STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

Report No. 2017-092
January 2017

MANATEE COUNTY
DISTRICT SCHOOL BOARD



Sherrill F. Norman, CPA
Auditor General

Board Members and Superintendent

During the 2015-16 fiscal year, Dr. Diana Greene served as Superintendent of the Manatee County schools and the following individuals served as School Board Members:

	District No.
Robert C. Gause, Chair to 11-16-15	1
Charlie Kennedy, Vice-Chair from 11-17-15	2
Dave “Watchdog” Miner, Vice Chair to 11-16-15	3
Karen Carpenter, Chair from 11-17-15	4
Dr. Mary Cantrell to 7-12-15 [a]	5
John A. Colón from 9-4-15	5

[a] Member deceased; position was vacant 7-13-15 through 9-3-15.

The team leader was Rachel P. Sellers, CPA, and the audit was supervised by Karen J. Collington, CPA. For the information technology portion of this audit, the team leader was Vikki Mathews, CISA, and the supervisor was Heidi G. Burns, CPA, CISA.

Please address inquiries regarding this report to Micah E. Rodgers, CPA, Audit Supervisor, by e-mail at micahrodgers@aud.state.fl.us or by telephone at (850) 412-2905.

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MANATEE COUNTY DISTRICT SCHOOL BOARD

SUMMARY

This operational audit of the Manatee County School District (District) focused on selected District processes and administrative activities and included a follow-up on certain findings noted in our report No. 2014-079 and the finding noted in our report No. 2016-123. Our operational audit disclosed the following:

Finding 1: District controls over the bank reconciliation process continue to need enhancement.

Finding 2: District records did not always document noninstructional administrative personnel time worked or supervisory review and approval of such time.

Finding 3: The Board had not adopted formal policies and procedures establishing a documented process to identify instructional personnel entitled to differentiated pay using the factors prescribed in State law. Similar findings were noted in our report No. 2014-079.

Finding 4: The District did not always base the eligibility of teachers for Florida Best and Brightest Teacher Scholarship Program awards on reliable and authentic records of college entrance exam scores. For example, in some cases, the District based teacher eligibility on temporary exam reports or scores handwritten on high school transcripts without taking additional efforts to confirm the accuracy of the scores.

Finding 5: The District needs to strengthen controls over cash collections at Manatee Technical College.

Finding 6: District controls over contractual service agreements and related payments continue to need enhancement.

Finding 7: The District did not offer the required number of virtual instruction program options. A similar finding was noted in our report No. 2014-079.

Finding 8: As similarly noted in our report No. 2014-079, the VIP provider contract did not contain certain necessary provisions.

Finding 9: District security controls related to user authentication and data loss prevention need improvement to ensure the continued confidentiality, integrity, and availability of District data and information technology resources. Similar findings were noted in our report No. 2014-079.

BACKGROUND

The Manatee County School District (District) is part of the State system of public education under the general direction of the Florida Department of Education, and is governed by State law and State Board of Education rules. Geographic boundaries of the District correspond with those of Manatee County. The governing body of the District is the Manatee County District School Board (Board), which is composed of five elected members. The appointed Superintendent of Schools is the executive officer of the Board. During the 2015-16 fiscal year, the District operated 54 elementary, middle, high, and

specialized schools; sponsored 12 charter schools; and reported 47,644 unweighted full-time equivalent students.

This operational audit of the District focused on selected processes and administrative activities and included a follow-up on selected findings noted in our report No. 2014-079 not previously followed up on, and the finding noted in our report No. 2016-123. The results of our audit of the District's financial statements and Federal awards for the fiscal year ended June 30, 2016, will be presented in a separate report.

FINDINGS AND RECOMMENDATIONS

Finding 1: Bank Reconciliations

Effective internal controls require that reconciliations of bank account balances to general ledger balances be performed on a timely, routine basis and be reviewed by supervisory personnel. Such reconciliations are necessary to provide reasonable assurance that cash assets agree with recorded amounts, permit prompt detection and correction of unrecorded or improperly recorded cash transactions or bank errors, and provide for the efficient and economic management of cash resources.

At June 30, 2016, the District reported cash and cash equivalent balances totaling $97.1 million. During the 2015-16 fiscal year, the District maintained cash and cash equivalents in six investment accounts and one bank account. According to District personnel, Finance Office personnel are responsible for preparing monthly investment and bank account reconciliations and supervisory personnel document review and approval of the reconciliations.

For the 2015-16 fiscal year, District records indicate that the investment account reconciliations were timely completed and reviewed; however, bank account reconciliations for this period were not timely completed. Specifically, the bank account reconciliations were performed 90 to 265 days, or an average of 187 days, after month-end. In response to our inquiries, District personnel indicated that the reconciliation delays occurred primarily because the Finance Department was not fully staffed.

Untimely bank account reconciliations increase the risk that any cash transaction errors or misappropriations that may occur will not be timely detected. Similar findings were noted in our report Nos. 2011-050 and 2014-079.

Recommendation: District management should ensure that reconciliations of the bank account balances to the general ledger balances be timely performed.

Finding 2: Payroll Processing – Time Records

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 pays noninstructional administrative employees[1] on a payroll-by-exception basis whereby the employees are paid a fixed authorized gross amount for each payroll cycle unless the amount is altered. A

[1] The District defines noninstructional administrative employees to include, for example, deputy superintendents, directors, principals, assistant principals, school psychologists, social workers, curriculum specialists, instructional specialists, and nurses.

payroll-by-exception methodology assumes, absent 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.

According to District personnel, to document time worked and leave used for employees, attendance check sheets (time sheets) are prepared that include the employee name and signature and days that the employee worked or was on leave. District procedures require supervisors to sign the time sheets to certify that the information listed is complete and correct to the best of their knowledge. While the time sheets are required to be prepared for all worksites, District procedures do not require the time sheets to be submitted to the Payroll Department. To report leave for payroll purposes, noninstructional administrative employees complete leave forms, supervisors review and approve the forms, and, based on the forms, supervisors complete leave exception reports that are sent to the Payroll Department. The Payroll Department then enters the leave into the payroll system using the leave exception reports.

During the 2015-16 fiscal year, the District had 553 noninstructional administrative employees who were compensated a total of $33.9 million. From the population of 7,439 employees compensated a total of $159.3 million for the period July 1, 2015, through March 31, 2016, we examined District records supporting 30 selected payroll transactions totaling $49,125 to determine whether leave recorded on time sheets agreed with leave exception reports and supervisory personnel reviewed and approved the time sheets. We found that, at Bayshore High School, one noninstructional administrative employee did not have a time sheet that documented time worked. Upon our further review, we noted that the time sheets for the 2015-16 fiscal year for Bayshore High School were only completed for leave taken and hours worked were not documented. According to District records, there were 10 noninstructional administrative employees at this school who were compensated a total of $665,532 for the 2015-16 fiscal year.

In response to our inquiries, District personnel indicated that, since time sheets were not required to be submitted to the Payroll Department, the Department was unaware that the time sheets were not properly completed for this site. Without time sheets that document time worked and supervisory review and approval of these records, there is limited assurance that employee services were provided consistent with Board expectations. In addition, without appropriate records of time worked and supervisory approval, there is an increased risk that employees may be incorrectly compensated and employee leave balances may not be accurate.

Recommendation: The District should establish procedures to ensure that all noninstructional administrative employees report time worked on time sheets and supervisory review and approval of such time is documented. Such procedures should require that the Payroll Department periodically obtain and verify whether time sheets are properly prepared, reviewed, and approved and support the compensation payments and employee leave balances.

Finding 3: Compensation and Salary Schedules

State law[2] requires the Board to designate positions to be filled, prescribe qualifications for those positions, and provide for the appointment, compensation, promotion, suspension, and dismissal of

[2] Section 1001.42(5)(a), Florida Statutes.

employees. State law[3] also provides that, for instructional personnel, the Board must provide differentiated pay based upon District-determined factors including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties.

While compensation of instructional personnel is typically subject to collective bargaining, the Board had not adopted formal policies and procedures establishing a documented process to identify instructional personnel entitled to differentiated pay using the factors prescribed in State law. Such a documented process could specify the factors to be used as the basis for determining differentiated pay, the process for applying the factors, and the individuals responsible for making such determinations.

During the 2015-16 fiscal year, the District compensated 4,575 instructional personnel totaling $152.3 million. Our examination of the instructional personnel salary schedule disclosed that the schedule provided for differentiated pay based on additional responsibilities, such as sponsoring classes, directing bands, and coaching athletics, and for critical shortage areas such as a one-time hiring supplement for Title I teachers at middle or high schools. However, contrary to State law, District records did not evidence instructional personnel differentiated pay based on the factors of school demographics or level of job performance difficulties.

In response to our inquiry, District personnel indicated that the two factors were omitted because union negotiations were not resolved to include these factors in instructional personnel salaries. Notwithstanding this response, without a Board-established documented process for determining which instructional personnel are to receive differentiated pay, the District's ability to demonstrate that the various differentiated pay factors are consistently considered and applied may be limited. Similar findings were noted in our report Nos. 2011-050 and 2014-079.

Recommendation: The Board should establish a documented process for identifying instructional personnel entitled to differentiated pay based upon the factors prescribed in State law.

Finding 4: Florida Best and Brightest Teacher Scholarship Program

The Florida Legislature established the Florida Best and Brightest Teacher Scholarship Program (Program)[4] to reward teachers who achieved high academic standards during their own education. Pursuant to General Appropriations Act proviso language,[5] to be eligible for a scholarship, a teacher must have scored at or above the 80th percentile on a college entrance exam based on the percentile ranks in effect when the teacher took the assessment and have been evaluated as highly effective pursuant to State law,[6] or if the teacher is a first-year teacher who has not been evaluated pursuant to State law, must have scored at or above the 80th percentile on a college entrance exam based on the percentile ranks in effect when the teacher took the assessment. To demonstrate eligibility for a scholarship award, an eligible teacher must submit to the District an official record of his or her college entrance exam score demonstrating that the teacher scored at or above the 80th percentile based on the percentile ranks in

[3] Section 1012.22(1)(c)4.b., Florida Statutes.

[4] Section 1012.731, Florida Statutes (2016).

[5] Chapter 2015-232, Specific Appropriation 99A, Laws of Florida.

[6] Section 1012.34, Florida Statutes.

effect when the teacher took the assessment. Additionally, District procedures require teachers to complete and submit scholarship applications. On the applications, teachers must certify that they are submitting official documentation of college entrance exam scores at or above the 80th percentile. Pursuant to State law,[7] once a classroom teacher is deemed eligible by the District, including teachers deemed eligible in the 2015-16 fiscal year, the teacher shall remain eligible as long as he or she remains employed by the District as a classroom teacher at the time of the award and receives an annual performance evaluation rating of highly effective.

District personnel are responsible for determining teacher eligibility for scholarship awards and annually submitting the number of eligible teachers to the Florida Department of Education (FDOE). The FDOE disburses scholarship funds to the District for each eligible classroom teacher to receive a scholarship as provided in the applicable General Appropriations Act.

During the 2015-16 fiscal year, the District awarded Program scholarships totaling $727,532 to 89 teachers. Our examination of District records supporting scholarship awards totaling $286,108 to 35 selected teachers disclosed that, for 1 teacher who received an award of $8,174, the District based the teacher's eligibility on the teacher's evaluation of highly effective and a high school transcript that showed handwritten college entrance exam scores from the teacher's May 1981 exam. In addition, the District based the eligibility of 2 teachers who received awards totaling $16,348 on the teachers' evaluations of highly effective and temporary exam reports of college entrance exams in October 1988 and December 2001 obtained from the exam providers.

In response to our inquiry, District personnel indicated that the records used to support the scholarship awards were based on guidance provided by the FDOE, which indicated that school districts had the authority to determine what was considered an official record. Notwithstanding this response, as of November 2016, District personnel had not independently corroborated the handwritten college entrance exam scores or the temporary score reports with the scores on other records, such as college transcripts or final exam reports. District confirmation of college entrance exam scores based on reliable and authentic records, such as college transcripts or final exam reports, would provide better assurance that the scores are accurate and teachers are eligible for the scholarships.

Recommendation: The District should ensure that Program scholarships are awarded to eligible recipients based on college entrance exam scores reported on reliable and authentic records. Such records could include college transcripts or final exam reports.

Finding 5: Manatee Technical College Tuition and Fee Collections

The District operates a post-secondary institution, Manatee Technical College (MTC), which provides adult and career and technical education at four campuses and three satellite sites. The Business Office at the MTC Main Campus, eight decentralized locations at the four campuses, and three satellite sites collect cash, checks, and debit and credit card payments for student tuition and fees and other revenues. For the 2015-16 fiscal year, MTC recorded and deposited collections of $5.6 million into the MTC internal

[7] Section 1012.731(3)(b), Florida Statutes (2016).

funds bank account, including $3.8 million that was transferred to the District General Fund for student tuition and fees.

According to MTC personnel, unwritten procedures require the campus cashiers, at the end of their shift, to reconcile the point-of-sale (POS) system register recorded sales to the actual collections and place the collections in campus safes or locking file cabinets. MTC personnel at the three satellite sites prepare prenumbered manual receipts for collections and the receipts and the collections are delivered to the West Campus the following work day. While cashiers at the Main Campus submit their collections directly to the Business Office, couriers deliver the North, East, and West Campuses' collections to the Business Office. Business Office personnel reconcile the collections to the POS system recorded sales and make daily deposits.

Effective controls over revenue collections ensure that collections are appropriately accounted for and properly safeguarded. Such controls include, for example, routine independent fee audits of student enrollment and recorded tuition and fee collections and deposits. If it is not practical to prepare independent fee audits of all student enrollment and recorded tuition and fee collections and deposits, fee audits prepared for selected locations based on risk assessments, are necessary. In the absence of routine fee audits, compensating controls such as supervisory review and approval of fee collections and supporting documentation should be implemented. Effective controls should also require and ensure that the incompatible duties of collecting cash, recording accounts receivable, and billing customers are appropriately separated. If a sufficient number of staff are not available to appropriately separate duties, compensating controls such as independent reconciliations of deposits to supporting documentation, are necessary.

Our examination of District records and discussions with District personnel disclosed that independent fee audits were not prepared nor were controls in place to compensate for the lack of fee audits. In response to our inquiries, MTC personnel indicated that fee audits had not been prepared due to the lack of available staff; however, MTC personnel were in the process of establishing a time frame to complete a fee audit during the 2016-17 school year. Such fee audits would provide additional assurance that cash collections are appropriately accounted for and reported.

According to District personnel and District records for January and March 2016, the MTC encountered two incidents related to financial discrepancies, including discrepancies in student fee collections that concerned District management and the Audit Committee. The District engaged a certified public accounting (CPA) firm to perform certain agreed-upon procedures relating to these discrepancies for the period July 2014 through March 2016. The procedures included, for example, an assessment of the sufficiency of controls over the MTC Business Office, campus collection location, and satellite site cash receipt processes. The CPA firm issued a report, dated August 2016, that disclosed various control deficiencies in MTC operations. For example, the report indicated that:

- Because the MTC internal funds general ledger system did not establish expenditure accounts, MTC personnel record expenditure transactions as offsets in the revenue accounts. As such, the MTC could not generate financial reports to separately identify total expenditures or total revenues. In addition, neither the MTC financial system nor the POS system have the ability to readily identify the collections for student tuition and fee revenue by revenue type or by student. Absent established expenditure accounts, neither the District nor MTC personnel have the ability to ensure that recorded transactions appropriately account for MTC activities.

- According to manual records maintained for the Cardiopulmonary Resuscitation (CPR) Program at the East Campus Community Training Center (Center), the CPR Program received collections totaling $61,459. However, two employees at the Center had incompatible duties as they were responsible for recording CPR Program customer receivables, billing customers for the receivables, and collecting cash associated with the receivables. According to District personnel, these duties had not been separated due to the limited number of staff. Further, the Center did not have effective controls, such as documented supervisory review and approval of CPR Program receivables and cash related activities or transactions, to compensate for the inadequate separation of duties. Without adequate separation of duties or, if appropriate, effective compensating controls, errors or fraud, should they occur, may not be timely detected.
- At all four campus collection locations, several individuals had access to cash in the same cash drawers, campus safes, and locked file cabinets. For example, for the Cosmetology Program at the Main Campus, one cash register was used by several employees and, at the East Campus, all cashiers and administrative assistants had access to the keys for the locked file cabinet where collections were stored. In response to these concerns, District personnel indicated that District procedures did not address custodial safekeeping. Without established responsibility for cash custody, the District may be limited in its ability to effectively fix responsibility should a loss of collections occur.
- At the Main, East, and West Campuses, supervisory personnel did not review and approve, of record, the documented cash drawer counts, and related reconciliations of counts, to supporting records and cash overages and shortages were not identified in a formal fashion or reported and monitored for evaluation by management. According to District personnel, District policies did not address documented supervisory review and approval of cash drawer counts. The lack of documented supervisory review of cash drawer counts and effective procedures to monitor cash, including any overages and shortages, increases the risk of theft without timely detection.
- Cashiers could void transactions with no supervisory review and approval and refund money directly from their cash drawer the same day the transaction occurred. Voids were printed on the daily deposit reconciliation receipt form, but there was no documented supervisory review and approval of the voided transactions. According to District personnel, the District had not established procedures to monitor these transactions. Absent such procedures, there is an increased risk that voided transactions could be recorded to conceal the theft of collections without timely detection.

In response to the CPA report, the District drafted action plans to address the findings that include, for example, development of general ledger accounts that meet the needs of the MTC and the District. In addition, MTC personnel and the District are developing and will publish policies and procedures for all aspects of the cash receipting process from the initial collection points to bank deposits and subsequent bank account reconciliations.

Recommendation: The District should continue efforts to:

- **Establish proper general ledger accounts for recording MTC account activities, including expenditure transactions and student tuition and fee revenue by revenue type and by student.**
- **Separate, to the extent possible with existing personnel, the incompatible duties of recording customer receivables, billing customers, and collecting cash from customers for the CPR Program at the East Campus MTC Community Training Center. If, because of the limited number of staff, the separation of incompatible duties is not practical, compensating controls, such as documented supervisory review and approval of the CPR Program receivable and cash collection process, should be implemented.**

- **Effectively fix responsibility for cash custody at the collection locations at all four MTC campuses.**
- **Effectively monitor cash and document supervisory review and approval of cash drawer counts, including any overages and shortages, at the collection locations at all four MTC campuses.**
- **Document supervisory review and approval of voided transactions at the collection locations at all four MTC campuses.**
- **Perform independent fee audits to reconcile MTC tuition and assessed fees, based on enrollment records and approved tuition and fee rates, with recorded tuition and fee collections, deposits, and revenue.**

Finding 6: Contractual Services

Effective contract management ensures that contract provisions establish required services and related service times contracted services are satisfactorily received before payment. The Board routinely enters into contracts for services, and internal controls have been designed and implemented that generally ensure payments are consistent with contract terms and conditions.

For the 2015-16 fiscal year, contractual services payments totaled $17.9 million and, to determine the propriety of these payments, we examined District records supporting 47 selected payments totaling $1.9 million related to 47 contracts. While District controls over contractual services and related payments were generally adequate, we found that:

- Pursuant to State law,[8] the Board contracted with the Manatee County Sheriff's Office and three cities' police departments for 23 school resource officer (SRO) services at 28 District schools for the period August 24, 2015, through August 23, 2016. The four contracts identified the SROs' daily work locations and the hours that the schools are in regular session and indicated that their workday would correspond with the teacher's regular workday. The contracts also required the District to pay quarterly payments totaling $1.5 million for the contract period and the District made quarterly payments for the services based on the Sheriff's Office and city police department invoices. However, District procedures had not been established to require and ensure that school personnel with direct knowledge of the SRO services confirmed receipt of the services set forth in the contracts. In response to our inquiries, District personnel indicated that they relied on the Sheriff's Office and the city police departments to maintain time records to demonstrate the work efforts of these individuals.
- The Board approved a bid with a company for security systems installation, repair, parts, and accessories based on compensation rates of $52.50 to $78.75 per hour and material discounts of 15 to 42 percent off the manufacturer's suggested retail price. The Board contracted with the company and paid $83,777 for parts and services, including 420 labor hours for installation services at Nolan Middle School and Southeast High School.

  Our examination of the invoice supporting the $83,777 payment disclosed that it identified the net prices for parts and accessories and the labor hours and labor rate. Also, the invoice documented that District personnel with direct knowledge of the service confirmed satisfactory receipt of the services. However, according to District personnel, because the records only evidenced net prices paid for each part and accessory, they did not reconcile the material retail prices and discounts applied to bid and related contract terms. In addition, District personnel indicated that

[8] Section 1006.12, Florida Statutes.

they did not document, of record, whether the labor hours charged were reasonable. In response to our inquiries, the Director of Maintenance, Operations, and Central Distribution indicated that the maintenance and operations department had established procedures to reconcile invoice information to bid awards, but due to oversight, the procedures were not performed for the security systems purchase.

- The Board approved a bid for painting services with a compensation rate of $20 per hour and materials to be billed at cost plus 25 percent markup. The District paid the company $16,000 for 600 hours of labor and materials to power wash and paint 10 portables and the walkways around the portables at Orange Ridge Elementary School.

  The invoice supporting the $16,000 payment identified the cost plus markup price of the materials and the labor hours and labor rate. Also, the invoice documented that District personnel with direct knowledge of the service confirmed satisfactory receipt of the services. However, according to District personnel, they did not reconcile the materials billed and markup applied to bid award and related contract terms or document, of record, whether the labor hours charged were reasonable. In response to our inquiries, the Director of Maintenance, Operations, and Central Distribution indicated that, as similarly noted for the security systems purchase, District personnel did not reconcile the painting service invoice to the bid award.

Absent effective procedures requiring, prior to payment, documented confirmation that services, including SRO services, were satisfactorily received and complied with the contract provisions; the reconciliation of amounts invoiced, including appropriate discounts, to bid award and contract terms; and documented determinations of the reasonableness of labor hours charged, there is an increased risk that overpayments may occur or that the services provided may not be consistent with Board expectations. A similar finding was noted in our report No. 2014-079.

Recommendation: The District should establish procedures requiring, prior to payment for services, documented confirmation that services, including SRO services, were satisfactorily received and complied with the contract provisions; that amounts invoiced, including appropriate discounts, be reconciled to bid award and contract terms; and that documented determinations be maintained to demonstrate the reasonableness of labor hours charged.

Finding 7: Virtual Instruction Options

State law[9] requires school districts, under certain conditions, to provide students the option of participating, either full-time or part-time, in virtual instruction programs (VIPs). Under such option, for example, school districts may offer students the choice of VIP services provided by the school district, Florida Virtual School, another approved provider, another school district, or a virtual charter school.[10] Pursuant to State law,[11] as the District is not in a sparsely populated county, the District must offer three options for part-time and full-time virtual instruction for all grade levels.

During the 2015-16 fiscal year, the District enrolled 73 full-time and 562 part-time VIP students. District records evidenced that the District provided three virtual instruction options for students in grades 6 through 8 and only two virtual instruction options for students in kindergarten through grade 5 and grades 9 through 12. As a result, the District did not provide all students in all grade levels at least three

[9] Section 1002.45(1)(b), Florida Statutes.

[10] Section 1002.45(1)(c), Florida Statutes.

[11] Section 1002.45(1)(b), Florida Statutes.

virtual instruction options. In response to our inquiries, District personnel indicated that although they advertised for three options, due to a misunderstanding of the VIP participation option requirements, the District did not follow the statutory requirements when contracting with one of the providers. Without providing students in all grade levels with three options, the District limited student access to virtual instruction and cannot demonstrate compliance with State law. A similar finding was noted in our report No. 2014-079.

Recommendation: The District should ensure that all students are offered the number of virtual instruction options required by law.

Finding 8: Virtual Instruction Provider Contracts

State law[12] requires that each contract with an FDOE-approved VIP provider contain certain provisions. To ensure appropriate controls over data quality, minimum security controls, and provider contract compliance, VIP provider contracts need to contain other necessary provisions to establish the District's expectations for these providers. During the 2015-16 fiscal year, the District contracted with two FDOE-approved providers; however, District students only obtained services from one of the providers.

Our review of the District's contract with the FDOE-approved VIP provider that provided District student services disclosed that:

- The contract did not include data quality requirements. The provider is to maintain significant amounts of education data used to support the VIP administration and to meet District reporting needs for compliance with State funding, information, and accountability requirements in State law.[13] Accordingly, it is essential that accurate and complete data maintained by the provider on behalf of the District be readily available. Inclusion of data quality requirements in the provider contract would help ensure that District expectations for the timeliness, accuracy, and completeness of education data are clearly communicated to the provider.
- The contract did not specify any minimum required security controls the District considered necessary to protect the confidentiality, availability, and integrity of critical and sensitive education data. While the contract contained requirements for the provider to implement, maintain, and use appropriate administrative, technical, or physical security measures required by Federal law,[14] without specified minimum required security controls, there is an increased risk that provider information security and other information technology (IT) controls may not be sufficient to protect the education data.
- The contract did not provide for the District's monitoring of provider compliance with contract terms or quality of instruction. Without such a provision, District personnel may be limited in their ability to perform monitoring. Such monitoring could include confirmation or verification that the VIP provider protected the confidentiality of student records and supplied students with necessary instructional materials.

[12] Section 1002.45(4), Florida Statutes.

[13] Section 1008.31, Florida Statutes.

[14] The Family Educational Rights and Privacy Act (Title 20, Section 1232g, United States Code).

A similar finding was noted in our report No. 2014-079.

Recommendation: The District should ensure that the FDOE-approved VIP provider contract includes provisions for promoting education data quality, specifying the minimum required security controls, and monitoring provider compliance.

Finding 9: 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 information technology resources. Our audit procedures disclosed that certain District security controls related to user authentication and data loss prevention need 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. Similar findings related to user authentication were communicated to District management in connection with our report Nos. 2011-050 and 2014-079. A similar finding related to data loss prevention was also communicated to District management in connection with our report No. 2014-079.

Recommendation: District management should improve security controls related to user authentication and 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 applicable findings included in our report Nos. 2011-050, 2014-079, and 2016-123, except as noted in Findings 1, 3, 6, 7, 8, and 9 and shown in Table 1.

Table 1
Similar Findings Also Noted in Previous Audit Reports

Finding	Operational Audit Report No. 2014-079, Finding	Operational Audit Report No. 2011-050, Finding
1	2	10
3	10	3
6	17	Not Applicable
7	26	Not Applicable
8	25	Not Applicable
9	33	13

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 April 2016 to November 2016 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 safeguarding of assets, and identify weaknesses in those controls.
- Determine whether management had taken corrective actions for findings included in our report Nos. 2014-079 and 2016-123.
- 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 transactions, as well as events and conditions, occurring during the 2015-16 fiscal year audit period, and selected District actions taken prior and subsequent thereto. 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 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 District procedures for maintaining and reviewing access to information technology (IT) resources. We also examined the access privileges granted and procedures for oversight of network administrator accounts and selected operating system accounts to determine whether these accounts had been appropriately assigned and managed. Specifically we:
  - Tested the 4 default network administrator system groups[15] that allow complete access to network resources resulting in the review of the appropriateness of administrator access privileges granted to 32 accounts for the network.
  - Tested the 10 accounts and 1 group[16] from our 2012-13 fiscal year audit assigned operating special authority access privileges.
  - Reviewed 32 of 64 employees who had access to the finance and human resource applications to determine the appropriateness and necessity of the access based on employees' job duties and user account functions and whether the access prevented the performance of incompatible duties.
- Reviewed District documentation to determine whether authentication controls were configured and enforced in accordance with IT best practices.
- Reviewed District procedures and reports related to the capture and review of system activity that were designed to ensure the appropriateness of access to and modification of sensitive or critical resources.
- Reviewed District policies and procedures for responding to and reporting security incidents.
- Determined whether a comprehensive IT disaster recovery plan was in place, designed properly, operating effectively, and had been recently tested.
- Determined whether District policies and procedures were in effect governing the classification, management, and protection of confidential and sensitive information.
- Determined whether the District had developed an entitywide information security program intended to protect the confidentiality, integrity, and availability of data and IT resources.
- Evaluated the District data center's physical access controls for the audit period to determine whether vulnerabilities existed.
- Determined whether a fire suppression system had been installed in the District's data center.
- Evaluated 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

[15] Default network administrator system groups are provided by the IT environment vendor and provide the ability to perform functions such as systemwide configurations and settings, installation and maintenance of all software, security administration, and the application of operating system service packs and updates to the IT environment depending on the functions defined by the vendor for each vendor-delivered system group.

[16] Groups are used to combine user accounts, automated system services accounts, and, in some cases, other groups into one unit in order to share assigned permissions.

compliance with Sunshine law requirements (i.e., proper notice of meetings, meetings readily accessible to the public, and properly maintained meeting minutes).

- Examined District records to determine whether the District had developed an anti-fraud policy and procedures for the 2015-16 fiscal year to provide guidance to employees for communicating known or suspected fraud to appropriate individuals. Also, we examined District records to determine whether the District had implemented appropriate and sufficient procedures to comply with its anti-fraud policy.
- Analyzed the District's General Fund total unassigned and assigned fund balances at June 30, 2016, to determine whether the balances were 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 ability of the District to make its future debt service payments.
- From the population of 52 District schools with total local food service collections of $5.1 million, selected 3 schools with local food service collections totaling $384,951 and examined daily food service collections totaling $15,619 for 10 days at the 3 schools to determine the effectiveness of the District's accounting and recording controls for school food service collections.
- From the population of $23.2 million total expenditures and $49.7 million total transfers made during the audit period from nonvoted capital outlay tax levy proceeds, Public Education Capital Outlay funds, and other restricted capital project funds, examined documentation supporting for 13 selected expenditures and 17 transfers totaling $7.3 million and $26.6 million, respectively, to determine District compliance with the restrictions imposed on the use of these resources.
- Examined supporting documentation for 27 selected expenditures totaling $1.3 million from the population of $9 million total workforce development funds expenditures for the audit period, to determine whether the District used the funds for authorized purposes (i.e., not used to support K-12 programs or District K-12 administrative costs).
- From the population of 345 industry certifications reported for performance funding that were attained by students during the 2014-15 and 2015-16 fiscal years, examined 32 selected certifications to determine whether the District maintained documentation for student attainment of the industry certifications.
- From the population of 1,684 adult general education instructional students reported for 397,539 contact hours during the audit period, examined District records supporting 3,068 reported contact hours for 30 selected students to determine whether the District reported the instructional contact hours in accordance with Florida Department of Education (FDOE) requirements.
- Evaluated District controls based on review of selected records to determine whether the District provided individuals with a written statement as to the purpose for collecting their social security numbers.
- Examined the District Web site to determine whether the 2015-16 fiscal year proposed, tentative, and official budgets were prominently posted pursuant to Section 1011.035(2), Florida Statutes.
- Examined documentation of the 12 bank account reconciliations and 58 investment account reconciliations for the audit period to determine whether District personnel timely performed the reconciliations.
- Examined authorized signatures for all banking agreements for timely changes in response to personnel changes during the audit period.
- Evaluated the adequacy of Manatee Technical College controls associated with tuition and fee cash collections.

- Examined 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 2013-14 and 2014-15 fiscal years.
- Examined District records to determine whether required internal funds audits for the 2015-16 and 2 preceding fiscal years were timely performed pursuant to State Board of Education Rule 6A-1.087, Florida Administrative Code, and whether the audit reports were presented to the Board.
- Evaluated District policies and procedures for payments of accumulated annual and sick leave (terminal leave pay) to determine compliance with State law and Board policies. From the population of 154 former employees paid $1.4 million for terminal leave during the period of July 1, 2015, through March 31, 2016, we examined District records for 31 selected former employees paid terminal leave pay totaling $649,569 to determine whether terminal leave pay was calculated in compliance with Sections 1012.61 and 1012.65, Florida Statutes, and Board policies.
- Evaluated severance pay provisions in the Superintendent's contract to determine whether the provisions complied with Section 215.425(4), Florida Statutes.
- From the population of 7,439 employees compensated a total of $159.3 million for the period July 1, 2015, through March 31, 2016, examined District records supporting 30 selected payroll transactions totaling $49,125 to determine the accuracy of the rate of pay and whether supervisory personnel reviewed and approved employee reports of time worked.
- Examined District records for the audit period to determine whether the Board adopted a salary schedule with differentiated pay for both instructional personnel and school 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 2,605 instructional personnel and 237 school administrators compensated a total of $141 million during the audit period, examined supporting documentation for 34 selected employees who were paid a total of $1.8 million to determine whether the District had developed adequate performance assessment procedures for instructional personnel and school administrators based on student performance and other criteria in accordance with Section 1012.34(3), Florida Statutes, and determined whether a portion of each selected instructional employee's compensation was based on performance in accordance with Section 1012.22(1)(c)4., Florida Statutes.
- Examined District records supporting the eligibility of 35 selected recipients of Florida Best and Brightest Teacher Scholarship Program awards from the population of 89 teachers who received scholarships totaling $727,532 during the audit period.
- Examined District records for the audit period for 60 employees selected from the population of 7,439 employees to assess whether personnel who had direct contact with students were subjected to the required fingerprinting and background checks.
- Examined District records for the audit period for 18 vendors that had 93 contractor workers selected from the population of 2,503 contractor workers employed by 320 contractors to assess whether the workers who had direct contact with students were subjected to the required fingerprinting and background checks.
- Examined District policies, procedures, and related records for school volunteers to determine whether the District for the audit period searched prospective volunteers' names against the Dru Sjodin National Sexual Offender Public Web site maintained by the United States Department of Justice, as required by Section 943.04351, Florida Statutes.

- Evaluated District procedures and examined Department of Highway Safety and Motor Vehicle and District records for 32 bus drivers selected from the population of 226 bus drivers to assess whether the District ensured that the 32 bus drivers were properly licensed and monitored during the audit period.
- To determine the propriety of District claims expense for the period July 1, 2015, through March 31, 2016, examined documentation supporting 90 claims (30 health insurance claims totaling $2.3 million from the health insurance claims population totaling $22 million; 30 pharmacy claims totaling $389,141 from the pharmacy claims population totaling $17.6 million; and 30 workers compensation claims totaling $411,237 from the workers compensation claims population totaling $1.6 million) that were processed by the third party administrator and compared the claims tested to the program requirements.
- From the population of 61 payments for the period July 1, 2015, through May 24, 2016, totaling $31,359 paid to employees for other than travel and payroll payments during the audit period, examined documentation for 7 selected payments totaling $3,403 to determine whether such payments were reasonable, adequately supported, for valid District purposes, and were not contrary to Section 112.313, Florida Statutes.
- Evaluated District procedures for acquiring types of commercial insurance other than health insurance to determine whether the basis for selecting insurance carriers was documented in District records and conformed to good business practice.
- From the population of expenditures totaling $126.3 million for the period July 1, 2015, through May 4, 2016, examined documentation relating to 30 selected payments totaling $86,839 to determine whether expenditures were reasonable, correctly recorded, adequately documented, for a valid District purpose, properly authorized and approved, and in compliance with applicable State laws, rules, contract terms and Board policies.
- From the population of payments totaling $947,876 for new software applications for the audit period, examined documentation supporting 6 selected payments totaling $369,617 to determine whether the District evaluated the effectiveness and suitability of the software applications prior to purchase and whether the purchases were made through the competitive vendor selection process.
- Examined documentation for the only significant construction project contract (guaranteed maximum price of $13 million) with a construction management entity and associated expenses totaling $521,743 for the period July 1, 2015, through April 27, 2016, to determine compliance with District policies and procedures and provisions of State laws and rules. Also, for this project, we:
    - Examined records to determine whether the construction manager was properly selected.
    - Reviewed District procedures for monitoring subcontractor selection and licensure, and examined records to determine whether subcontractors were properly selected and licensed.
    - Examined records to determine whether the architects were properly selected and adequately insured.
- From the population of purchasing card (P-card) transactions totaling $7.8 million from July 1, 2015, through April 30, 2016, examined documentation supporting 35 selected transactions totaling $281,211 to determine whether P-cards were administered in accordance with District policies and procedures. We also determined whether the District timely canceled the P-cards for 5 of 24 former employees who had been assigned P-cards and separated from District employment during the audit period.
- Determined whether rebate revenues for the audit period totaling $166,421 for the P-card program and $53,668 for the e-Payable program were allocated to the appropriate District funds.

- Examined District records and evaluated construction planning and facility maintenance processes for the audit period to determine whether processes were comprehensive and met District short-term and long-term needs.
- From the population of contractual services payments totaling $17.9 million during the audit period, examined supporting documentation, including the contract documents, for 47 selected contractual service payments totaling $1.9 million related to 47 contracts to determine whether:
    - The District complied with competitive selection requirements;
    - Contracts clearly specified deliverables, time frames, documentation requirements, and compensation.
    - Records documented satisfactory receipt of deliverables before payments were made.
    - Payments were properly supported and documentation evidenced compliance with contract terms.

  Also, we examined supporting documentation related to 30 of the 47 selected contracts 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 contract.
- Determined whether the District used supplemental academic instruction and research-based reading instruction allocations to provide, to the applicable schools pursuant to Section 1011.62(9), Florida Statutes, an additional hour of intensive reading instruction to students every day, schoolwide during the audit period. Also, pursuant to the 2015 General Appropriations Act,[17] we determined whether the District appropriately reported the funding sources, expenditures, and student outcomes for each participating school to the FDOE.
- Determined whether the District had adequate Virtual Instruction Program (VIP) policies and procedures.
- Evaluated District records for the audit period 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.
- Examined student records and District procedures for the audit period 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.
- For two FDOE-approved VIP providers that contracted with the District for the audit period, determined whether the District obtained a list of provider employees and contracted personnel who had obtained background screenings in accordance with Section 1012.32, Florida Statutes.
- From the population of 635 students enrolled in the District VIP during the audit period, examined District records for 36 selected students to determine whether the students met statutory participation requirements (i.e. compulsory attendance), as required by Section 1002.45(6)(a), Florida Statutes.
- Examined the contract documents for the two FDOE-approved VIP providers to determine whether the contracts contained required statutory provisions. Also, we:
    - Examined the contract documents to determine whether provisions were included to address compliance with contract terms, the confidentiality of student records, and monitoring of the providers' quality of virtual instruction and data quality.

[17] Chapter 2015-232, Laws of Florida.

- o Evaluated the contract and other related records to determine whether the District documented the reasonableness of student-teacher ratios established in the contract.

- 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

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Chair

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Karen Carpenter
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SCHOOL DISTRICT OF MANATEE COUNTY

December 20, 2016

Sherrill F. Norman, CPA
Auditor General
Claude Denson Pepper Building, Suite G74
111 West Madison Street
Tallahassee, Florida 32399-1450

Dear Ms. Norman:

Noted below are Manatee County District School Board's responses to the Auditor General's Preliminary and Tentative Findings for the 2015-2016 Fiscal Year Operational Audit. The Executive Leadership Team of the District is committed to the implementation of the recommendations to increase accountability, transparency and to promote effective and efficient operations throughout the District.

Finding 1: District controls over the bank reconciliation process continue to need enhancement.

Response: The District has implemented a bank reconciliation schedule to ensure completion within 15 days of closing the month. The Director of Finance must review and sign-off on the reconciliation within 15 days of closing. Proper controls have been established to ensure that District bank accounts are reconciled timely with documentation evidencing completion of duties for responsible staff involved in the monthly closing process. District management will ensure that reconciliations of the bank account balances to the general ledger balances be timely performed. Additionally, if technical / IT issues are discovered a work order will be placed with the IT Department.

Finding 2: District records did not always document non-instructional administrative personnel time worked or supervisory review and approval of such time.

Response: The District is working to implement a new Enterprise Resource Planning (ERP) system that will have a time management component. The new system will provide district personnel the ability to effectively monitor for accountability. Over the next year, while waiting for implementation of

the new system, the Payroll Department will periodically require schools and departments to submit time sheets. The collected time sheets will be reviewed for accuracy. Findings will be recorded and corrections will be addressed. The Payroll Department will work with the Benefits Specialist that collects and monitors leaves as part of the accountability process.

Finding 3: The Board had not adopted formal policies and procedures establishing a documented process to identify instructional personnel entitled to differentiated pay using the factors prescribed in State law. Similar findings were noted in our report Nos. 2011-050 and 2014-079.

Response: The District will review State Law 1012.22 to identify the key areas such as added responsibilities, demographics, critical shortage and job difficulties. Personnel and Instruction will work together to identify funds and key areas to be used in the new year for differentiated pay. The District will work with the Manatee Education Association (MEA) to ensure all parties agree to the differentiated pay plan.

Finding 4: The District did not always base the eligibility of teachers for Florida's Best and Brightest Teacher Scholarship awards on reliable and authentic records of college entrance exam scores. For example, in some cases, the District based teacher eligibility on temporary exam reports or scores handwritten on high school transcripts without taking additional efforts to confirm the accuracy of the scores.

Response: The District will obtain final scores for any employee who qualifies for Best and Brightest and present the score in accordance with 1012.731, Florida Statutes (F.S.), The Florida Best and Brightest Teacher Scholarship Program. The Personnel Department will validate the composite score on either the ACT or SAT was at or above the 80th percentile based on the percentile ranks in effect when the assessment was taken.

Finding 5: The District needs to strengthen controls over cash collections at Manatee Technical College.

Response: Manatee Technical College (MTC) will continue to work with the District Finance Department to develop proper general ledger accounts for recording revenues and expenditures. MTC will implement written procedures to ensure separation of duties regarding the collection of cash, invoicing customers, and receivables for the CPR Program at the East Campus Community Training Center. Controls will be put in place for cash collections and custody of funds at all four MTC campus locations. Supervisory review and approval of daily point of sale closeout will be established as part of the procedures in the cash drawer count process as well as overages/shortages at all four campus locations. Supervisory review and approval of all voided sale transactions will be implemented at all four campus locations. A fee audit will be performed for tuition and fees to ensure that student enrollment reconciles with revenues collected.

Finding 6: District controls over contractual service agreements and related payments continue to need enhancement.

Response: The District drafted a procedure called "Contract Services Payment Approval Process" which details the process used to approve service invoices. In addition, the audit findings

were reviewed with operations staff. The Chief Operations Officer will review the procedure with staff and adjust future contract language to assure service auditability.

Finding 7: The District did not offer the required number of virtual instruction program options. A similar finding was noted in our report No. 2014-079.

Response: Since the finding, the vendor Florida Virtual School (FLVS) executed a formal contract with the District. Both the invoice and contract may be found in the Finance and Legal Departments.

Finding 8: As similarly noted in our report No. 2014-079, the VIP provider contract did not contain certain necessary provisions.

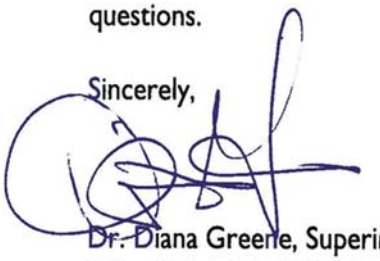
Response: Since the finding, a formal contract has been put in place. Both the invoice and contract may be found in the Finance and Legal Departments.

Finding 9: District security controls related to user authentication and data loss prevention need improvement to ensure the continued confidentiality, integrity, and availability of District data and information technology (IT) resources. Similar findings were noted in our report Nos. 2011-050 and 2014-079.

Response: Action has been taken to remedy user authentication concerns. A Comprehensive Data Loss Prevention Plan is now in place.

We appreciate the professionalism and courtesy of the audit staff throughout the process. Please feel free to contact Rebecca Roberts, CFO at (941) 708-8770 extension 2108 if you have any questions.

Sincerely,



Dr. Diana Greene, Superintendent
School District of Manatee County