations. District personnel also indicated that procedures were being implemented to identify employees who terminated or are on extended leave to ensure timely cancellation of P-cards in the future. While the P-cards of the 8 former employees were not used after the employment termination dates, untimely cancellation of P-cards increases the risk of unauthorized use. A similar finding was noted in our report No. 2011-168.

Recommendation: The District should enhance its controls to ensure that P-cards assigned to former employees are timely cancelled.

Facility Safety

Finding No. 6: Annual Facility Inspections

Section 1013.12, Florida Statutes, and the Florida Department of Education (FDOE) publication *State Requirements for Educational Facilities – 2012 (SREF)*, Section 4.4, require that the District annually provide for an inspection of each educational and ancillary plant to determine compliance with standards of sanitation and casualty safety prescribed in SBE rules. In addition, the *SREF*, Section 5, requires annual fire safety inspections of District facilities by persons certified by the Division of State Fire Marshal.

During the 2013-14 fiscal year, the District provided for the required inspections and the inspector reports identified 2,898 facility deficiencies, of which 529 remained uncorrected from previous fiscal years. Of the deficiencies that remained uncorrected, 91 were classified as serious life safety hazards that remained uncorrected from 1 to 16 years. Examples of the deficiencies included insufficient secondary exits (cited 16 years) and drama class use of combustible materials (cited 14 years). Although District personnel indicated that they drafted a corrective action plan to address the deficiencies cited, failure to timely correct deficiencies results in an increased risk that facilities could become unsafe for occupancy and could result in additional costs in the future. Similar findings were noted in our report Nos. 2008-156 and 2011-168.

Recommendation: The District should continue its efforts to ensure the timely correction of facility deficiencies.

Audits

Finding No. 7: Audits - School Internal Funds

School internal funds provide an accounting for various school club and class activities. SBE Rule 6A 1.087, FAC, requires an annual audit of the school internal funds by a certified public accountant or qualified internal auditing staff employed by the Board. Pursuant to Section 218.39, Florida Statutes, the District must provide for an audit of its financial statements, to be completed within nine months after fiscal year end. The school internal funds are an integral part of the District's financial reporting entity and the school internal funds audits, if timely completed, can be considered in completing the audit of the District's financial statements.

The Board had not established a due date for completion of the school internal funds audit. Fieldwork for the 2012-13 fiscal year school internal funds audit was not completed until August 22, 2014, and the audit report was not finalized and presented to the Board until December 17, 2014, which is over 17 months after fiscal year end.

While various control deficiencies of school internal funds identified during the course of the 2012-13 fiscal year school internal funds audit were communicated to applicable school personnel, earlier completion of the school internal funds audit report would enhance the relevance and usefulness of such reports by the Board and other financial statement users, and would allow for the school internal funds audit to be considered in completing the audit of the District's financial statements.

Recommendation: The Board should establish a due date for completion of school internal funds audits. In doing so, the Board should consider the benefits of completing the internal funds audits within a time frame that would allow consideration in completing the audit of the District's financial statements.

Adult General Education

Finding No. 8: 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 2013-40, Laws of Florida, Specific Appropriation 117, required that each school district report enrollment for adult general education programs identified in Section 1004.02, Florida Statutes, in accordance with the 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 2013-14 fiscal year, the District reported to the FDOE 1,777,496 instructional contact hours for 24,251 students enrolled in 1,517 adult general education classes. We randomly selected a representative sample of 2,539 hours reported for 30 students enrolled in 30 adult general education classes to test the accuracy of the District's reporting procedures. Our test disclosed 510.5 net over-reported hours for 19 students in 19 classes mainly because the District lacked attendance records to support the hours reported and the District not administratively withdrawing 8 students after six consecutive absences. Given the number of errors, the full extent of the class hours over-reported 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 our report Nos. 2011-168 and 2014-163.

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 education hours misreported and contact the FDOE for proper resolution.

Virtual Instruction Program

Finding No. 9: 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. Educational methods to implement such standards and policies may include the delivery of learning courses through traditional school settings, blended courses consisting of traditional classroom and online instructional techniques, participation in a virtual instruction program (VIP) or other methods. Section 1002.45, Florida Statutes, establishes VIP requirements 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.

For the 2013-14 fiscal year, District records indicated enrollments of 1,735 part-time and 314 full-time VIP students. The District's pupil progression plan and other records identified certain instruction methods and enrollment and withdrawal information. In addition, District personnel indicated that guidelines were established for the administration of the VIP such as the monitoring of student progression and enrollment reporting. However, the District did not have comprehensive, written VIP policies and procedures to identify the processes necessary to ensure compliance with statutory requirements, document personnel responsibilities, provide consistent guidance to staff during personnel changes, ensure sufficient and appropriate training of personnel, and establish a reliable standard to measure the effectiveness and efficiency of operations.

To promote compliance with the VIP statutory requirements, documented policies and procedures could 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. 10 and 11.

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. 10: Provider Contracts

Section 1002.45(4), Florida Statutes, requires that each contract with a FDOE-approved VIP provider contain certain provisions. During the 2013-14 fiscal year, the District contracted with three FDOE-approved providers; however, the contracts contained deficiencies and lacked some statutorily-required provisions, as follows:

- The contracts did not include agreed-upon student-teacher ratios. This is contrary to Section 1002.45(2)(a)8., Florida Statutes, 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, the number of students in the VIP classes may exceed the District's expectation and the District's ability to monitor the quality of the provider's virtual instruction may be limited.
- The contracts 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 providers protected the confidentiality of the student records and supplied students with necessary instructional materials.

- The District's FDOE-approved VIP providers maintain 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 contracts disclosed the following:
  - The contracts included no provisions for data quality requirements. Inclusion of data quality requirements in contracts would help ensure that District expectations for the timeliness, accuracy, and completeness of education data are clearly communicated to providers.
  - The contracts contained requirements for the providers to implement, maintain, and use appropriate administrative, technical, or physical security measures to the full extent required by Title 20, Section 1232g, United States Code, The Family Educational Rights and Privacy Act, 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 their critical and sensitive education data. Without specifying minimum required security controls, there is an increased risk that deficiencies in information security and other information technology controls may occur.

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

Finding No. 11: Written Parental Notification

Section 1002.45(10), Florida Statutes, requires that the District provide information to parents about student opportunities 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 VIPs.

For the 2013-14 school year, District personnel indicated that there were several communication methods used to provide information about the District's VIP options to parents and students. Such communication included the District VIP Web site, banners on the District homepage, brochures, and the Student and Family Handbook. While these methods indicate efforts by District personnel to communicate with parents and students about VIP options, District records did not evidence that the written notifications were provided directly to parents of students regarding the VIP and associated open enrollment periods.

Absent timely, written notifications provided directly to parents, some parents may not be informed of available VIP options and open enrollment period dates, potentially limiting student access to virtual instruction types.

Recommendation: The District should enhance its procedures to ensure that timely, written notifications are provided to parents about student opportunities to participate in the District's VIP and open enrollment period dates.

Information Technology

Finding No. 12: Security Controls - Data Loss Prevention

Security controls are intended to protect the confidentiality, integrity, and availability of data and information technology (IT) resources. Our audit disclosed that certain District security controls related to data loss prevention 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 data loss prevention, the risk is increased that the confidentiality, integrity, and availability of District data and IT resources may be compromised. A similar finding regarding data loss prevention was communicated to District management in our report No. 2014-163.

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

PRIOR AUDIT FOLLOW-UP

The District had taken corrective actions for findings included in previous audit reports except as shown in the following table:

Current Fiscal Year Finding Numbers	2012-13 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
5	NA[1]	Audit Report No. 2011-168, Finding No. 2	NA
6	NA[1]	Audit Report No. 2011-168, Finding No. 7	Audit Report No. 2008-156, Finding No. 14
8	Audit Report No. 2014-163, Finding No. 2	Audit Report No. 2011-168, Finding No. 8	NA
12	Audit Report No. 2014-163, Finding No. 6	NA	NA

NA – Not Applicable (Note: Above chart limits recurring findings to two previous audit reports.)
1 – Not within the scope of the 2012-13 fiscal year operational audit.

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 June 2014 to December 2014 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.
- 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, weaknesses 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 2013-14 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 District 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
Deactivation of employee Information Technology (IT) access.	Reviewed procedures to prohibit former employees' access to electronic data files. Tested access privileges for former employees to determine whether their access privileges had been timely deactivated.
IT data loss prevention.	Reviewed the District's written security policies and procedures governing the classification, management, and protection of sensitive and confidential information.
IT disaster recovery plan.	Determined whether a comprehensive IT disaster recovery plan was in place and had been recently tested.
IT logical access controls and user authentication.	Reviewed selected operating system, database, network, and application security settings to determine whether authentication controls were configured and enforced in accordance with IT best practices.
IT risk management and assessment.	Determined whether a written, comprehensive IT risk assessment had been developed to document the District's risk management and assessment processes and security controls intended to protect confidentiality, integrity, and availability of data and IT resources.
IT physical access controls.	Reviewed the data center's physical access controls to determine whether vulnerabilities existed.
IT environmental controls.	Determined whether a fire suppression system had been installed in the data center.
Adult general education program enrollment reporting.	Tested a representative sample of 30 students from the population of students in adult general education classes to determine whether the District reported instructional contact hours in accordance with Florida Department of Education (FDOE) requirements.
Accumulation of State appropriation of Workforce Development funds.	Determined whether the Board adopted a spending plan for unspent Workforce Development funds.
Statements of financial interests requirements of Section 112.3145(2), Florida Statutes.	Determined whether the District Superintendent, Board members, and certain purchasing agents filed statements of financial interests in accordance with law.
Auditor selection.	Determined whether the District established an audit committee and followed prescribed procedures to contract for audit services pursuant to Section 218.391, Florida Statutes.
Internal funds audits.	Examined supporting documentation to determine whether required internal funds audits were timely performed pursuant to State Board of Education (SBE) Rule 6A-1.087, Florida Administrative Code (FAC), and whether the audit reports were presented to the Board.
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.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Bonuses.	Determined whether employee bonuses were paid in accordance with Section 215.425(3), Florida Statutes.
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.	Examined supporting documentation to determine whether the Board established a documented process and adopted a salary schedule to ensure that differentiated pay of instructional personnel and school administrators is based on District-determined factors, including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties.
Background screenings.	Determined, on a test basis, whether personnel had been subjected to required fingerprinting and background checks.
Bus drivers.	Determined whether District procedures were adequate to ensure that bus drivers were properly licensed and monitored.
Eligibility for health insurance benefits.	Reviewed District policies and procedures to ensure health insurance was provided only to eligible employees, retirees, and dependents and that such insurance was timely cancelled upon employee termination. Also, determined whether the District had procedures for reconciling health insurance costs to employee, retiree and Board-approved contributions.
Employee payments.	Tested employee payments, other than travel and payroll payments, to determine whether such payments were reasonable, adequately supported, and for valid District purposes. Also, determined whether such payments were contrary to Section 112.313, Florida Statutes.
Annual fire safety, casualty safety, and sanitation inspection reports.	Obtained copies of the most recent annual fire safety, casualty safety, and sanitation inspection reports and determined whether deficiencies noted were timely corrected.
Educational facility floor plans.	Interviewed District personnel and reviewed supporting documentation to determine whether floor plans for all newly constructed or remodeled educational facilities were submitted to law enforcement and fire agencies by October 1, pursuant to Section 1013.13, Florida Statutes.
Facilities management.	Determined whether the District developed written policies and procedures requiring periodic evaluations of alternative facilities construction methods and techniques for performing significant maintenance-related jobs, and documented these evaluations. Also, determined whether the District developed additional goals and objectives for the program management and maintenance and operations departments to identify efficiency or cost-effectiveness outcomes for department personnel.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
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 the purchasing card program were allocated to the appropriate District funds.
Decentralized cash collections.	Reviewed collection procedures at selected locations and tested daily cash collections to determine the effectiveness of the District's decentralized collection procedures.
Cellular phones.	Reviewed the District's procedures for issuing cellular devices and reviewing monthly billings for compliance with Board policy.
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.
Related-party transactions.	Reviewed District policies and procedures related to identifying potential conflicts of interest. For selected District employees, reviewed Department of State, Division of Corporations, records; statements of financial interest; and District records to identify any potential relationships that represent a conflict of interest with vendors used by the District.
Dual enrollment programs.	Reviewed District policies and procedures related to dual enrollment programs. Determined, on a test basis, whether payments made for dual enrolled students were consistent with the applicable dual enrollment agreement and Section 1007.271, Florida Statutes.
Electronic funds transfers and payments.	Reviewed District policies and procedures relating to electronic funds transfers and vendor payments. Tested supporting documentation to determine whether selected electronic funds transfers and payments were properly authorized and supported, and complied with SBE Rule 6A-1.0012, FAC.
Commercial insurance purchases.	Determined whether District records evidenced the basis upon which the District decided that the methods selected for acquiring commercial insurance was the most advantageous for the District.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Computer hardware purchases.	Determined whether District records clearly demonstrated that computer hardware purchases were made at the lowest price consistent with desired quality.
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 employee training.	Determined whether the District properly monitored the new charter schools to evaluate whether charter school employees received the appropriate training pursuant to Section 1002.33(6)(f), Florida Statutes.
Charter school background screenings.	Determined whether the District verified that new charter schools subjected its employees and contractors to background screenings pursuant to Section 1002.33(12)(g)1., Florida Statutes.
Virtual instruction program (VIP) policies and procedures.	Determined whether the District had comprehensive written VIP policies and procedures addressing certain important VIP functions.
VIP parent options.	Reviewed District records to determine whether the District provided the VIP options required by State law and provided parents and students with information about their rights to participate in the VIP 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 VIP.
VIP instructional materials and computing resources.	Reviewed student records and determined whether the District ensured that VIP students were provided with all necessary instructional materials and computing resources necessary for program participation for those eligible students that did not already have such resources in their home.
VIP eligibility.	Tested student records to determine whether students enrolled in the VIP met statutory eligibility requirements.
VIP background screenings.	For District-contracted FDOE-approved VIP providers, determined whether the District obtained evidence that all provider employees and contracted personnel were subjected to background screenings in accordance with Section 1002.45(2)(a)3., Florida Statutes.
VIP participation requirements.	Tested student records to determine whether students enrolled in the VIP met statutory participation requirements, including compulsory attendance and State assessment testing requirements.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
VIP FDOE-approved contract provisions.	For District-contracted FDOE-approved VIP providers, determined whether contracts with the providers contained provisions required by State law, including: (1) a 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, data quality, and the availability of provider accounts and records for review and audit by the school districts and other external parties.
VIP residual funds.	Determined whether the District had established controls to ensure that residual VIP funds are restricted and used for the District's local instructional improvement system or other technological tools, as required by law.
Intensive Reading Instruction.	Determined whether the District used supplemental academic instruction and research based reading instruction allocations to provide an additional hour of intensive reading instruction to students every day, school-wide to the applicable schools pursuant to Section 1011.62(9), Florida Statutes. Also, pursuant to the 2013 General Appropriations Act, determined whether the District appropriately reported the funding sources, expenditures, and student outcomes for each participating school.

EXHIBIT B
MANAGEMENT'S RESPONSE

THE SCHOOL DISTRICT OF
PALM BEACH COUNTY, FL

MICHAEL J. BURKE
CHIEF OPERATING OFFICER

E. WAYNE GENT
SUPERINTENDENT

CHIEF OPERATING OFFICE
3300 FOREST HILL BOULEVARD, C-316
WEST PALM BEACH, FL 33406

PHONE: 561-434-8584 / FAX: 561-357-7585
WWW.PALMBEACHSCHOOLS.ORG/COO

January 21, 2015

David W. Martin, CPA
Auditor General
111 W. Madison Street
Tallahassee, FL 32399-1450

Mr. Martin:

Enclosed is our revised response to the preliminary and tentative audit findings and recommendations on your operational audit of the Palm Beach County District School Board for the fiscal year ended June 30, 2014. Pursuant to Section 11.45(4)(d), Florida Statute, the District responded January 12, 2015, which was within 30 days of receipt of the preliminary report. Our response has been revised to incorporate the changes made by the Auditor General to Finding No. 7, Audits-School Internal Funds. As requested, our written statement of explanation is submitted electronically in source format with my digitized signature.

Sincerely,

E. Wayne Gent
Superintendent

EWG/MJB/HK:ac

Enclosures

cc: Lung Chiu, Inspector General
Michael J. Burke, Chief Operating Officer
Keith Oswald, Interim Chief Academic Officer
Heather Knust, Accounting Director

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

CASH CONTROLS

Finding No. 1: *Controls over electronic funds transfers could be enhanced.*

Recommendation:

The Board should adopt written policies and procedures to address accounting and control procedures for EFTs, including the use of electronic signatures.

Response:

Management concurs. The District has revised the Investment Policy and expanded the scope of the policy to include EFTs and the use of electronic signatures. Based on the increased scope, the policy will be renamed Cash Management and Investment Policy. A copy of the draft policy was provided during the audit and will be presented to the School Board by June 30, 2015.

PERSONNEL AND PAYROLL

Finding No. 2: Controls over monitoring school bus drivers could be improved.

Recommendation:

The District should enhance its procedures to ensure that school bus drivers are appropriately licensed to operate school buses and that appropriate disciplinary action against drivers is taken and documented for driving citations and preventable vehicle accidents.

Response:

Management concurs. The District has implemented a plan to improve compliance by creating a transportation safety and training team to monitor that bus drivers are appropriately licensed and disciplinary action is taken and documented for driving citation and preventable vehicle accidents. Reports will be provided to transportation leadership monthly, starting March 2015, to ensure appropriate disciplinary action has been taken.

PROCUREMENT

Finding No. 3: Controls over the procurement of computer hardware could be enhanced.

Recommendation:

The District should enhance its procedures to ensure, for future computer hardware purchases, that District records clearly demonstrate that such purchases are made at the lowest price consistent with desired quality.

Response:

The strategic business decision to purchase computer hardware in this manner was fully compliant with all legal requirements including SBE Rule 6A-1.012(6) and (14), as was noted by the Florida Auditor

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

General, and School Board Policy 6.14(5)(b); was to the District's economic advantage; and made in the best interest of the District. Even though the District's procedures comply with Florida Statute and were in the District's best interest, management agrees to enhance the documentation kept with the records of future significant computer purchases to demonstrate the use of best practice and sound business decisions including cost comparisons.

Finding No. 4: Procurement procedures could be enhanced to provide for routine review of required statements of financial interests for consideration in making procurement decisions.

Recommendation:

The District should provide for routine review of required statements of financial interests by its Purchasing Department for consideration in making procurement decisions.

Response:

Management concurs. The purchasing department will review the statements of financial interests annually.

Finding No. 5: Controls over the use of purchasing cards could be strengthened.

Recommendation:

The District should enhance its controls over purchasing cards to ensure that P-cards assigned to former employees are timely cancelled.

Response:

Management concurs and although as noted by the Florida Auditor General, the delay in cancelling P-Cards did not result in any unauthorized purchases, has implemented a process to identify employees with purchasing cards that have terminated in order to cancel their purchasing cards timely.

FACILITY SAFETY

Finding No. 6: The District did not always timely correct deficiencies identified by annual facility inspections.

Recommendation:

The District should continue its efforts to ensure the timely correction of facility deficiencies.

Response:

Management concurs. All citations are identified as Operational, Maintenance or Capital based on the nature of the citation. Serious Operational citations will be completed within one year, serious Maintenance citations will be completed within two years and serious Capital citations will be completed within three years. In accordance with Section 1013.12, Florida Statutes, facility deficiencies

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

considered immediate life-threatening are and will continue to be reported for corrective action and/or the facility is withdrawn from use immediately. Serious citations will continue to be given priority over less serious citations. All deficiencies considered serious life safety hazards that have not been corrected by the established due date will be reviewed by management on a quarterly basis to ensure the facility remains safe.

AUDITS

Finding No. 7: The District could enhance the timeliness of its school internal funds audits.

Recommendation:

The District should ensure timely school internal funds audits.

Response:

The School District and the Office of Inspector General are, and have been, in full compliance with SBE Rule 6A-1.087. As required by SBE Rule 6A-1.087, our qualified internal auditing staff has provided an annual audit of the school internal funds for each fiscal year.

We disagree with the Audit General's reference to Florida Statute 218.39, as Auditor General Staff have previously acknowledged that the Statute is not applicable to our Office's audits of internal funds.

Internal Funds audit issues are brought to the attention of principals and bookkeepers immediately after the completion of audit fieldwork, which has been as soon as six weeks after the close of the fiscal year. District-wide findings are brought to the immediate attention of Central Office and Area Superintendents for actions. All audit issues are being addressed immediately by staff without delay. Both the Audit Committee and School Board receive monthly update of audit related issues. The District-wide report submitted to the School Board is a formality of reporting that recollects and summarizes audit results for 175 schools, whose audit issues have been already reported on and addressed timely during the year. Consequently, the School Board is well aware of all relevant internal funds issues throughout the year.

Nonetheless, and prior to the Auditor General's comments, we had taken actions that allow our internal funds audits to be completed sooner. Fieldwork for the FY 2013-14 internal funds audit was completed January 8, 2015, and the draft report is expected to be presented to the Audit Committee no later than March 2015.

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

ADULT GENERAL EDUCATION

Finding No. 8: Improvements were needed in controls over the reporting of instructional contact hours for adult general education classes to the Florida Department of Education.

Recommendation:

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

Response:

Adult & Community Education programs are located throughout the District and the administrative processes have often varied by location. In order to minimize errors in reporting instructional hours we have been working on creating a uniform processes that all adult education programs will follow. The Managers of the Department of Adult & Community Education have met with each school site Principal and Assistant Principal during the Fall Term (8/2014 – 12/2014) to explain the attendance initiative. Emphasis is being placed on school sites having local controls in place to verify accuracy of master schedules and student attendance data in TERMS. The following are updates on the four main components of this initiative:

- Establish Data Controls At Each School Site- Assistant Principals will verify and check accuracy of master schedules, including instructional hour calculations. A report was developed in TERMS, by the FTE department, which highlights possible miscalculated instructional hours. School sites must review the report to ensure their site does not have any possible errors. This will be done every term.
- Roll Out Attendance Software-eAttendance is a software application which tracks student attendance. Teachers will be required to take attendance on a daily basis for those classes they are instructor of record. If a student is absent 6 consecutive times the school designee is automatically informed, via email, to withdraw the student from the class. Currently there are 3 schools utilizing eAttendance. The remaining 24 sites will be transitioned to the new software by the end of the Winter Term (2015).
- Provide Training - The Department of Adult & Community Education offers workshops throughout the year. On September 18th we offered an AGE Data Workshop which included a section on how to report instructional hours. TERMS workshops are offered on demand as well as video tutorials.
- Establish Uniform Procedures-The Department of Adult & Community Education has put together an attendance procedure manual detailing guidelines to follow. This document will be made available to all school sites.

The District has reviewed the adult general hours reported and corrected any discrepancies identified with Florida Department of Education. None of the corrections resulted in a negative financial impact to the District.

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

VIRTUAL INSTRUCTION PROGRAM

Finding No. 9: Controls over virtual instruction program (VIP) operations and related activities could be *enhanced by developing comprehensive, written procedures.*

Recommendation:

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

Response:

Management concurs. A virtual school policy is in development and will be presented to the School Board by July 1, 2015. Staff is finalizing a series of program process documents to promote support efficient, effective and compliant programming. These documents will be reviewed and revised as needed each fiscal year.

Finding No. 10: VIP provider contracts did not include certain necessary or legally required provisions.

Recommendation:

The District should ensure that statutorily required and other necessary provisions are included in contracts with FDOE-approved VIP providers.

Response:

Management concurs and Virtual School provider contracts for school year 2015/2016 will contain additional provisions to ensure security controls are further enhanced to meet these specifications.

Finding No. 11: District records did not evidence that timely, written notifications were provided to parents about VIP options offered and open enrollment period dates.

Recommendation:

The District should enhance its procedures to ensure that timely, written notifications are provided to parents about student opportunities to participate in the District's VIP and open enrollment period dates.

Response:

Management concurs and is revising its procedures for school year 2015/2016 to provide a written notification to parents of virtual school options and enrollment periods for grades kindergarten through grade 12.

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

INFORMATION TECHNOLOGY

Finding No. 12: District information technology security controls related to data loss prevention needed improvement.

Recommendation:

The District should improve IT security controls related to data loss prevention to ensure the continued confidentiality, integrity, and availability of District data and IT resources.

Response:

The District has identified numerous policies containing Data Loss Prevention (DLP) elements and is in the process of developing a single comprehensive Board Policy encompassing DLP District-wide. This Policy will include DLP essentials for all data types, both electronic and hardcopy, and for all sectors of the District's operations. The Division of Information Technology is leading this initiative with the involvement of the Academic and Business sectors as DLP encompasses all personnel who interact with sensitive and/or confidential data without regard for the form, format, reason for access to, or location of the data. Additionally, IT security controls related to DLP are being improved. The planned completion date is June 2015.