STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

Report No. 2017-185
March 2017

ESCAMBIA COUNTY
DISTRICT SCHOOL BOARD



Sherrill F. Norman, CPA
Auditor General

Board Members and Superintendent

During the 2015-16 fiscal year, Malcolm Thomas served as Superintendent of Escambia County Schools and the following individuals served as School Board Members:

	District No.
Jeffrey W. Bergosh	1
Gerald W. Boone	2
Linda Moultrie, Vice Chair from 11-17-15	3
Patricia Hightower, Chair to 11-16-15	4
William E. Slayton Jr., Chair from 11-17-15, Vice Chair to 11-16-15	5

The team leader was Debbie S. Jabaley, CPA, and the audit was supervised by Joan E. Valle, CPA.

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ESCAMBIA COUNTY DISTRICT SCHOOL BOARD

SUMMARY

This operational audit of the Escambia County School District (District) focused on selected District processes and administrative activities and included a follow-up on findings noted in our report No. 2015-075. Our audit disclosed the following:

Finding 1: Prior to payment, District personnel did not always compare construction management entity pay requests with applicable subcontractor invoices, bids, and contracts. A similar finding was noted in our report No. 2015-075.

Finding 2: As similarly noted in our report No. 2015-075, the District did not verify that subcontractors were appropriately licensed before work commenced on guaranteed maximum price contracts.

Finding 3: District records did not always document employee attendance and supervisory review and approval of time records.

Finding 4: The District did not comply with State law by properly searching the backgrounds of prospective school volunteers.

Finding 5: As similarly noted in our report No. 2015-075, District records did not always demonstrate that the prior work experience of prospective employees was verified.

Finding 6: The District continues to need improvement in controls over payments for school resource officer contractual services.

Finding 7: The District had made no efforts to recover the $7,950 paid without specific legal authority during the 2013-14 fiscal year for audit services provided to its direct-support organization.

Finding 8: Controls over virtual instruction program (VIP) operations and related activities could be enhanced by developing and maintaining comprehensive, written VIP policies and procedures.

Finding 9: Procedural enhancements were needed to ensure that the District offers the required number of VIP options.

Finding 10: The District did not notify parents about all available VIP options.

Finding 11: A VIP provider contract did not include certain necessary provisions.

Finding 12: Procedures needed to be enhanced to ensure that qualified VIP students are provided computing resources.

Finding 13: Some unnecessary or inappropriate information technology (IT) access privileges continue to exist.

Finding 14: District IT security controls related to monitoring of system activity continue to need improvement.

BACKGROUND

The Escambia 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 Escambia County. The governing body of the District is the Escambia County District School Board (Board), which is composed of five elected members. The elected Superintendent of Schools is the executive officer of the Board. During the 2015-16 fiscal year, the District operated 50 elementary, middle, high, and specialized schools and 11 other programs, sponsored 6 charter schools, and reported 40,125 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 our report No. 2015-075.

FINDINGS AND RECOMMENDATIONS

Finding 1: Monitoring Construction Pay Requests

Pursuant to State law,[1] the Board may contract with a construction management entity (CME) for the construction or renovation of facilities. State law[2] also prescribes the competitive selection process to be followed when professional services, including CME services, are to be purchased for a project with basic construction costs estimated to exceed $325,000. The District may require a CME to offer a guaranteed maximum price (GMP), which allows for the difference between the actual cost of the project and the GMP amount, or net cost savings, to be returned to the District. According to District records for the 2015-16 fiscal year, the District entered into two contracts totaling $33.7 million and $21.5 million, respectively, with two CMEs for new construction, remodeling and renovations, repairs, and site improvement projects.

To ensure potential savings in material and labor costs and prevent cost overruns or other impediments to the successful completion of GMP contracts, it is important that the District verify that CME pay requests agree with supporting documentation such as subcontractor bids and subcontractor contracts. In response to recommendations made in our report No. 2015-075, the District implemented procedures in February 2015 to require, prior to payment, the review and reconciliation of CME pay requests to subcontractor invoices, bids, and other supporting documentation.

To determine whether District personnel compared, of record, the CME pay requests during the 2015-16 fiscal year with supporting documentation in accordance with District procedures, we requested for examination District records supporting the nine CME pay requests totaling $1.1 million. However, District records were not provided to evidence comparisons of the subcontractor cost lines on the CME pay requests to the subcontractor bids and subcontractor contracts. In response to our inquiry, District personnel indicated that the comparisons were not made because the pay requests were for contracts in

[1] Section 1013.45(1)(c), Florida Statutes.

[2] Section 287.055, Florida Statutes.

progress before the District's February 2015 procedure revision and the revised procedures were not applied to those pay requests; however, comparisons would be made for CME contracts entered into from February 2015 going forward.

Given the large number of change orders related to the subcontractor services on District CME projects, it was not practical for us on postaudit to obtain and compare 2015-16 fiscal year CME pay requests to subcontractor invoices and bids. We did, however, request, obtain, and compare applicable subcontractor contracts to 10 selected subcontractor cost lines on the CME pay requests totaling $400,797 for September 2015, and determined that the payments to CMEs for subcontractor services were consistent with the subcontractor contracts. Notwithstanding these results, our procedures cannot substitute for the District's responsibility to implement adequate internal controls. Absent documented comparisons of CME pay requests to subcontractor invoices, bids, and other supporting documentation, there is an increased risk that the District may overpay for subcontractor services or may not realize maximum cost savings under GMP contracts. A similar finding was noted in our Report No. 2015-075.

Recommendation: The District should fully implement procedures for monitoring CME pay requests and perform a documented comparison of cost items per CME pay requests to supporting documentation, such as subcontractor invoices, bids, and contract documents, before any CME payment is made.

Finding 2: Subcontractor Licenses

State law[3] requires the CME to consist of, or contract with, licensed or registered professionals for the specific fields or areas of construction to be performed. State law[4] establishes certain certification requirements for persons engaged in construction contracting, including licensing requirements for specialty contractors such as electrical, air conditioning, plumbing, and roofing contractors.

During the 2015-16 fiscal year, the District entered into two CME contracts totaling $33.7 million and $21.5 million, respectively, and the CMEs used 55 subcontractors to perform selected services for the projects, including 5 subcontractors who performed services related to both CME contracts. However, according to District personnel, the District did not verify that the subcontractors were licensed but relied on the CME to verify this information. As part of our procedures, we requested and were provided documentation to confirm that 11 selected subcontractors were appropriately licensed. However, our procedures do not substitute for management's responsibility to implement adequate internal controls.

Without District verification of subcontractor licenses, there is an increased risk that subcontractors working on District facilities do not meet the qualifications to perform the work for which they were engaged. A similar finding was noted in our report No. 2015-075.

Recommendation: We recommend that the District enhance procedures to verify subcontractors are appropriately licensed before they commence work on District facilities. Such verification should be documented in District records.

[3] Section 1013.45(1)(c), Florida Statutes.

[4] Chapter 489, Florida Statutes.

Finding 3: 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. District procedures require that time sheets support the work time for permanent hourly personnel and, to document leave taken, noninstructional contracted personnel prepare and sign leave forms that supervisors review and approve.

The District pays noninstructional contracted personnel (e.g., administrative and professional employees) 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 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, time sheets documenting time worked and leave taken for permanent hourly employees and supervisor-approved leave forms documenting leave taken for noninstructional contracted employees are submitted to the Payroll Department for consideration in processing applicable salary payments.

During the 2015-16 fiscal year, the District had 2,038 permanent hourly and 438 noninstructional contracted personnel compensated a total of $41 million and $27.8 million, respectively. However, the permanent hourly employee time sheets did not evidence supervisory review and approval and the noninstructional contracted personnel did not maintain time sheets or other records to evidence time worked. In October 2015, the District began implementation of an automated system to record employee time worked that provides for supervisory review and approval and, as of June 30, 2016, 70 employees used the system. However, as of November 2016, the system had not been fully implemented.

Although our salary tests did not disclose any instances of incorrect salary payments, our procedures cannot substitute for management's responsibility to implement adequate controls. Without evidence of employee time worked and documented supervisory review and approval of the time worked, there is limited assurance that the employee services were provided consistent with Board expectations. In addition, without accurate records of time worked and supervisory review, there is an increased risk that employees may be incorrectly compensated, employee leave balances may not be accurate, and District records may not be sufficiently detailed in the event of a salary or leave dispute. A similar finding was noted in our report No. 2015-075.

Recommendation: The District should continue efforts to ensure that District records appropriately document employee attendance and supervisory review and approval of time records.

Finding 4: School Volunteers

State law[5] requires that the District, before making any decision to appoint a person to work as a volunteer at a place where children regularly congregate, conduct a background search of that person's name against the registration information regarding sexual predators and sexual offenders through the Dru Sjodin National Sexual Offender Public Web site (NSOPW) maintained by the United States Department

[5] Section 943.04351, Florida Statutes.

of Justice. If that site is not available, a search of the registration information regarding sexual predators and sexual offenders (i.e., Florida Sexual Offenders and Predators Registry) maintained by the Florida Department of Law Enforcement (FDLE) is required.

Board policy[6] requires all prospective volunteers to complete a School Volunteer Application Form and an Affidavit of Good Moral Character and, to be eligible as a volunteer, the applicant must not appear on the FDLE Florida Sexual Offenders and Predators Registry. District procedures require school volunteers to sign-in on the school's visitor log and the school's designated employee is responsible for ensuring that each volunteer complies with Board policy requirements. However, Board policy does not require a background search against the registration information through the NSOPW.

To determine whether District schools documented appropriate background searches, we inquired of District personnel and requested for examination District records related to 30 selected volunteers at three schools. We found that:

- District personnel did not perform background searches of the 30 volunteers' names against the NSOPW because District personnel were unaware that State law required background searches and Board policy did not require the searches. Subsequent to our inquiries, the District revised procedures on July 1, 2016, to require a NSOPW background search for all volunteers.
- For 8 of the 30 school volunteers, the District could not provide documentation to evidence that the school volunteers completed the Volunteer Application Form and Affidavit of Good Moral Character, or that the District searched the FDLE Florida Sexual Offenders and Predators Registry. District personnel indicated that the information was missing because school personnel did not comply with Board policy.

As part of our audit, we extended our audit procedures and determined that none of the 30 selected volunteers were listed on the NSOPW database. However, our procedures cannot substitute for management's responsibility to perform appropriate background searches of volunteer names in accordance with State law. Absent effective controls to ensure that background searches of school volunteers are performed, there is an increased risk that volunteers with unsuitable backgrounds may have direct contact with students.

Recommendation: The District should take immediate action to:

- **Identify District volunteers who have not had their name searched against the registration information regarding sexual predators and sexual offenders through the NSOPW.**
- **Ensure the search results are promptly obtained and evaluated.**
- **Make decisions, as necessary, based on evaluations of the search results.**

In addition, the Board should revise its policy to require background searches of the names of prospective volunteers against the registration information regarding sexual predators and sexual offenders through the NSOPW.

Finding 5: Employment Practices and Personnel Records

Effective employment practices require verifying, before prospective employees are selected to fill vacancies, that the individuals meet the positions' experience requirements and maintaining

[6] Board Policy 2.12, Community Involvement.

documentation of such verifications. The Board adopted position descriptions that specify minimum experience requirements for each position and District procedures require documented verifications of prior work experience for prospective administrative and instructional employees. However, the District had not established procedures to require documented verification of prior work experience for prospective educational support employees.

To determine the effectiveness of District employment practices, we requested for examination District records supporting 30 of the 963 employees hired during the 2015-16 fiscal year. Our procedures disclosed that the District could not provide documentation to evidence that the required years' experience was verified for 3 educational support employees, including verification of 6 years' experience for a diesel truck technician, 4 years' experience for an electrician, and 3 years' experience for a maintenance mechanic.

In response to our inquiries, District personnel indicated that the experience was verified but, because verification documentation was not required, the documentation was not maintained. District personnel also indicated that, as of January 2017, procedures were being revised to require documented verification of prior work experience for all prospective employees. Documented verifications of prospective employees' prior work experience would provide critical information for making personnel decisions and assurances that individuals selected for hire meet position requirements. A similar finding was noted in our report No. 2015-075.

Recommendation: The District should continue efforts to obtain, before prospective employees are selected to fill vacancies, documented verifications that the individuals meet the experience requirements for the positions.

Finding 6: Contractual Services

The Board routinely enters into contracts for goods and 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, payments for contractual services totaled $27.6 million and, to determine the propriety of payments for goods and services, we examined District records supporting 30 selected payments for purchases totaling $1.4 million.

Pursuant to State law[7] and Board-approved contracts, the Escambia County Sheriff's Office (ECSO) provided 15 school resource officers (SROs) at various middle and high schools, and two sergeants and one lieutenant to oversee the SROs. Additionally, the Pensacola Police Department (Department) provided 5 SROs assigned to three schools, and one sergeant and one lieutenant to oversee the SROs. The two contracts provided that each SRO be assigned to a school on a full-time (8-hour) basis on the days that the school was in regular session. The contracts also provided for SRO compensatory time or overtime pay for additional work as needed.

As part of our audit, we examined District payments for an invoice for 1 month of ECSO services totaling $53,006 and an invoice for 6 months of Department services totaling $154,456. We noted that District personnel with direct knowledge of the SRO services did not maintain SRO sign-in, sign-out sheets or

[7] Section 1006.12, Florida Statutes.

other records to evidence satisfactory receipt of the services. Instead, the District relied on the ECSO and the Department to ensure that the SROs worked the contracted hours.

Absent evidence of satisfactory receipt of services before payments are made, there is an increased risk that the District may not obtain services at the lowest cost consistent with acceptable quality, the District may overpay for such services, or the services obtained may not be consistent with the Board's intent. A similar finding was noted in our report No. 2015-075.

Recommendation: The District should enhance procedures to document the satisfactory receipt of SRO services before payments are made.

Finding 7: Direct-Support Organization

State law[8] 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. Pursuant to State law,[9] the Board may permit a DSO to use District property, facilities, and personal services; however, the law does not specifically authorize District payments to, or on behalf of, a DSO. The Board approved the Escambia County Public Schools Foundation for Excellence, Inc. (Foundation) as a DSO and the Foundation routinely received and used performance revenues and charitable contributions for the benefit of the District.

As noted in our report No. 2015-075, during the 2013-14 fiscal year, the District paid $7,950 for the Foundation's 2012-13 fiscal year audit and we recommended that the District enhance procedures to ensure compliance with State law and seek reimbursement for the $7,950 from the Foundation. Our follow-up audit procedures disclosed that the District revised procedures to discontinue making payments to the Foundation for audit services; however, the District had not taken any actions to recover from the Foundation the $7,950 paid for audit services. In response to our inquiry, District personnel indicated that the District did not intend to seek recovery of the funds. Notwithstanding the District's response, we are unaware of any specific statutory authority permitting the District to make payments on behalf of a DSO.

Recommendation: We continue to recommend that the District seek recovery from the Foundation for the $7,950 paid for audit services.

Finding 8: Virtual Instruction Program – Written Policies and Procedures

State law[10] provides that school districts are to prescribe and adopt standards and policies to provide each student the opportunity to receive a complete education. Education methods to implement such standards and policies may include the delivery of learning courses through traditional school settings, blended courses consisting of both traditional classroom and online instructional techniques, participation in a virtual instruction program (VIP), or other methods. State law[11] establishes VIP requirements and requires school districts to include mandatory provisions in VIP provider contracts; make available

[8] Section 1001.453, Florida Statutes.

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

[10] Section 1001.41(3), Florida Statutes.

[11] Section 1002.45, Florida Statutes.

optional types of virtual instruction; provide timely, written parental notification of VIP options; ensure the eligibility of students participating in the VIPs; and provide computer equipment, Internet access, and instructional materials to eligible students.

During the 2015-16 fiscal year, the District enrolled 2,585 part-time and 356 full-time VIP students. The District had written procedures addressing various VIP requirements including compliance with statutory requirements, student eligibility, student progression, attendance, and mandated testing. While the written procedures provide a basis for administering the District's VIP, the procedures could be further enhanced to include consistent guidance for staff use during personnel changes, ensure sufficient and appropriate training of personnel, and establish a reliable standard to measure the effectiveness and efficiency of operations.

The absence of comprehensive VIP policies and procedures may have contributed to the instances of District noncompliance and control deficiencies discussed in Findings 9 through 12. According to District personnel, as of December 2016, the District was in the process of enhancing written policies and procedures that will be implemented during the 2016-17 fiscal year. A similar finding was noted in our report No. 2015-075.

Recommendation: To enhance the effectiveness of VIP operations and related activities, the District should make the District's written VIP policies and procedures more comprehensive.

Finding 9: Virtual Instruction Program – Virtual Instruction Options

State law[12] requires school districts, under certain conditions, to provide students the option of participating, either full-time or part-time, in VIPs. Under such option, for example, school districts may offer students the choice of VIP services provided by the school district, Florida Virtual School (FLVS), another approved provider, another school district, or a virtual charter school.[13] Pursuant to State law,[14] 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.

District records evidenced that the District provided at least three full-time and part-time virtual instruction options for students in kindergarten through grade 8; however, contrary to State law, the District only offered two full-time and part-time options for students in grades 9 through 12. As a result, the District did not provide all students in all grade levels at least three virtual instruction options as required.

In response to our inquiries, District personnel indicated that the required virtual instruction options were not offered because District personnel were unaware that one of the VIP provider contracts did not offer services to students in grades 9 through 12. The District contracted with a third provider that will provide students in grades kindergarten through 12 with VIP services beginning in the 2016-17 fiscal year. A similar finding was included in our report No. 2015-075.

Recommendation: The District should continue efforts to ensure that all students are offered the number of VIP options required by law.

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

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

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

Finding 10: Virtual Instruction Program – Notification of Options

State law[15] requires each school district to provide information to parents and students about a student's right and choice to participate in a Virtual Instruction Program (VIP). For the 2015-16 school year, District personnel indicated there were several communication methods used to provide information about the District's VIP to parents and students. These communication methods included the District's Web site, inclusion in the Student Progression Plan, and information published on the final report card of the 2014-15 fiscal year. However, the District did not always properly notify parents or students of available VIP options. Specifically:

- In the District's provider contract, the District selected a particular curriculum method as one of the programs to be made available to students in grades kindergarten through 12. However, the information provided to parents identified this option as a separate option only for grades 6 through 12. For this curriculum method, the District enrolled no full-time students in grades kindergarten through 5 and only four part-time students in grades kindergarten through 5.
- Although the District contracted with one provider to provide instruction to students in grades kindergarten through 12 on a full-time and part-time basis, the information provided to students and parents did not include the option to participate in any curriculum except the full-time kindergarten through grade 8 program. For the 2015-16 fiscal year, only full-time students in grades kindergarten through grade 7 participated in instruction offered by this provider.

Without proper notifications informing parents of available VIP options, student access to virtual instruction may be limited. A similar finding was noted in our report No. 2015-075.

Recommendation: The District should continue efforts to ensure that parents are properly notified about available VIP options.

Finding 11: Virtual Instruction Program – Provider Contracts

To ensure appropriate controls over data quality and provider contract compliance, VIP provider contracts need to contain certain necessary provisions to establish the District's expectations for these providers. Our review of the District's contract with an FDOE-approved VIP provider disclosed that:

- The contract did not include data quality requirements. The provider is to maintain significant amounts of 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.[16] 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,[17] without specified minimum required security controls, there is an increased risk that provider

[15] Section 1002.45(10), Florida Statutes.

[16] Section 1008.31, Florida Statutes.

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

information security and other information technology (IT) controls may not be sufficient to protect the 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.

Recommendation: The District should ensure that FDOE-approved VIP provider contracts include a provision for monitoring provider compliance as well as provisions specifying the minimum required security controls and promoting data quality.

Finding 12: Virtual Instruction Program – Computing Resources

State law[18] requires the District to provide to each full-time VIP student who qualifies for free or reduced-price school lunches, or who is on the direct certification list, and who does not have a computer or Internet access at home, with all necessary equipment, including, but not limited to, a computer, monitor, and printer (if necessary), and Internet access for online delivery of instruction.

District personnel indicated that they verbally inquire of each VIP parent whether they need computing resources and the District provided computing resources to 24 students participating in a VIP. However, District records did not evidence that the parents of all qualifying VIP students were contacted during the 2015-16 fiscal year to determine whether the students had all the necessary computing resources to participate in the VIP.

Without evidence of direct communication to parents regarding the availability of computing resources and documented determinations that families had the necessary computing resources, the District cannot demonstrate that qualifying students had the necessary resources to successfully complete VIP courses. For the 2016-17 school year, the District amended its registration form to include information on computing resources. A similar finding was noted in our report No. 2015-075.

Recommendation: The District should continue efforts to ensure, and document the District's determination, that all qualifying students have the necessary VIP resources.

Finding 13: Information Technology – Access Privileges

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

Our examination of District records supporting the privileges of employees with access to the District's IT applications disclosed some access privileges that were unnecessary or that permitted certain District employees to perform incompatible duties. Specifically, our examination of District records supporting:

[18] Section 1002.45(3)(d), Florida Statutes.

- The appropriateness of systemwide access privileges disclosed that the Manager of Network Services and a Human Resource (HR) Administrative Specialist had systemwide privileges that allowed update access to all functions within the finance and HR applications, including transaction origination, correction, and changes to finance and payroll data and security tables. District management indicated that systemwide access was assigned to facilitate the security administration responsibilities for the two employees but that the access was under review. Nevertheless, complete update access privileges to all application functions were not necessary for these two employees' day-to-day responsibilities and were contrary to an appropriate separation of duties.
- Access privileges to HR applications disclosed that unnecessary access privileges to add or modify job codes, pay rates, and pay grades had been granted to two payroll department employees and unnecessary access privileges to add or change employee addresses had been granted to a finance department employee.
- Access privileges to finance applications disclosed one finance department employee had access to add or modify a vendor invoice that was not appropriate based on the employee's job duties.

To compensate, in part, for the above deficiencies, the District had certain controls in place (e.g., supervisory monitoring of expenditures and employee activities and supervisory review and approval of transactions, such as journal entries). The District also performs a review of employee access privileges twice a year. However, the existence of inappropriate and unnecessary access privileges increases the risk of unauthorized disclosure, modification, or destruction of District data and IT resources and indicates a need for an improved process for the review of access. Similar findings were noted in our report Nos. 2012-037 and 2015-075.

Recommendation: The District should continue to improve its review of employee access privileges, including systemwide access privileges, within the finance and HR applications, and timely remove or adjust any inappropriate or unnecessary access detected.

Finding 14: Information Technology – Monitoring of System Activity

Security controls are intended to protect the confidentiality, integrity, and availability of data and IT resources. Our audit disclosed that certain District security controls related to monitoring system activity needed improvement.

We are not disclosing specific details of the issues in this report to avoid the possibility of compromising District data and IT resources. However, we have notified appropriate District management of the specific issues. Without adequate security controls related to monitoring of system activity, the risk is increased that the confidentiality, integrity, and availability of District data and IT resources may be compromised. Similar findings were communicated to District management in connection with our report Nos. 2012-037 and 2015-075.

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

PRIOR AUDIT FOLLOW-UP

Except as noted in Findings 1, 2, 3, 5, 6, 7, 8, 9, 10, 12, 13, and 14 and shown in Table 1, the District had taken corrective actions for findings included in our report No. 2015-075.

Table 1
Findings Also Noted in Previous Audit Reports

Finding	Operational Audit Report No. 2015-075, Finding	Operational Audit Report No. 2012-037, Finding
1	7	Not Applicable
2	6	Not Applicable
3	11	Not Applicable
5	9	Not Applicable
6	13	Not Applicable
7	14	Not Applicable
8	18	Not Applicable
9	19	Not Applicable
10	20	Not Applicable
12	22	Not Applicable
13	23	9
14	24	10

RELATED INFORMATION

The District terminated the charters of three charter schools operated by Newpoint Education Partners, LLC (NEP) in the 2014-15 fiscal year for failure to comply with multiple contract provisions and State laws. On May 4, 2016, an Escambia County Grand Jury indicted NEP. Because of an ongoing investigation, we did not conduct procedures relating to the termination of those charter schools.

OBJECTIVES, SCOPE, AND METHODOLOGY

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

We conducted this operational audit from June 2016 to January 2017 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 No. 2015-075.
- 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 employee access to information technology (IT) resources. From the population of 663 employees who had access to the finance and human resource applications, we reviewed access for 22 selected employees 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.
- Determined whether a comprehensive IT security awareness and training program was in place during the audit period.
- Reviewed District documentation to determine whether user authentication was configured and enforced in accordance with IT best practices.
- Evaluated the adequacy of District policies and procedures related to security incident response and reporting.
- Examined committee and advisory board minutes for evidence of 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 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, 2015, to determine whether the total 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 ability of the District to make its future debt service payments.
- Evaluated the sufficiency of District procedures to determine whether District charter schools were required to be subjected to an expedited review pursuant to Section 1002.345, Florida Statutes.
- Evaluated the sufficiency of District procedures to ensure that loans or transfers of money from the charter schools operating within the District to other organizations served a valid public purpose.
- Examined documentation supporting the 12 bank account reconciliations performed for the audit period to determine whether the reconciliations were conducted appropriately and timely, and evidenced appropriate supervisory review and approval.
- Examined District records to determine whether the Board had established an adequate, comprehensive electronic funds transfer (EFT) policy and evaluated the adequacy of EFT controls. Specifically, from the population of 789 EFTs totaling $374.1 million made during the audit period, examined documentation relating to 30 selected EFTs totaling $79.5 million to

determine whether the EFTs were adequately supported, properly authorized, and complied with State Board of Education (SBE) Rule 6A-1.0012, Florida Administrative Code (FAC).

- From the population of $75.1 million total expenditures and $30.5 million total transfers made during the 2014-15 and 2015-16 fiscal years from nonvoted capital outlay tax levy proceeds, Public Education Capital Outlay funds, and other restricted capital project funds, examined documentation supporting selected expenditures and transfers totaling $3.1 million and $28.5 million, respectively, to determine District compliance with the restrictions imposed on the use of these resources.
- From the population of $9 million total expenditures for 11 significant construction projects during the audit period, examined documentation supporting expenditures totaling $5.2 million for 3 construction projects to determine District compliance with applicable policies and procedures and provisions of State laws and rules and to determine whether architects and engineers engaged were properly selected and, where applicable, had evidence of required insurance.
- From the population of nine pay requests totaling $1.1 million for two construction management entity (CME) projects during the audit period, we requested, obtained, and compared applicable subcontractor contracts to ten line items on two CME pay requests totaling $0.4 million for September 2015 to determine whether payments to the CME for subcontractor services were consistent with the subcontractor contracts.
- For the two CME contracts totaling $21.5 million and $33.7 million that were entered into during the audit period, examined District records and inquired of District personnel to determine whether District policies and procedures were followed for negotiating and paying general conditions costs and verifying subcontractor selections and licenses.
- From the population of $5.4 million total workforce development funds expenditures for the audit period, examined supporting documentation for 48 selected salary and benefit expenditures totaling $2.4 million 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 150 industry certifications reported for performance funding that were attained by students during the 2014-15 and 2015-16 fiscal years, examined 26 selected certifications to determine whether the District maintained documentation for student attainment of the industry certifications.
- From the population of 664 adult general education instructional students reported for 39,660 contact hours during the Fall 2015 term, examined District records supporting 1,052 reported contact hours for 27 selected students to determine whether the District reported the instructional contact hours in accordance with Florida Department of Education (FDOE) requirements.
- Evaluated provisions in District contracts, interviewed District personnel, and examined documentation to determine whether the District had provided severance pay provisions in contracts or paid severance pay during the audit period in accordance with Section 215.425(4), Florida Statutes.
- From the population of 7,314 employees compensated a total of $282.3 million during the audit period, examined District records supporting compensation payments totaling $87,109 to 30 selected employees to determine the accuracy of the rate of pay and whether supervisor personnel reviewed and approved employee reports of time worked.
- From the population of 2,213 instructional personnel and 111 school administrators compensated a total of $142.3 million during the audit period, examined supporting documentation for 12 selected employees who were paid a total of $830,461 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 whether a portion of the instructional employees' compensation was based on performance in accordance with Section 1012.22(1)(c)4., Florida Statutes.

- Examined District records for 30 employees selected from the population of 963 employees hired during the fiscal year to determine whether the employees met the position requirements for education and experience.
- Examined District records for 25 employees and 5 vendors selected from the population of 7,314 employees and 2,798 vendors to assess whether individuals who had direct contact with students were subjected to the required fingerprinting and background checks.
- Examined District policies, procedures, and related records supporting 30 selected school volunteers to determine whether the District 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 selected bus drivers from the population of 408 bus drivers to assess whether the District ensured that bus drivers were properly licensed and monitored during the audit period.
- Reviewed District policies and procedures related to identifying potential conflicts of interest. For the 10 people required to file statements of financial interests, examined 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.
- Examined District records supporting the eligibility of 21 selected recipients of the Florida Best and Brightest Teacher Scholarships Program awards from the population of 48 teachers who received scholarships totaling $396,288 during the audit period.
- From the 15 payments totaling $52,546 made during the audit period from the District to, and on behalf of, its direct-support organization, examined District records supporting the transactions to determine the legal authority of such transactions.
- From the population of 325 payments totaling $52,409 paid to employees for other than travel and payroll payments during the audit period, examined documentation for 13 selected payments totaling $22,211 to determine whether such payments were reasonable, adequately supported, for valid District purposes, and were not contrary to Section 112.313, Florida Statutes.
- From the population of non-payroll expenditures totaling $91.3 million during the audit period, examined documentation relating to 31 selected expenditures totaling $2.6 million to determine whether expenditures were reasonable, correctly recorded, adequately documented, for valid District purposes, properly authorized and approved, and in compliance with applicable State laws, rules, and Board policies.
- From the population of purchasing card (P-card) transactions totaling $16 million during the audit period, examined documentation supporting 30 selected transactions totaling $438,067 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 10 former employees who had been assigned P-cards and separated from District employment during the audit period.
- Determined whether rebate revenue for the 2015 calendar year totaling $150,352 for the P-card program were allocated to the appropriate District funds.
- From the population of contractual services payments totaling $27.6 million during the audit period examined supporting documentation, including the contract documents, for 30 selected contractual services payments totaling $1.4 million, to determine whether:

- The District complied with competitive selection requirements.
- The contracts clearly specified deliverables, time frames, documentation requirements, and compensation.
- District records documented satisfactory receipts of deliverables before payments were made.
- The payments complied with contract provisions.

- Determined whether the District complied with competitive selection requirements according to applicable statutes, SBE Rule 6A-1.012, FAC, and Board policy. From the population of 69 purchase orders over $50,000 for professional and technical services, and other purchased services, totaling $24 million for the audit period, we examined documentation supporting the competitive selection of 3 vendors paid a total $5.2 million.
- 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 Chapter 2015-232, Laws of Florida, we determined whether the District appropriately reported the funding sources and expenditures for each participating school to the FDOE.
- Determined whether the District had adequate policies and procedures regarding its Virtual Instruction Program (VIP) for the audit period.
- Evaluated District records for the audit period to determine whether the District provided the required VIP options required by Section 1002.45(1)(b), Florida Statutes.
- Determined whether the District had procedures to ensure parents and students were properly informed about students' rights to participate in a VIP and the VIP enrollment periods as required by Section 1002.45(10), Florida Statutes.
- Examined District accounting records for the audit period to verify that the District refrained from assessing registration or tuition fees for VIP participation as required by Section 1002.45(3)(c) and (d), Florida Statutes
- Evaluated District records for the audit period to determine whether VIP curriculum and course content were 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.
- 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.
- From the population of 2,941 students enrolled in the District VIP during the audit period, examined District records for 30 selected students to determine whether students enrolled met statutory eligibility requirements prescribed by Section 1002.45(5), Florida Statutes.
- For the FDOE-approved VIP provider 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 2,941 students enrolled in the District VIP during the audit period, examined District records for 30 selected 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.

- Examined the contract documents for the FDOE-approved VIP provider 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 contact terms, the confidentiality of student records, and monitoring of the providers' quality of virtual instruction and data quality.
  - Evaluated the contract and other related records to determine whether the District documented the reasonableness of student-teacher ratios established in the contract.
  - Examined contract fee provisions and inquired as to how fees were determined for services rendered.
  - Evaluated District-established controls to determine whether residual VIP funds were restricted and used for the District's local instructional improvement system or other technological tools, as required by State law.
- Evaluated District records for the audit period to determine whether the District's VIP enrollment consisted of full-time and part-time K-12 students, dropout prevention and academic intervention program students, and dual-enrolled students and that core curricula was offered to meet class size requirements.
- Determined whether the District submitted the required VIP reports and information to the FDOE.
- 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

"Making A Positive Difference"

THE SCHOOL DISTRICT OF ESCAMBIA COUNTY

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MALCOLM THOMAS, SUPERINTENDENT

March 15, 2017

Ms. Sherrill F. Norman, CPA
Auditor General
111 West Madison Street
Tallahassee, FL 32399-1450

Re: Preliminary and Tentative Audit Findings and Recommendations for the Operational Audit of the Escambia County District School Board for the Fiscal Year Ended June 30, 2016

Dear Ms. Sherrill:

Enclosed is our response to the preliminary and tentative audit findings for the operational audit of the Escambia County School District for the fiscal year ended June 30, 2016.

We appreciate the opportunity to respond to these findings. Please advise me if you require any further clarification or action on our part.

Sincerely,

Malcolm Thomas

Malcolm Thomas
Superintendent

RESPONSE TO PRELIMINARY AND TENTATIVE AUDIT FINDINGS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Finding 1: Monitoring Construction Pay Requests

The District has improved its procedures for monitoring payment requests. A new Standard Operating Procedure (SOP) was developed to provide a comparison, prior to payment of invoices, of construction management entities and applicable subcontractor invoices, bids, and contracts.

Finding 2: Subcontractor Licenses

The District has improved its procedures to verify subcontractor licensing. Documentation of licensing is a required portion of all subcontractor prequalification approvals. Subcontractors are required to acknowledge and provide appropriate evidence to support their assertion and professional license number.

Finding 3: Payroll Processing – Time Records

The District continues to develop a solution to the time and attendance approval process in its finance and payroll ERP system. The Skyward True Time module is in limited use based on satisfactory results at various cost centers and departments. Full implementation, with certain exceptions, is a goal by the end of the 2017-18 fiscal year.

Finding 4: School Volunteers

The District has policy and procedure in place to properly screen volunteers. However, one school did not follow those guidelines with certain volunteer coaches. The District will correct this error by strengthening its process with additional training and working with schools to update appropriate procedures.

Finding 5: Employment Practices and Personnel Records

The District implemented a new applicant tracking system in early 2017. The new system provides a greater ability to verify applicant references and prior experience. An additional improvement is the District's new interview checklist which prompts the verification of new employees. The District will continue to evaluate its procedures and make improvements where necessary.

Finding 6: Contractual Services

The District will develop an appropriate level of accountability between the school principals and the law enforcement agencies to better document time spent on campus. This will provide the necessary support to verify the amount invoiced to the District.

Finding 7: Direct-Support Organization

The District ensured the Foundation that it would not seek reimbursement for the auditing fees paid on behalf of the Foundation during the audit period. However, all current and future audit fees are the sole responsibility of the Foundation.

Finding 8: Virtual Instruction Program – Written Policies and Procedures

The District will update the Student and Parent Handbook for virtual education for availability by 7/1/2017. A new Faculty and Staff Handbook is also being developed along the same timeline. These updates will provide staff with consistent guidance during personnel changes and to ensure effective training and measurement of objectives and goals.

Finding 9: Virtual Instruction Program – Virtual Instruction Options

As noted in the finding, the District provided a third VIP contract option for the 2016-17 fiscal year. Consequently, the District was in compliance with statutory requirements.

Finding 10: Virtual Instruction Program – Notification of Options

The District will provide a statement of student VIP options on report cards during the spring of 2017. The statement will indicate options available for virtual programs beginning with the 2017-18 school year. In addition, the notification will also be made in the Rights and Responsibilities Handbook for the new school year.

Finding 11: Virtual Instruction Program – Provider Contracts

The District will provide appropriate statements in the VIP contract to address the issues of monitoring provider compliance and maintaining required security controls. It will also require providers to ensure the District receives timely, high quality educational data.

Finding 12: Virtual Instruction Program – Computing Resources

The District has revised its VIP program intake and registration forms in order to inform students and parents of available and necessary computing resources for the VIP program. Parent/student signatures are required to acknowledge their understanding and to document such communication.

Finding 13: Information Technology – Access Privileges

The District has improved its review of employee access privileges, including system wide access privileges within the finance and HR applications. The District will continue to follow its standard operating procedure for timely removal or adjustment of any inappropriate or unnecessary access.

Finding 14: Information Technology – Monitoring of System Activity

The District has improved IT security controls related to monitoring of system activity even without dedicated staff for this purpose. Furthermore, the District will continue to ensure the confidentiality, integrity, and availability of District data and IT resources.

Affirmative action / equal opportunity employer