STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

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March 2016

HERNANDO COUNTY DISTRICT SCHOOL BOARD

Sherrill F. Norman, CPA
Auditor General

Board Members and Superintendent

During the 2014-15 fiscal year, Dr. Lori Romano served as Superintendent and the following individuals served as Board members:

	District No.
John K. Sweeney to 11-17-14	1
Mark Johnson from 11-18-14	1
Matthew A. Foreman, Vice Chair from 11-18-14	2
Dianne Bonfield to 11-17-14, Vice Chair	3
Beth Narverud from 11-18-14	3
Gus Guadagnino, Chair	4
Cynthia J. Moore to 11-17-14	5
Susan Duval from 11-18-14	5

The team leader was Brian Werthmiller, CPA, and the audit was supervised by Eric Davis, CPA. For the information technology portion of this audit, the team leader was Joseph Garcia and the supervisor was Heidi G. Burns, CPA, CISA.

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HERNANDO COUNTY DISTRICT SCHOOL BOARD

SUMMARY

The operational audit of the Hernando County School District (District) focused on selected District processes and administrative activities and included a follow-up on findings noted in previous audit reports. Our audit disclosed the following:

Finding 1: During the 2014-15 fiscal year, the District's General Fund total assigned and unassigned fund balance declined 74.79 percent from $12,895,283 to $3,250,295, representing a fund balance reduction of $9,644,988. As a result, the District has fewer resources for emergencies and unforeseen situations than other school districts of comparable size.

Finding 2: The District needs to enhance budgetary and financial monitoring procedures.

Finding 3: District controls over journal entries need improvement.

Finding 4: District records did not always evidence that ad valorem tax levy proceeds were used only for authorized purposes.

Finding 5: Absent use of the competitive selection process prescribed in State law, the District contracted with an architect to design a construction project.

Finding 6: The District paid moneys to, and on behalf of, its direct-support organization without specific legal authority.

Finding 7: District procedures did not always ensure the supervisory review and approval of employees' time worked. Similar findings were noted in the 2012-13 and 2013-14 fiscal year financial audit reports.

Finding 8: Controls for monitoring school bus drivers could be enhanced.

Finding 9: The District needs to continue efforts to verify the eligibility of individuals participating in the District's health insurance program. Also, to ensure the accuracy of health insurance billings and related payments, the District could establish and implement procedures to perform monthly reconciliations of health insurance billings to District payroll-related records, such as records for employee deductions, Board-approved contributions for employees, and retiree contributions.

Finding 10: The District needs to use competitive bidding procedures, as required by State law, when procuring health insurance.

Finding 11: District tangible personal property controls continue to need improvement.

Finding 12: District controls need to be enhanced to ensure that inventory items purchased by the Transportation Department are appropriately accounted for and safeguarded.

Finding 13: District information technology (IT) access controls could be improved. A similar finding was noted in our report No. 2013-044.

Finding 14: District IT security controls related to user authentication and data loss prevention continue to need improvement.

BACKGROUND

The Hernando 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 Hernando County. The governing body of the District is the Hernando 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 2014-15 fiscal year, the District operated 23 elementary, middle, high, and specialized schools; sponsored three charter schools; and reported 21,934 unweighted full-time equivalent students.

This operational audit of the District focused on selected processes and administrative activities and included a follow-up on findings noted in prior audit reports including our report No. 2013-044. The results of our audit of the District's financial statements and Federal awards for the fiscal year ended June 30, 2015, was presented in our report No. 2016-085.

FINDINGS AND RECOMMENDATIONS

Finding 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 total remaining fund balance (i.e., assigned and unassigned fund balance accounts) is designed to serve as a measure of net current financial resources available for general appropriation by the Board. The assigned and unassigned portions of fund balance represent the amount to be used with the most flexibility for emergencies and unforeseen situations.

State law[1] requires the District to 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 total ending fund balance classified as assigned and unassigned fund balance 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, State law[2] provides for the FDOE to determine whether a district school board needs State assistance to resolve or prevent a financial emergency condition.

During the 2014-15 fiscal year, the District experienced a decline in its financial condition as the General Fund total assigned and unassigned fund balance decreased by $9,644,988 (74.79 percent) from $12,895,283 to $3,250,295. District control deficiencies, such as insufficient budgetary and financial

[1] Section 1011.051, Florida Statutes.

[2] Section 218.053(3), Florida Statutes.

monitoring noted in Finding 2, may have been contributed to the significant fund balance decrease. A summary of the General Fund financial condition ratios for the past 3 fiscal years is shown in Table 1.

Table 1
General Fund Financial Condition Ratios

For the Fiscal Years Ended June 30, 2013, 2014, and 2015

Fiscal Years Ended June 30	Total Assigned and Unassigned Fund Balance (A)	Total Revenues (B)	Financial Condition Ratio (A)/(B)
2013	$14,305,406	$143,222,220	9.99%
2014	12,895,283	152,848,319	8.44%
2015	3,250,295	150,553,058	2.16%

As noted in Finding 1 of our financial audit of the District's comprehensive annual financial report for the 2014-15 fiscal year, District personnel accepted audit adjustments to properly classify certain amounts reported. As a result of these adjustments, the District's financial condition ratio at June 30, 2015, decreased from 3.27 to 2.16 percent. As the ratio fell below 3 percent, the Superintendent must provide written notification to the Board and the FDOE. As of January 2016, the District had not contacted the FDOE.

The fund balance of the General Fund may be further reduced if the District is required to restore costs totaling $473,861 noted in Table 2 of Finding 4 as not authorized by State law. As a result of the District's declining General Fund financial condition ratio, the District has fewer resources available for emergencies and unforeseen situations than other school districts of comparable size.

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

Finding 2: Budgetary Controls and Financial Monitoring

Budgetary Controls. An established budget process consists of activities that encompass the development, implementation, and evaluation of a plan to allocate scarce available resources for the provision of services, capital assets, and to meet financial obligations. The budget process should provide for appropriate approvals and incorporate a mechanism for adjusting or amending the budget during the budget period should unforeseen events require changes to the original budget plan. Procedures for properly monitoring the budget and for making adjustments to meet changing financial circumstances, are necessary to mitigate the risk that expenditures may exceed available resources. State law[3] prescribes elements of the District's budgetary process and provides that the official budget shall not be altered, amended, or exceeded except as authorized.

Our examination of the District's original budget and other records disclosed that the budget was prepared and approved in accordance with applicable laws and rules; however, our review of District procedures for monitoring budgetary controls and compliance disclosed that:

[3] Sections 1011.02, 1011.03, and 1011.05, Florida Statutes.

- Although Board policy[4] requires District personnel to present budget amendments, at least quarterly, to the Board for approval, budget amendments were not always timely presented. Specifically, although budget amendments for the 2014-15 fiscal year generally accumulated year-to-date (YTD) financial transactions on a quarterly basis, the amendments for YTD financial transactions through September 2014 were presented to the Board in March 2015; amendments for YTD financial transactions through December 2014 were presented in June 2015; and amendments for YTD financial transactions through March 2015 were presented in July 2015.

  The final budget amendments in September 2015 for YTD financial transactions through June 2015 included a $6 million General Fund budgeted expenditure decrease and a $6 million budgeted total assigned and unassigned fund balance increase. District personnel indicated that this significant budget amendment, representing almost twice the actual total assigned and unassigned fund balance at fiscal year-end, was necessary because the District continued to budget salary expenditures for vacant positions throughout the fiscal year. District personnel further indicated that budget allocations were based on projected student enrollment and it was not always certain whether position vacancies would actually be filled by permanent teachers or by long-term substitutes. While budget processes have some extent of uncertainty, accumulating YTD projected salary costs for positions that are not reasonably expected to be filled reduces the dependability of District records that the Board relies on to make financial policy decisions.

  According to District personnel, Finance Department personnel prepared the budget amendments timely, but the District did not always timely submit the amendments to the Board for approval. While District records indicated that the District did not overspend its budget during the fiscal year, the timely presentation of budgetary information to the Board may help with the monitoring of District financial activities and allow the Board to better plan for the allocation of available financial resources. To improve the reliability and usefulness of the budgetary information, it should be prepared utilizing the best available information, for example, projected salary costs should be based on the dates that position vacancies are reasonably anticipated to be filled.

- Board policy[5] establishes a target total General Fund balance of 5 percent of projected annual General Fund revenues and requires the Superintendent to develop a plan to meet this target should the budgeted ending General Fund balance not be sufficient to meet the target. Although each budget amendment projected the total fund balance in the General Fund to be less than 5 percent of General Fund revenues, District personnel did not develop any plans to meet the Board-established target General Fund balance. District personnel indicated that, for the previous 8 fiscal years, the District had budgeted expenditures that exceeded actual expenditures by approximately 5 percent and, based on this historical data, they believed that the target General Fund balance would be met. However, without a documented plan to meet the Board-established fund balance target, there is an increased risk that the District's financial condition will not meet Board expectations.

- As discussed in Finding 1, if the financial condition ratio is projected to fall below 3 percent, the Superintendent must provide written notification to the Board and the FDOE and, if the financial condition ratio is projected to fall below 2 percent, the Board should have a reasonable plan to avoid a financial emergency. Although four of the District's five budget amendments for the 2014-15 fiscal year projected financial condition ratios below 2 percent, the District did not follow State law[6] by providing the written notification to the FDOE and developing a financial emergency plan. District personnel indicated that, because of the District's previous financial trends, the District did not officially notify the FDOE of the District's financial condition ratio and a financial emergency plan was not developed. However, absent notifications to the FDOE and a financial

[4] Board Policy 7.10 *School Budget and Planning System.*

[5] Board Policy 7.11 *Fund Balance.*

[6] Section 1011.051(2), Florida Statutes.

emergency plan, there is an increased risk that the District's financial condition will not improve and the District cannot demonstrate compliance with State law.

Financial Monitoring. State Board of Education (SBE) rules[7] require that the Superintendent, at least monthly, submit to the Board financial statements (reports) for Board use and consideration. These reports, and other relevant financial information, are necessary for the Board to effectively monitor the District's financial condition. Our review of District records for the 2014-15 fiscal year disclosed that, contrary to SBE rules, the Superintendent only submitted financial reports during 4 months of the 2014-15 fiscal year, reducing the effectiveness of the Board's financial monitoring procedures. According to District personnel, Finance Department personnel generally prepared financial reports timely, but the District did not always timely submit the reports to the Board.

Providing the Board with monthly financial reports and other financial information would enhance the Board's understanding of the District's financial condition, improve the Board's ability to make informed financial decisions, and help avoid financial mismanagement. The above-noted deficiencies in the District's budgetary and financial monitoring procedures may have contributed to the financial condition of the General Fund discussed in Finding 1.

Recommendation: The District should enhance budgetary controls and financial monitoring processes to ensure that:

- **Budget amendments are timely presented to the Board for approval and based on reasonable cost projections;**
- **Financial plans are developed and implemented to meet the Board-established target fund balance of the General Fund;**
- **When the financial condition ratio is projected to fall below 2 percent, required written notifications are made to the FDOE and required financial emergency plans are developed and implemented; and**
- **Financial reports are provided monthly to the Board.**

Finding 3: Journal Entries

The Finance Department is responsible for maintaining the District's financial records, including recording journal entries of adjustments to account balances and transactions, and related financial reporting. District personnel and records indicated that, during the 2014-15 fiscal year, eight Finance Department employees prepared journal entry forms that the Finance Coordinator or Supervisor of Budget reviewed then signed and dated to evidence approval. However, our audit procedures disclosed that the access privileges assigned to the eight employees enabled them to record journal entries directly into the accounting system without such approval.

District personnel indicated that the accounting system could not be modified to provide for supervisory review and approval of accounting system entries and that certain manual controls (e.g., department monitoring of respective budgets and related expenditures, electronic funds transfer approval documents, payroll action review and approval documents and related reports, independent bank account reconciliations, and supervisory monitoring of employee activities) somewhat compensated for the

[7] State Board of Education Rule 6A-1.008, Florida Administrative Code.

accounting system's limitations. District personnel also indicated that all recorded journal entries were reviewed when preparing periodic financial statements and budget amendments for Board approval; however, although requested, District personnel could not provide evidence of such reviews.

We selected 30 journal entries, from the population of 4,487 journal entries recorded in the accounting system, examined the relevant journal entry forms, and found that the forms evidenced supervisory review and approval and that the entries were for authorized purposes. However, our tests cannot substitute for management's responsibility to establish effective internal controls. Appropriate supervisory review and approval of all journal entries made in the accounting system is necessary to promote the accuracy of the financial data maintained by the system and to reduce the risk of, or timely detect, errors or fraud. If the accounting system cannot be modified to provide for an electronic review and approval process, adequate compensating controls, such as documented supervisory review and approval of journal entry reports generated by the accounting system, are necessary.

Recommendation: The District should ensure that all journal entries made in the accounting system are subject to supervisory review and approval and that documentation of such review and approval is maintained.

Finding 4: Ad Valorem Taxation

State law[8] allows the District to levy ad valorem taxes for capital outlay purposes within specified millage rates subject to certain precedent conditions. Allowable uses of ad valorem tax levy proceeds include, among other things, funding new construction and remodeling projects; maintenance, renovation, and repair of existing schools; purchases of new and replacement equipment; certain enterprise resource software (ERS) used to support Districtwide administration or State-mandated reporting requirements; and property and casualty insurance premiums to insure educational and ancillary plants subject to certain conditions and limitations. Also, State law[9] 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 2014-15 fiscal year, the District had LCI Fund expenditures totaling $2.4 million and transfers to the General Fund totaling $5.3 million. In response to our request for documentation to support LCI Fund transfers to the General Fund, District personnel provided reports identifying $5.8 million of General Fund expenditures that District personnel indicated were eligible for LCI Fund reimbursement. To determine the propriety of District uses of ad valorem tax levy proceeds, we examined District records supporting selected LCI Fund expenditures totaling $0.6 million and District-identified costs from the reports the District considered eligible for LCI Fund reimbursement totaling $2.2 million. As summarized in Table 2, we found that LCI Fund expenditures and District-identified costs totaling $473,861 were for purposes that did not appear to be authorized by State law.

[8] Section 1011.71, Florida Statutes.

[9] Section 1013.01(12), Florida Statutes.

Table 2
Local Capital Improvement
Potential Unallowable Costs

Cost Description	Amount
Salaries and Benefits Expenditures for:	
Two vehicle maintenance personnel	$119,070
Three groundskeeping personnel	105,628
Three telecommunication personnel	83,328
Four custodial personnel	33,493
Director of Facilities, Maintenance, and Security	10,595
Three safety and security personnel	8,570
Other Expenditures:	
Gasoline and Diesel used by Maintenance Department	102,451
Groundskeeping supplies	10,726
Total	**$473,861**

The amounts shown in Table 2 relate to the 2014-15 fiscal year expenditures for the potential unallowable costs described. Additional information regarding the amounts shown in Table 2 for the telecommunication personnel, Director of Facilities, Maintenance, and Security, and safety and security personnel includes:

- The amount of salaries and benefits for three telecommunication personnel represent 60 percent and 35 percent of the total salaries and benefits for two telecommunication technicians and the Manager of Telecommunications (Manager), respectively. These employees' job descriptions identified certain duties that are unallowable uses of ad valorem tax levy proceeds, such as configuring databases in the District's telecommunication systems; managing data Internet connections; performing service requests for additions, changes, and movement of District telecommunication systems; managing the day to day operations of the District's telecommunication systems and personnel; coordinating with service providers and monitoring monthly billings; and assisting in the preparation of the District's E-rate submissions. District records, such as personnel activity reports, did not evidence the time spent by these employees on activities representing allowable uses of ad valorem tax levy proceeds; therefore, we interviewed one of the telecommunication technicians and the Manager and found that 60 and 35 percent of their time, respectively, was devoted to unallowable activities.
- The salary and benefits amount for the Director of Facilities, Maintenance, and Security (Director) represent 10 percent of the Director's salary and benefits. The Director's job description included supervision of the Safety and Security, School Distribution, and Printing Departments, which would not represent allowable uses of ad valorem tax levy proceeds. District personnel indicated that the Director's duties also included allowable uses of ad valorem tax levy proceeds, such as the supervision of maintenance personnel and repair of educational plant; however, District records, such as personnel activity reports, did not evidence the amount of time that the employee spent on these activities. Therefore, we interviewed the Director and he indicated that he devoted 10 percent of his time to supervising the above Departments.
- The amount of salaries and benefits for three safety and security personnel represent 7.5 percent of the salaries and benefits for two safety and security specialists (specialists) and a secretary in the safety and security department. The specialists' job descriptions identified activities that were unallowable uses of ad valorem tax levy proceeds, such as monitoring campus safety and security, coordinating safety training classes and safety and safe driver committee meetings, performing annual security assessments, coordinating the safe schools hotline, and entering

safety and security purchase orders into the District's accounting system. District personnel indicated that the specialists' duties also included repairing certain capital assets (such as security locks and cameras), which is an acceptable use of ad valorem tax levy proceeds. District records, such as personnel activity reports, were not maintained to evidence the amount of time the specialists spent on activities representing allowable uses of ad valorem tax levy proceeds; therefore, we interviewed both of the specialists and found that an average of 7.5 percent of their time was devoted to unallowable activities. The secretary was no longer employed by the District so we calculated the amount of salary and benefits for that position using the 7.5 percent provided for the specialists. This percentage was determined to be reasonable as, based on our review of the secretary job description, the time dedicated by the secretary to unallowable activities could equal or exceed 7.5 percent.

District records indicated that District personnel expended and transferred LCI Fund moneys to the General Fund as budgeted; however, without records to demonstrate the propriety of using ad valorem tax levy proceeds for the purposes discussed above, and given the number and variety of unallowable costs noted, the full extent of LCI Fund moneys used for unauthorized purposes was not readily available. Without adequate controls to ensure that ad valorem tax levy proceeds are expended for authorized purposes, the risk is increased that the District will violate the expenditure restrictions governing the use of these proceeds.

Recommendation: The District should enhance controls to ensure that documentation is maintained to support that ad valorem tax levy proceeds were used only for authorized purposes. In addition, the District should provide documentation to the Florida Department of Education (FDOE) supporting the allowability of the costs totaling $473,861 or restore this amount to the LCI Fund. The District should also determine the extent that ad valorem tax levy proceeds were used for unauthorized purposes and contact the FDOE for proper resolution.

Finding 5: Architect Competitive Selection

State law[10] prescribes the competitive selection process for the District to follow for each occasion when professional services, including architectural services, must be purchased for a project in which the basic construction cost is estimated to exceed $325,000. Pursuant to State law,[11] the District may enter into a continuing contract for architectural services in which the estimated construction cost of each individual project under contract does not exceed $2 million.

In April 2013, the District solicited a request for qualifications (RFQ) for professional architectural services for projects costing under $2 million. The Board approved a list of three architectural firms that responded to the RFQ, and entered into continuing contracts with those firms. The contracts were subsequently renewed during the 2014 calendar year. The District assigned an architect from the Board-approved list to provide professional architectural services for the Westside Elementary School Renovation Project (Project). In May 2015, the Board entered into a construction contract totaling $3.1 million for the Project, and construction began in June 2015. However, as the total construction cost exceeded $2 million, using an architect under a continuing contract was not permitted and the District should have procured the architectural services using the competitive selection process prescribed by State law.[12] The competitive

[11] Section 287.055(2)(g), Florida Statutes.

[12] Section 287.055, Florida Statutes.

selection process reduces the appearance and opportunity for favoritism and inspires public confidence that the architect was selected in a fair, equitable, and economical manner.

Recommendation: The District should enhance procedures to ensure that architects are competitively selected using the process prescribed by State law.

Finding 6: Direct Support Organization

State law[13] provides that a district school board direct-support organization (DSO) is an organization organized and operated exclusively to receive, hold, invest, and administer property and make expenditures to, and for the benefit of, school districts. State law[14] authorizes the Board to permit a DSO to use District property, facilities, and personal services. The Board approved the Hernando County Education Foundation (Foundation), as a DSO, and the Foundation routinely receives and uses charitable contributions for the benefit of District students.

District records indicated that, during the 2014-15 fiscal year, the District made payments to the Foundation totaling $25,000 to administer a wellness festival. Although District records did not initially evidence that the amounts paid to the Foundation were for District purposes, subsequent to our inquiry, the District obtained from the Foundation vendor invoices and payroll records to evidence that $12,973 of the $25,000 paid to the Foundation were for District employee wellness programs and allowable District costs. Also, subsequent to our inquiry, the District recovered $7,829 from the Foundation for the festival; however, District records did not evidence the basis for the remaining $4,198 amount paid to the Foundation.

The District also paid a total of $17,142 for the Foundation's 2014-15 fiscal year tax preparation fees and 2011-12, 2012-13, and 2013-14 fiscal year audits. Although the Foundation may use the Board's property, facilities, and personal services, we are unaware of any specific authority permitting the District to make payments to, or on behalf of, the Foundation. Consequently, it appears that the District made payments totaling $21,340 to the Foundation that are not authorized by State law.[15]

Recommendation: In the absence of specific statutory authority, the District should discontinue the practice of making payments to, or on behalf of, the Foundation and should seek to recover $21,340 from the Foundation.

Finding 7: Payroll Processing

Effective internal controls require supervisory approval of time worked and leave used by employees to ensure that compensation payments are appropriate and leave balances are accurate. The District paid certain personnel, such as administrative, professional technical, confidential, and noninstructional personnel, on a payroll-by-exception basis whereby employees are paid a fixed authorized gross amount for each payroll cycle unless the amount is altered. A payroll-by-exception methodology assumes, absent

[13] Section 1001.453(1)(a)3., Florida Statutes.

[14] Section 1001.453(2), Florida Statutes.

[15] Section 1001.453, Florida Statutes.

any payroll action to the contrary, that an employee worked or used available accumulated leave for the required number of hours in the pay period.

During the 2014-15 fiscal year, the District reported salary costs of $55.8 million for personnel paid on a payroll-by-exception basis. Based on our discussions with District personnel and review of District records, we determined that school and department timekeepers input payroll exception entries into the payroll system, such as entries for compensatory time earned, overtime worked, and leave taken. The payroll exception entries are supported by hand-written notations on time reports, signed by the applicable school principals and department supervisors, and the time reports are sent to the payroll department to evidence supervisory review and approval.

From the population of 1,209 personnel paid on a payroll-by-exception basis, we examined District records supporting salary payments to 21 employees selected for one payroll period and found that 6 employees' time reports did not evidence supervisory review and approval. Without payroll records and procedures that provide for supervisory review and approval of time worked, the risk increases that employees may be incorrectly compensated and employee leave balances may be inaccurate. Similar findings were reported in connection with the District's 2012-13 and 2013-14 fiscal year audits.

Recommendation: The District should enhance payroll processing procedures to ensure supervisory review and approval of employees' time worked.

Finding 8: Bus Drivers

State Board of Education (SBE) rules[16] require that the District at least annually ensure that personnel, prior to transporting students on school buses, hold valid commercial driver licenses with passenger and school bus endorsements and be physically capable of operating the vehicles as determined by a physician and documented on a FDOE physical examination form. SBE rules[17] require 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. Thereafter, the District is to continuously screen bus driver records using automated weekly updates.

During the 2014-15 fiscal year, the District employed 156 bus drivers, and District records evidenced District personnel's periodic review of bus driver history records to verify that bus drivers were appropriately licensed. While District records indicated that monitoring procedures over school bus drivers were generally adequate, our comparison of District records to FDHSMV records for 26 selected bus drivers disclosed that these procedures could be improved. Specifically, we found that:

- One bus driver drove regularly scheduled daily bus routes a total of 14 days while the driver's license was suspended from November 24, 2014, to January 1, 2015, for failure to pay a traffic fine. District personnel indicated that they were unaware that the driver's license had been suspended until the driver paid the fine and the license was restored on January 2, 2015.
- Another bus driver drove regularly scheduled daily bus routes a total of 34 days while the driver's license was suspended from March 11, 2015, to May 7, 2015, for not timely submitting a valid FDOE physical examination form. District personnel indicated that they were unaware of this license suspension until May 7, 2015, when the driver was involved in an accident. After providing

[16] SBE Rule 6A-3.0141(4) and (9), Florida Administrative Code (FAC).

[17] SBE Rule 6A-3.0141(6), FAC.

the required medical examiner's certificate and license reinstatement fee to the FDHSMV, the FDHSMV restored the driver's license on May 11, 2015.

According to District personnel, these instances occurred because District personnel did not always timely request and review bus driver history records. 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 verify that the drivers continuously meet the requirements to operate school buses.

Recommendation: The District should enhance its procedures to ensure that school bus drivers are appropriately licensed to drive buses.

Finding 9: Health Insurance

For the 2014-15 fiscal year, the Board-adopted collective bargaining agreements required the District to provide a comprehensive group health and hospitalization insurance policy for each full-time employee and the District contributed $546 to $551 monthly toward the health insurance of these employees. Also, pursuant to State law,[18] each eligible retiree paid for the cost of continued participation in the District's health insurance. Monthly, District personnel were responsible for deducting insurance premium costs (ranging from $30 to $1,013) from employee pay, or directly receiving insurance premium collections from retirees, and submitting payments to the health insurance provider. During the 2014-15 fiscal year, while the District contributed $16.4 million toward the District's health insurance plan, 2,706 employees contributed a total of $3.1 million and 182 retirees contributed a total of approximately $900,000 to participate in the plan. In addition to employees and retirees, 804 dependents participated in the plan.

Our review of District records supporting health insurance processes and our inquiries of District personnel disclosed that:

- The District contracts with a health insurance provider that requires monthly participation changes, such as employment separations or new hires, be submitted to the provider so premium adjustments on future billings can be made. Before our inquiry, in March 2015, District personnel began comparing payroll system employee information, such as names and social security numbers, to the insurance provider's records to determine the eligibility of health insurance participants. As a result of this comparison, the District identified 13 ineligible participants. During the 2014-15 fiscal year, these 13 individuals participated in the District's health insurance program 93 to 666 days after their last date of eligibility, and included 2 individuals who were deceased in July and November 2013, respectively. The District paid unnecessary premiums totaling $75,192 related to these ineligible participants. While the District obtained refunds for a portion of the premium charges, the District was unable to recover $20,271 because the District did not notify the insurance provider within the allowable time period for such recoveries.
- While the District initiated procedures to determine the eligibility of health insurance participants, the District did not have procedures for reconciling health insurance billings to payroll records and retiree insurance payments to ensure that health insurance payments were accurate. We extended our procedures to compare insurance provider billings totaling $1.8 million for the month of February 2015 with District records evidencing employee deductions, Board-approved contributions for employees, and retiree contributions and found that insurance billings exceeded contributions and employee deductions by $55,773. While District records evidenced that $5,959 of this difference related to amounts billed for the ineligible health insurance participants noted

[18] Section 112.0801, Florida Statutes.

above, District personnel were unable to explain the remaining $49,814 difference as of October 2015. Without prompt reconciliations of insurance billings to District records that identify and resolve noted differences, there is an increased risk for payments to be inconsistent with the terms of the Board's health insurance plan and for overpayments to occur.

Recommendation: The District should continue efforts to verify the eligibility of individuals participating in the District's health insurance program and, to ensure the accuracy of health insurance billings and related payments, establish and implement procedures to monthly reconcile health insurance billings to District records such as employee payroll deduction, Board-approved contributions, and retiree contribution records.

Finding 10: Insurance Bids

Pursuant to State law,[19] before entering into any contract for health, accident, or hospitalization insurance for District officers and employees, the District must advertise for competitive bids and such contract must be let upon the basis of such bids. The District is authorized to undertake simultaneous negotiations with qualified bidders during the selection process. During the 2014-15 fiscal year, the District's premiums for health insurance totaled $20.4 million, including $4 million contributed by District employees and retirees.

In response to our inquiry, District personnel indicated that the District had not advertised for competitive bids for health insurance since the 2001 calendar year and, instead, continued to directly negotiate with the existing provider. Although District health insurance needs and related costs have varied since the 2001 calendar year, District personnel indicated that they had not sought competitive bids for health insurance because of the costs of switching from one provider to another. In addition, District personnel indicated that they had performed analyses comparing District health insurance costs to those of other Florida school districts; however, although requested, documentation evidencing the analyses could not be provided.

By periodically seeking competitive bids for health insurance and negotiating with qualified bidders, the District could demonstrate compliance with State law and also gain additional assurance that health insurance coverage was obtained at the lowest cost consistent with acceptable quality.

Recommendation: As required by State law, the District should use competitive bidding procedures when entering into a contract for health insurance.

Follow-Up to Management's Response

The District indicates in the written response that the District could use a direct negotiation process for purchasing health insurance because SBE Rule 6A-1.012(15), Florida Administrative Code, provides an exemption to the competitive bidding procedures required by Section 112.08, Florida Statutes. Notwithstanding this response, the SBE rule is applicable "except as otherwise required by statute." Since Section 112.08, Florida Statutes, sets forth bidding requirements for health insurance purchases, the exception provided by the rule does not apply. As such, we continue to recommend that the District use competitive bidding procedures when entering into a contract for health insurance.

[19] Section 112.08(2)(a), Florida Statutes.

Finding 11: Capital Assets

State law[20] and Florida Department of Financial Services (DFS) rules[21] require the District to maintain adequate records of tangible personal property (i.e., furniture, fixtures, and equipment and motor vehicles) in its custody and that a complete physical inventory be taken annually, the results of the physical inventory be compared to the property records, and any differences be researched and resolved. All tangible personal property (TPP) items found during the inventory must be included in the property records, and items not located must be promptly reported to the property custodian to cause a thorough investigation to be made. If the investigation determines that the item was stolen, the District is required to file a report with the appropriate law enforcement agency describing the missing item and the circumstances surrounding its disappearance.

We compared the TPP amounts reported on the financial statements ($53.1 million) for the fiscal year ended June 30, 2015, with the amounts recorded in the District's TPP subsidiary records ($42.5 million) and noted a variance of $10.6 million. Our review of District records identified previously leased data processing equipment with costs totaling $8.8 million that were included in the financial records as TPP, but excluded from the TPP subsidiary records; TPP purchases totaling $1.8 million that were also excluded from the TPP subsidiary records; and TPP items costing $45,000 that were sold through an online auction but not removed from the TPP subsidiary records. Based on discussions with District personnel, these TPP subsidiary record deficiencies and others existed because, as of December 2015, District personnel had not updated the TPP subsidiary records since December 2013 when the former employee responsible for the records retired.

District personnel further indicated that a partial TPP physical inventory was performed during the 2014-15 fiscal year; however, District records did not evidence the number or location of items that were inventoried or whether any items were noted as missing. Consequently, District records did not evidence a record of property items found during the inventory, the conduct of a thorough investigation to locate any missing property items, any adjustments to the TPP subsidiary records based on the inventory results, or any reports filed with appropriate law enforcement agencies for missing items.

Without accurately detailed TPP subsidiary records that support the amount reported in the financial records and the timely and proper conduct of TPP physical inventory procedures, the District has limited assurance that proper accountability is established for these assets. A similar finding was noted in the District's 2013-14 fiscal year audit.

Recommendation: The District should establish controls that provide for the proper accountability of TPP. Such controls should promote the maintenance of accurately detailed TPP subsidiary records that are promptly updated for property acquisitions and disposals. In addition, the controls should ensure that, for all District locations, an annual physical inventory of TPP be performed, the results of the inventory be reconciled to the TPP subsidiary records, and any differences be thoroughly investigated and resolved. After thorough investigation, District personnel should timely report any items not located to the Board for appropriate disposition and, as applicable, to the appropriate law enforcement agency.

[20] Chapter 274, Florida Statutes.

[21] DFS Rule 69I-73, FAC.

Finding 12: Transportation Department Inventory

During the 2014-15 fiscal year, the District's Transportation Department (Department) purchased fuel, parts, and supplies with costs totaling $2 million to maintain and repair vehicles and, at June 30, 2015, the costs of the related inventory totaled $314,108. To appropriately account for and safeguard the items purchased by the Department, appropriate internal controls, including controls to adequately separate the incompatible duties of purchasing, receiving and issuing inventory items, and maintaining the related inventory records, are necessary.

Our review of Department records and discussions with Department personnel disclosed that the District did not provide for an appropriate separation of duties for the Department inventory as four Department employees had unrestricted access to the inventory items, the ability to purchase inventory items, and helped maintain perpetual records over the inventory items. Additionally, one of these employees was responsible for receiving inventory items. District personnel indicated that, while these four employees had access to the perpetual inventory records, they did not have access to the general ledger control account related to the inventory and any adjustments to the control account must be approved by the Department Director. However, as two of these employees coordinate the annual inventory counts, which serve as the basis for the inventory adjustment approved by the Transportation Director, the effectiveness of this approval as a compensating control is limited.

Recommendation: The District should enhance procedures to ensure an appropriate separation of duties exists related to the Transportation Department inventory. If it is not practical for the District to adequately separate the duties with existing personnel, the District should implement compensating controls to ensure that the items purchased by the Transportation Department are appropriately accounted for and safeguarded.

Finding 13: Information Technology – Access Privileges

Access controls are intended to protect data and information technology (IT) resources from unauthorized disclosure, modification, or destruction. Effective access controls include granting employees and contractor's access to IT resources based on a demonstrated need to view, change, or delete data and restricting employees and contractors from performing incompatible functions or functions outside their areas of responsibility. Periodically reviewing assigned IT access privileges helps ensure that employees and contractors cannot access or modify IT resources inconsistent with their assigned job responsibilities.

Our test of selected access privileges to the District's operating system supporting the business application, including finance and human resources (HR), disclosed some access privileges that were unnecessary or that permitted certain employees to perform incompatible functions. Specifically:

- For enabled operating system accounts as of February 25, 2015, our review disclosed two operating system accounts that were assigned to employees who had separated from the District employment prior to June 30, 2015. The two operating system accounts had one or more operating system special authorities that allowed certain operational and system, network, and security administration functions to be performed. One of the operating system accounts had been assigned to a former Senior Program Analyst and was no longer being used. The other operating system account was assigned to a former employee who periodically contracts with the District's Finance Department. However, according to District records, the operating system account was last used on September 17, 2014. Enabled and unused operating system accounts

may not have appropriate user authentication controls in effect or be monitored for use, increasing the risk of compromise and unauthorized data or system software configuration changes. Subsequent to our inquiry, District management deactivated the two operating system accounts.

- The Manager of Assessment and Accountability and the District Tech Support Specialist Crew Chief had operating system special authority to create, change, and delete user profiles. The ability to maintain user profiles is appropriate only for those employees who are assigned security administrator responsibilities. Subsequent to our inquiry, District management removed the special operating system authority from these two accounts.
- Five Technology and Information Services (TIS) Department employees and three Payroll Department employees had the ability to create and approve journal entries, which were unnecessary functions for the employees' job duties. In addition, all five TIS Department employees had the ability to add or modify vendor profiles and two of these individuals also had the ability to initiate payments. District personnel indicated that TIS Department employees required such access to enable them to assist end users in the Finance Department; however, the access privileges granted were contrary to an appropriate separation of the employees' assigned responsibilities for the technical support of the District's application system and end-user responsibilities. Subsequent to our inquiry, District management removed the inappropriate access privileges for the five TIS Department employees and the three Payroll Department employees.

Although the District performed periodic reviews of business application access privileges, the District had not performed a review of operating system access privileges. In response to our inquiry, District management indicated that a review of operating system access privileges would be included in their internal audit process. District personnel further indicated certain controls (e.g., department monitoring of respective budgets and related expenditures; independent bank account reconciliations; and supervisory monitoring of employee activities) somewhat compensated for the inappropriate access. However because the confidentiality, integrity, and availability of data within the finance and HR applications is dependent on the security of the operating system, the existence of unnecessary or inappropriate access privileges increased the risk that unauthorized disclosure, modification, or destruction of District data and IT resources may occur. Similar findings were noted in our report Nos. 2011-034 and 2013-044.

Recommendation: The District should perform periodic reviews of operating system access privileges and timely remove or adjust any unnecessary or inappropriate access detected.

Finding 14: Information Technology – Security Controls – User Authentication and Data Loss Prevention

Security controls are intended to protect the confidentiality, integrity, and availability of District data and IT resources. Our audit procedures disclosed certain District security controls related to user authentication and data loss prevention that needed improvement. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising District data and IT resources. However, we have notified appropriate District management of the specific issues. Without adequate security controls related to user authentication and data loss prevention, the risk is increased that the confidentiality, integrity, and availability of District data and IT resources may be compromised. A similar finding related to data loss prevention was communicated to District management in connection with our report No. 2013-044.

Recommendation: The District should monitor the ongoing effectiveness of security controls related to user authentication and improve 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 noted in Findings 7, 11, 13, and 14 and shown in Table 3.

Table 3
Findings Also Noted in Previous Audit Reports

Finding	2013-14 Fiscal Year CPA Firm Financial Audit Report, Finding	2012-13 Fiscal Year CPA Firm Financial Audit Report, Finding	2011-12 Fiscal Year Operational Audit Report No. 2013-044, Finding	2008-09 Fiscal Year Operational Audit Report No. 2011-034, Finding
7	2011-01	2011-01	Not Applicable	Not Applicable
11	2014-2	Not Applicable	Not Applicable	Not Applicable
13	Not Applicable	Not Applicable	10	5
14	Not Applicable	Not Applicable	11	Not Applicable

OBJECTIVES, SCOPE, AND METHODOLOGY

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

We conducted this operational audit from May 2015 to January 2016 in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. 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.

As described in more detail below, 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.

Our audit included the selection and examination of records and transactions. Unless otherwise indicated in this report, these records and transactions were not selected with the intent of statistically projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

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

In conducting our audit we:

- Reviewed the District's written information technology (IT) policies and procedures to determine whether the policies and procedures addressed certain important IT control functions such as systems development and maintenance, network configuration management; system backups, security administration; and disaster recovery.
- Reviewed District procedures for maintaining and reviewing access to IT resources. We examined access privileges to selected critical finance and human resources functions for all employees to determine the appropriateness and necessity based on employees' job duties and adequacy with regard to preventing the performance of incompatible duties. In addition, we examined the access privileges for all 11 employees with network administrator access and the access privileges of all 34 user profiles with special authority access for the operating system for the finance and human resource (HR) applications. We also examined the access privileges for all 7 accounts with application administrator access privileges to the finance and HR applications.
- Evaluated District procedures to prohibit former employees' access to electronic data files. We selected and examined access privileges for 30 of the 1,674 users with access to electronic data files as of February 25, 2015, and determined whether they were current employees.
- Evaluated the District's written policies, procedures, and programs in effect governing the classification, management, and protection of sensitive and confidential information.

- Determined whether a comprehensive IT disaster recovery plan was in place, designed properly, operating effectively, and had been recently tested.
- Examined selected operating system, database, network, and application security settings to determine whether authentication controls were configured and enforced in accordance with IT best practices.
- Determined whether a comprehensive, written IT risk assessment had been developed to document the District's risk management and assessment processes and security controls intended to protect the confidentiality, integrity, and availability of data and IT resources.
- Determined whether a comprehensive IT security awareness and training program was in place.
- Evaluated IT procedures for requesting, testing, approving, and implementing changes to the District's business system.
- Evaluated policies and procedures and examined supporting documentation to determine whether audit logging and monitoring controls were configured in accordance with IT best practices.
- Reviewed the District's Student and Faculty Use policies for electronic media to determine whether the policies included appropriate controls.
- Evaluated the adequacy of written policies and procedures related to security incident response and reporting.
- Evaluated the District data center's physical access controls to determine whether vulnerabilities existed.
- Determined whether a fire suppression system had been installed in the data center.
- Examined Board, committee, and advisory board minutes to determine whether Board approval was obtained for policies and procedures in effect during the audit period and for evidence of compliance with Sunshine Law requirements (i.e., proper notice of meetings, ready access to the public, and maintenance of minutes).
- Examined District records to determine whether the District had developed an anti-fraud policy and procedures to provide guidance to employees for communicating known or suspected fraud to appropriate individuals. We also examined District records to determine whether the District had implemented appropriate and sufficient procedures to comply with its anti-fraud policy.
- Applied analytical procedures to determine whether the District's General Fund total unassigned and assigned fund balances at June 30, 2015, was less than 3 percent of the Fund's projected revenues, as specified in Section 1011.051, Florida Statutes. We also performed analytical procedures to determine the reasonableness of, and the ability of the District to make, the District's future debt service payments.
- From the population of $2,592,945 total expenditures and $19,282,970 total transfers, made during the 2014-15 fiscal year from nonvoted capital outlay tax levy proceeds (accounted for in the Local Capital Improvement Fund), Public Education Capital Outlay funds, and other restricted capital project funds, examined documentation supporting selected expenditures and transfers totaling $730,657 and $2,188,375, respectively, to determine compliance with the restrictions imposed on the use of these resources.
- Selected 15 expenditures totaling $295,761 from the population of $710,365 total Workforce Development funds expenditures and examined supporting documentation to determine whether the District used funds for authorized purposes (i.e., not used to support K-12 programs or District K-12 administrative costs).
- From the population of 551 adult general education instructional students reported for 45,773 contact hours, selected and examined District records for 30 students with 1,110 reported

contact hours to determine whether the District reported the instructional contact hours in accordance with Florida Department of Education requirements.

- Examined a total of nine statements of financial interests for the District Superintendent, Board members, Chief Financial Officer, and certain purchasing agents to determine whether the statements of financial interests were appropriately filed pursuant to Section 112.3145, Florida Statutes.
- Examined the District's Web site to determine whether it included the District's proposed, tentative, and official budgets pursuant to Section 1011.035(2), Florida Statutes.
- Examined District records to determine whether District procedures for preparing the budget were sufficient to ensure that all potential expenditures were budgeted.
- Examined District budgets and amendments to budgets to determine whether they were prepared and adopted in accordance with State law and State Board of Education (SBE) rules.
- Examined financial reports and analyses presented to the Board to determine whether they included comparisons of financial results with budget estimates and reviewed the reports and analyses for reasonableness.
- Reviewed District records to determine whether the District established an audit committee and followed prescribed procedures to contract for audit services pursuant to Section 218.391, Florida Statutes, for the 2 preceding fiscal years.
- Examined documentation to determine whether required internal funds audits and the component unit audits for the current and 2 preceding fiscal years were timely performed pursuant to SBE Rule 6A-1.087, Florida Administrative Code (FAC), SBE Rule 6A-1.0013, FAC, and Section 218.39(1)(e), Florida Statutes, and whether the audit reports were presented to the Board.
- Examined District records supporting the total population of $37,057 for payments, transfers, and loans made during the 2014-15 fiscal year from the District to its direct-support organization to determine the legal authority of such transactions.
- Reviewed District policies and procedures and evaluated controls over the Transportation Department inventory to determine the adequacy of District controls for safeguarding the inventory items.
- Reviewed rules and procedures related to performing annual inventory counts of tangible personal property (TPP). We examined documentation supporting the District's annual physical inventory of TPP to determine whether the inventory had been properly conducted, the results of the inventory had been reconciled to the property records, and the District had adequately followed-up on any missing property.
- Reviewed District records to determine whether severance payments were made during the 2014-15 fiscal year. We also evaluated severance pay provisions in 10 employee contracts to determine whether the severance pay provisions complied with Section 215.425(4), Florida Statutes.
- Examined District records to determine whether the Board adopted a salary schedule with differentiated pay for both instructional personnel and school-based administrators based on District-determined factors, including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties in compliance with Section 1012.22(1)(c)4.b., Florida Statutes.
- From the population of 3,314 employees compensated a total of $73,697,010, examined District records for 30 selected employees who were compensated a total of $37,186 for a selected pay period to determine the accuracy of the rate of pay and whether supervisory personnel reviewed and approved employee reports of time worked.

- Reviewed records for 30 employees selected from the population of 3,358 employees to assess whether personnel who had direct contact with students were subjected to the required fingerprinting and background checks.
- Examined Department of Highway Safety and Motor Vehicle and District records to assess whether District procedures were adequate to ensure that all 156 bus drivers were properly licensed and monitored.
- Reviewed District policies and procedures to determine whether health insurance was provided only to eligible employees, retirees, and dependents and that such insurance was timely canceled upon an employee's separation from District employment. We also determined whether the District had procedures for reconciling health insurance costs to employee, retiree, and Board-approved contributions.
- Reviewed District procedures for bidding and purchasing health and life insurance and the reasonableness of procedures for acquiring other types of commercial insurance to determine whether the basis for selecting insurance carriers was documented in District records and conformed to good business practice.
- For one construction project in progress during the 2014-15 fiscal year, with contract amounts totaling $3.4 million, examined documentation supporting 2 selected payments, totaling $205,318, to determine compliance with contract terms and conditions, District policies and procedures, and provisions of State law and rules. In addition, for this project, we determined whether the architects and engineers engaged during the audit period were properly selected and, where applicable, had provided evidence of required insurance. Also, we determined whether the construction contract was awarded pursuant to competitive bids and contained a penalty clause and whether District personnel obtained a payment and performance bond for the project.
- From the population of 11,483 purchasing card (P-card) transactions totaling $2,148,717.76 during the 2014-15 fiscal year, selected documentation supporting 30 transactions, totaling $78,044, to determine whether P-cards were administered in accordance with District policies and procedures. We also determined whether the District timely canceled the P-card for the one employee who had been assigned a P-card and separated from District employment during the 2014-15 fiscal year.
- Determined whether rebate revenues totaling $39,697.13 for the P-card program and $22,916.35 for the e-Payable program were allocated to the appropriate District funds.
- Reviewed District policies and procedures related to identifying potential conflicts of interest. For District employees required to file statements of financial interests, we reviewed Department of State, Division of Corporation, records; statements of financial interests; and District records to identify any potential relationships that represent a conflict of interest with District vendors.
- Reviewed District policies and procedures related to electronic funds transfers (EFTs) to determine whether an appropriate separation of duties existed. We also reviewed agreements related to three banking and three investment accounts to determine whether such agreements set forth the responsibilities each party and included the manual signatures of the Board Chair, Superintendent, and employees authorized to initiate EFTs in accordance with SBE Rule 6A-1.0012, FAC.
- Evaluated procedures and records developed by the District related to facilities management, including the establishment of a construction capital planning team, development of a priority response matrix for the maintenance department, and establishment of a construction team to review construction techniques and delivery methods available for construction and maintenance projects.
- Examined supporting documentation, including the contract documents, for 16 selected consultant contract payments, totaling $305,304, from the population of 107 consultant contracts

totaling $1,525,119.40 in progress during the 2014-15 fiscal year to determine whether the District complied with competitive selection requirements, and if the contracts clearly specified deliverables, timeframes, documentation requirements, and compensation. In addition, we examined the supporting documentation to determine whether the District complied with Section 112.313, Florida Statutes, and had not contracted with its employees for services provided beyond those in their salary contracts. We also examined documentation for the 16 payments for proper support and compliance with contract terms.

- Determined whether the District had adequate policies and procedures for administering the District's Virtual Instruction Program (VIP).
- Reviewed District records to determine whether the District provided the required VIP options and properly informed parents and students about students' rights to participate in a VIP and the VIP enrollment periods as required by Section 1002.45(1)(b) and (10), Florida Statutes.
- Reviewed District accounting records to determine whether the District refrained from assessing registration or tuition fees for VIP participation as required Section 1002.45(3)(e), Florida Statutes.
- Reviewed District 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 as required by Section 1002.45(3)(a) and (b), Florida Statutes.
- Reviewed student records and District procedures to determine whether the District ensured that VIP students were provided with all necessary instructional materials, and for those eligible students who did not already have such resources in their home, computing resources necessary for program participation as required by Section 1002.45(3)(c) and (d), Florida Statutes.
- From the population of 2,259 students enrolled in the District VIP, selected and examined District records for 30 students to determine whether the students met the statutory eligibility requirements prescribed by Section 1002.45(5), Florida Statutes.
- From the population of 2,259 students enrolled in the District VIP, selected and examined District records for 30 students to determine whether the students met statutory participation requirements, including compulsory attendance and State assessment testing requirements as required by Section 1002.45(6)(a) and (b), Florida Statutes.
- Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.
- Prepared and submitted for management response the findings and recommendations that are included in this report and which describe the matters requiring corrective actions. Management's response is included in this report under the heading ***MANAGEMENT'S RESPONSE***.

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.

Sherrill F. Norman, CPA
Auditor General

MANAGEMENT'S RESPONSE

The School District of Hernando County, Florida
Superintendent of Schools
919 North Broad Street
Brooksville, FL 34601
Phone: (352) 797-7000
Fax: (352) 797-7010

Superintendent: *Lori M. Romano, Ph.D.*
Board Chairperson: *Matthew A. Foreman*
Vice Chairperson: *Beth Narverud*
Board Members:
Susan Duval
Gus Guadagnino
Mark Johnson

March 24, 2016

Sherrill F. Norman, CPA
Auditor General
111 West Madison Street
Tallahassee, FL 32399

Re: Hernando County District School Board Preliminary and Tentative Audit Findings for the Fiscal Year Ended June 30, 2015

Dear Mrs. Norman,

Pursuant to the list of Preliminary and Tentative Audit Findings and Recommendations for the Hernando County District School Board for the Fiscal Year ended June 30, 2015, please accept the following written response as requested.

Finding No. 1: Financial Condition
The reclassification of Workforce Education program funds as restricted resulted in the assigned/unsigned fund balance being reduced to below 3 percent. The District acknowledges that the appropriate classification of workforce education program fund will be reported as restricted going forward and has developed a plan for the spending of the remaining workforce education funds.

Upon notification by the Florida Auditor General that the workforce education funds would be reclassified as restricted, the Superintendent, as required by Florida Statute, provided written notification to the Florida Department of Education of the change in our ending General Fund balance. The District will continue to work toward restoring our assigned/unassigned fund balance to greater than the 3 percent minimum threshold.

Finding No. 2: Budgetary Controls and Financial Monitoring
The District acknowledges that official financial reports need to be prepared and provided to the Board for proper monitoring of the District's financial condition. The District has strengthened its preparation and review process of the monthly financial statements by establishing a set timeline for the School Board to receive, review, and approve these documents.

Furthermore, the District has established a Budget Advisory Committee which will provide additional oversight of the budget development process. The District will continue to evaluate staff allocation formulas, monitor revenue projections, and strengthen our budget development procedures.

The District will enhance its methodology for determining fund balance classifications. Future identification of fund balance amounts as either non spendable, restricted, committed, assigned, or unassigned will be closely monitored to ensure accurate reporting in accordance with GASB Statement No. 54, Fund Balance Reporting.

It is the policy of the Hernando County School District not to illegally discriminate or allow its employees to illegally discriminate on the basis of race, color, religion, national origin, age, sex, marital status, disability or GINA in its educational programs or employment practices.

Finding No. 3: Journal Entries
The District has removed security access to TERMS Journal Entry Panel F612 for multiple employees. In addition, the District has established a new internal process utilizing the AS/400 journaling function or posting journal entries, limiting who has access to post journal entries.

Finding No. 4: Ad Valorem Taxation
For the following personnel, the District agrees with the findings and future corrections will be made:

- Three Grounds keeping personnel
- Three Safety & Security personnel
- Director of Facilities, Maintenance and Security

For the following personnel, the District respectfully disagrees with this finding:

- Two Vehicle Maintenance Technicians

The vehicle maintenance technicians maintain and repair the asset of motor vehicles used for maintenance and/or operation of plants and equipment. This is similar to maintenance personnel maintaining the building asset. The maintenance motor vehicles can be purchased using Capital funds, as per paragraph (a) in section 5 of 1011.7. Thus, the personnel required to maintain this capital purchase should also be allowed under Capital funds.

For the following personnel, the District does not agree with the finding:

- Three Telecommunications personnel

The Telecommunications salaries represent 100 percent of their time on job related activities which represent allowable use of ad valorem tax levy proceeds. Although the District agrees that staff did not maintain adequate time record logs, the District feels that all job responsibilities were directly related to maintenance and repair of school and facility buildings. The Telecommunications Department will enhance the recording of time spent on job related activities to accurately report time as such use of ad valorem funds.

Regarding custodial personnel, the District respectfully disagrees that custodial salaries cannot be funded from Capital funds. In Chapter 1013.1 of Paragraph 12 of Florida Statutes, the term "maintenance and repair" does not include custodial or grounds keeping functions. This statement only applies to the definition of the term and does not address custodial personnel being considered for Capital funding. For example, within the same paragraph it lists a duty performed by custodians, resurfacing of floors, as well as repainting of interior or exterior surfaces, which custodians often are tasked with as "all other duties as "assigned" or directly written into their job description.

Florida Statute, Section 1011.71, Paragraph (g) states: "payment of costs directly related to complying with state and federal environmental statutes, rules and regulations governing school facilities." Since custodians maintain the school facilities and the facilities are directly related to one's environment, maintenance through cleaning should be considered capital. Chapter 4 of SREF, as well as Florida Statute, Section 1013.12 directly state that periodic inspections must occur to determine standards of sanitation. This would mean it is required by State Statute that K-12 schools are cleaned to the accepted levels (by inspection), thus requiring personnel to be hired to meet these standards or levels.

Regarding "Other Expenditures," the District agrees that these costs were not allowable uses and these funds were used in error. The District has put into place safeguards to ensure future errors are not made. Although the District does not agree with this finding, we will consult with Department of Education for an appropriate resolution.

It is the policy of the Hernando County School District not to illegally discriminate or allow its employees to illegally discriminate on the basis of race, color, religion, national origin, age, sex, marital status, disability or GINA in its educational programs or employment practices.

Finding No. 5: Architect Competitive Selection
We recognized the fault in the selection process prior to the audit and have reviewed statutes regarding competitive selections. We plan to develop a matrix outlining dollar amounts and thresholds for professional services and bid documents for use by Facilities staff in determining the proper procedure and processes for capital construction.

Finding No. 6: Direct Support Organization
The District does not agree that it is owed a reimbursement of $21,340 from the Foundation, the Direct Support Organization as recognized by the District. The District does not believe it cannot make payments to or on behalf of the Foundation. Per Florida Statute 1001.453 a Direct Support Organization can receive funding from the District for the use of property, facilities, and personnel services. Further, the statute is silent as to any additional approved expenditures, meaning it does not specifically state for what services a DSO cannot receive funding from a District and in our opinion it was acceptable to provide funding for audit services. Also, the District did provide additional documentation supporting the full use of funds by the DSO for employee wellness programs except for $7,829.00 which the District has recovered from the DSO. Although the District does not agree with this finding, we will consult with Department of Education for the appropriate resolution.

Finding No. 7: Payroll Processing
The District has put payroll processing controls in place that requires administrators to approve all leave entries, earned compensatory time, paid over time and approval of all employees' time worked. All time is certified accurate and submitted by the site administrator when submitted to the payroll department for processing. The Payroll Department has put a process in place to obtain a random sample of the sign in/out sheets on a quarterly basis to verify compliance with the payroll process procedures.

Finding No. 8: Bus Drivers
The District accepts this finding. The Transportation Department has implemented new procedures to pull the Florida Department of Highway Safety and Motor Vehicles (FDHSMV) driver's history. The Assistant Director of Transportation is presently pulling the weekly drivers' history reports. The history report is then given to the Safety and Training Specialist to act upon any situation that needs to be addressed. The Transportation Department will continue to enhance this process.

Finding No. 9: Health Insurance
The District concurs with the auditor's recommendation to establish and implement written procedures to reconcile health insurance billings to District records. The Finance department worked with Technology Information Services (TIS) and Employee Benefits to develop a insurance billing comparison report which will enhance the reconciliation process. This report will identify discrepancies between employee health insurance deductions and health insurance billing. As recommended, the District developed written procedures to reconcile health insurance billings to District records. Quarterly reconciliations will ensure all records are accurate and confirm that premiums paid match to plan participation.

Finding No. 10: Insurance Bids
The District does not agree that it has violated rules governing purchasing health insurance. In our initial contract with Florida Blue in 2001 we went out for competitive bid and selected Florida Blue as our carrier. Since that initial contract we have directly negotiated our renewal contracts each year. Also, per Florida Statute 112.08(2) (a) states: "Notwithstanding any general law or special act to the contrary, before entering into any contract for insurance, the local governmental unit shall advertise for competitive bids." There is an exemption from competitive bidding procedures for purchasing insurance for District School Boards under State Board of Education Rule 6A-1.012(15). According to this rule, a District School Board, when purchasing insurance, entering risk management programs or contracting with third party administrators, may make any such acquisitions through the competitive solicitation process or by direct negotiations. We determined this to be the authority for the District to continue our direct negotiation process. This year our School Board is considering an RFP for health insurance.

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Finding No. 11: Capital Assets
The District accepts this finding. Several systems have already been put into place and others are in the process of being clearly defined to staff in an effort to correct the deficiencies and discrepancies found.

Finding No. 12: Transportation Inventory Control
The District accepts this finding. The Transportation Department has established written procedures that will separate the inventory duty with our existing personnel. We have also begun the development of a complete inventory plan that includes building modifications to safeguard inventory to limited access to unauthorized personnel. The new process should be completed by the end of this fiscal year.

Finding No. 13: Information Technology Access Privileges
The Technology and Information Services department has removed all questionable user level access. Procedures have been put into place to ensure that the users have access to our test environment in order to test requested changes. This change will ensure that our data is secure, confidential and handled with integrity.

Finding No.14: Information Technology Security Controls
Technology Information Services Department has network security policies in place that require users to change their passwords every 30 days. This information will be communicated to all District staff over the summer. This finding was due to the Facilities and Maintenance Department not having this security policy in place.

We would like to extend our appreciation to your staff for their assistance throughout the audit process. If you should have any concerns, please contact Kendra Sittig, Director of Budget, or Joyce McIntyre, Director of Finance & Purchasing, at (352) 797-7004.

Sincerely,

Lori Romano

Lori M. Romano, Ph.D.
Superintendent

cc: School Board Members
Eric C. Williams, Deputy Superintendent
Heather Martin, Executive Director of Business Services

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