

**MANATEE COUNTY**  
**DISTRICT SCHOOL BOARD**

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**Operational Audit**



## BOARD MEMBERS AND SUPERINTENDENT

Board members and the Superintendent who served during the 2009-10 fiscal year are listed below:

	District No.
Barbara A. Harvey	1
Harry G. Kinnan	2
Jane R. Pfeilsticker, Vice-Chair to 11-16-09, Chair from 11-17-09	3
Robert C. Gause, Vice Chair from 11-17-09	4
Walter E. Miller, Chair to 11-16-09	5

Tim McGonegal, Superintendent

The audit team leader was Elba M. Guzik, CPA, and the audit was supervised by Karen J. Collington, CPA. For the information technology portion of this audit, the audit team leader was Vikki S. Mathews, CISA, and the supervisor was Nancy M. Reeder, CPA, CISA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Manager, by e-mail at [gregcenters@aud.state.fl.us](mailto:gregcenters@aud.state.fl.us) or by telephone at (850) 487-9039.

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**MANATEE COUNTY**

## District School Board

**SUMMARY**

Our operational audit disclosed the following:

**CAPITAL OUTLAY FUNDING**

**Finding No. 1:** District records did not always evidence that ad valorem tax levy, certificates of participation, and sales surtax proceeds were used consistent with restrictions governing these proceeds, resulting in questioned costs totaling approximately \$6.6 million.

**PERFORMANCE ASSESSMENTS AND COMPENSATION**

**Finding No. 2:** District records did not sufficiently evidence that performance assessment procedures for instructional personnel and school administrators were based primarily on student performance, contrary to Section 1012.34(3), Florida Statutes.

**Finding No. 3:** The Board had not adopted formal policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance pursuant to Section 1012.22(1)(c)2., Florida Statutes, and documenting the differentiated pay process of instructional personnel and school-based administrators using the factors prescribed in Section 1012.22(1)(c)4., Florida Statutes.

**SAFETY AND SECURITY**

**Finding No. 4:** The District needed to enhance its procedures to ensure that required background screenings are obtained for contractor personnel.

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

**INSURANCE**

**Finding No. 6:** The District could enhance the monitoring of insurance for District charter schools.

**Finding No. 7:** The District did not have a policy that addresses liability insurance that should be included in contracts with design professionals.

**Finding No. 8:** The District had not filed its annual report for its self-insurance group health plan for plan years ending 2006 through 2009, contrary to Section 112.08(2)(b), Florida Statutes. In addition, the group health and workers' compensation, property, and general liability self-insurance plans had ending deficit net asset balances at June 30, 2010, of \$8.4 million and \$2.5 million, respectively.

**STUDENT ENROLLMENT**

**Finding No. 9:** Improvements were needed in District procedures to ensure the accurate reporting of instructional contact hours for adult general education courses to the Florida Department of Education.

**FINANCIAL RECORDS MANAGEMENT**

**Finding No. 10:** Improvements were needed in the District's bank account reconciliation procedures.

**FINANCIAL DISCLOSURES**

**Finding No. 11:** Certain District employees did not timely file statements of financial interests with the supervisor of elections, contrary to Section 112.3145(2), Florida Statutes.

**INFORMATION TECHNOLOGY**

**Finding No. 12:** The District lacked written information technology (IT) policies and procedures for monitoring end-user workstation administrative rights.

**Finding No. 13:** Certain IT security controls related to user authentication needed improvement.

**BACKGROUND**

The Manatee County District School Board is part of the State system of public education under the general direction of the Florida Department of Education. Geographic boundaries of the District correspond with those of Manatee County. The governing body of the Manatee County District School Board (School Board) is composed of five elected members. The appointed Superintendent of Schools is the executive officer of the School Board.

During the 2009-10 fiscal year, the District operated 53 elementary, middle, high, and specialized schools; sponsored eight charter schools, only six of which were component units of the District; and reported 42,369 unweighted full-time equivalent students.

The results of our audit of the District’s financial statements and Federal awards for the fiscal year ended June 30, 2010, will be presented in a separate report.

**FINDINGS AND RECOMMENDATIONS**

**Capital Outlay Funding**

**Finding No. 1: Ad Valorem Taxation, Certificates of Participation, and Sales Surtax Proceeds**

Section 1011.71, Florida Statutes, allows the District to levy ad valorem taxes for capital outlay purposes within specified millage rates subject to certain precedent conditions. Among the specific conditions imposed by Section 200.065(10)(a), Florida Statutes, are requirements to advertise, in advance of the adoption of a budget authorizing the expenditure of ad valorem tax levy proceeds, the purposes for which the Board intends to spend the proceeds of each ad valorem tax levy. Allowable uses of ad valorem tax levy proceeds include, among other things, funding new construction and remodeling projects; maintenance, renovation, and repair of existing schools; purchases of new and replacement equipment; and certain enterprise resource software used to support Districtwide administration or State-mandated reporting requirements subject to certain conditions and limitations. The District accounts for the ad valorem tax levy proceeds in the Capital Projects – Local Capital Improvement (LCI) Fund.

Also, pursuant to Board resolution, and certain provisions of Florida law, the District issued Certificates of Participation, Series 2007, for \$60,040,000. The proceeds can be used for the acquisition, construction, renovation, remodeling, and equipping of educational facilities included in the Board resolution, and the District accounts for these proceeds in a subfund (Certificates of Participation, Series 2007) of the Capital Projects - Other Capital Projects (Other Capital Projects) Fund.

In addition, the District receives a discretionary sales surtax pursuant to Section 212.055(6), Florida Statutes, and accounts for these proceeds in a subfund (Discretionary Sales Surtax) of the Other Capital Projects Fund. Proceeds from the discretionary sales surtax can be used for construction, renovation, and refurbishment of educational facilities as well as retrofitting and providing for technology implementation, including hardware and software, for various District sites.

For the 2009-10 fiscal year, the District incurred LCI Fund expenditures totaling \$28,049,968.99 and transfers totaling \$15,265,005.10 to the General Fund. We tested expenditures and transfers totaling \$6,305,336.01 to determine their propriety. Our tests disclosed initial questioned costs totaling \$4,561,022.64 for the LCI Fund as discussed below:

Description	Amount
Expenditures:	
Portion of the salaries and benefits for various staff (1)	\$ 282,239.75
Instructional software (2)	45,991.85
Transfers to the General Fund for:	
Salaries and benefits costs for Network Services and Communications and Technical Systems Support staff to maintain and repair the network and telecommunications infrastructure (3)	1,689,245.72
Maintenance expenditures reimbursed twice	1,146,028.11
Custodians and groundskeeper salaries and benefits (4)	933,887.02
Utilities, materials, and supplies (5)	393,764.72
Band uniforms (6)	45,566.90
Athletic field maintenance (7)	24,298.57
<b>Total</b>	<b>\$ 4,561,022.64</b>

**Notes:**

- (1) These costs included salaries and benefits, representing percentages ranging from 15 percent to 90 percent of the salary and benefit costs of the assistant superintendent for business services, four finance staff, one internal auditor, and two warehouse employees. District personnel indicated that a part of the job duties of these employees was for the capital construction program. District personnel also provided a spreadsheet that listed these employees' positions and information to capitalize the costs; however, the District did not maintain records, such as personnel activity reports, to evidence the construction-related activities of these employees and support the capitalized salaries and benefits costs.
- (2) Instructional software purchases are not allowable uses of ad valorem tax levy proceeds pursuant to Section 1011.71, Florida Statutes. District personnel indicated that use of ad valorem tax levy proceeds for these purposes was in error and that the District would reimburse the expenditures.
- (3) These costs included salaries and benefits for 100 percent of 26 employees and 25 percent of the salaries and benefits for 2 employees (network services supervisor and the communications and technical systems manager). The network services employees maintain and repair the District's network infrastructure and the communications and technical systems employees provide training, installation, and repair for all telephone equipment and maintain the public address systems. The District did not maintain records, such as personnel activity reports, to evidence the activities performed by these employees were allowable charges.
- (4) These costs included salaries and benefits for 29 custodians, two irrigation employees, one turf maintenance employee, two food service workers, and three employees who supervised these employees. Section 1013.01(12), Florida Statutes, provides that maintenance and repair does not include custodian or groundskeeping functions, and District records, such as personnel activity reports, did not evidence that the activities performed by these employees were allowable charges.
- (5) District personnel indicated these costs were erroneously included in the transfers to the General Fund.
- (6) Although the District advertised for new and replacement equipment, it did not specifically include band uniforms in its advertisement for ad valorem tax levy use.
- (7) Although District personnel indicated that these costs represented athletic field maintenance costs originating in the General Fund, District records did not sufficiently evidence the nature of the work to support the allowability of these charges to ad valorem tax levy proceeds.

Subsequent to our tests above, District personnel reduced transfers to the General Fund by \$1,170,326.68 to correct the maintenance expenditures reimbursed twice (\$1,146,028.11) and the athletic field maintenance costs (\$24,298.57).

In addition, the District incurred expenditures, totaling \$3,109,000.18, for additions to Myakka Elementary School from the Certificates of Participation (COPs), Series 2007; however, this project was not included in the Board resolution as an approved use of these COPs proceeds. District personnel indicated that the third amendment to the Series 2007 COPs, prepared prior to the end of the 2009-10 fiscal year, included the Myakka Elementary School project but, as of September 2010, the District was working with the bond counsel and bond insurer to obtain approval. Since the COPs issue was not officially amended to include this project as of June 30, 2010, these expenditures, totaling \$3,109,000.18, represent questioned costs of the COPs Series 2007.

For the Other Capital Projects Fund, transfers totaling \$217,095.25 were for the salaries and benefits related to a systems analyst and programmer/analyst that were capitalized for the phased upgrade of the District's enterprise resource planning system and an instructional technology specialist for the implementation of the District's student attendance and report card system. District personnel stated that 100 percent of these three employees' effort was related to the implementation of software programs, which is an allowable capitalized cost to the sales surtax proceeds. However, District personnel did not maintain records, such as personnel activity reports, to evidence the software related activities of these employees. In response to our inquiry, District personnel provided information evidencing that one of the employees worked on software related projects, and the related salary and benefit costs of the employee totaled \$85,888.86. Absent adequate justification for the remaining project expenditures, the District incurred questioned costs totaling \$131,206.39 from sales surtax proceeds.

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**Recommendation:** The District should enhance controls to ensure that expenditures of ad valorem tax levy, certificates of participation, and sales surtax proceeds are consistent with the authorized uses for these capital funds. Such controls would include District records, such as personnel activity reports, to evidence the allowable activities being paid for from ad valorem tax levy proceeds and sales surtax proceeds. In addition, the District should obtain Board-approved amendments prior to expending certificates of participation proceeds for projects not included in the original agreement or amendments. Absent documentation to evidence the allowability of the questioned costs noted above, the District should restore \$3,390,695.96 to the LCI Fund and \$3,240,206.57 to the Other Capital Projects Fund, including \$3,109,000.18 and \$131,206.39 to the Certificates of Participation, Series 2007, and Discretionary Surtax subfunds, respectively.

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<b>Performance Assessments and Compensation</b>
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**Finding No. 2: Performance Assessments**

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Section 1012.34(3), Florida Statutes, requires the District to establish annual performance assessment procedures for instructional personnel and school administrators. When evaluating the performance of employees, the procedures must primarily include consideration of student performance, using results from student achievement tests, such as the Florida Comprehensive Assessment Test (FCAT), pursuant to Section 1008.22(3), Florida Statutes, at the school where the employee works. Additional employee performance assessment criteria prescribed by Section 1012.34(3)(a), Florida Statutes, include evaluation measures such as the employee's ability to maintain appropriate discipline, knowledge of subject matter, ability to plan and deliver instruction and use of technology in the classroom, and other professional competencies established by rules of the State Board of Education and Board policies. Section 1012.34(3)(d), Florida Statutes, requires that, if an employee is not performing satisfactorily, the performance evaluator must notify the employee in writing and describe the unsatisfactory performance.

The District established performance assessment procedures based on criteria prescribed by Section 1012.34(3)(a), Florida Statutes, except that the employees were not primarily evaluated based on student performance. The District used FCAT data and other evaluative data of student work when assessing instructional personnel and school administrators; however, District records did not clearly evidence that student performance was the primary assessment used to complete the evaluations. Without properly measuring employee performance, performance assessments of instructional personnel and school administrators may not effectively communicate the employee's accomplishments or shortcomings.

As of September 2010, the District was negotiating with the teacher's union to formalize the use of student achievement in evaluating instructional personnel, and anticipated completing the process by January 2011. District personnel further indicated that plans are for an executive team to revise the evaluation process for school administrators.

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**Recommendation:** The District should continue its efforts to ensure that performance assessments for instructional personnel and school administrators include consideration of student performance.

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### Finding No. 3: Compensation and Salary Schedules

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Section 1001.42(5)(a), Florida Statutes, requires the Board to designate positions to be filled, prescribe qualifications for those positions, and provide for the appointment, compensation, promotion, suspension, and dismissal of employees, subject to the requirements of Chapter 1012, Florida Statutes. Section 1012.22(1)(c)2., Florida Statutes, provides that, for instructional personnel, the Board must base a portion of each employee's compensation on performance. In addition, Section 1012.22(1)(c)4., Florida Statutes, requires the Board to adopt a salary schedule with differentiated pay for instructional personnel and school-based administrators. The salary schedule is subject to negotiation as provided in Chapter 447, Florida Statutes, and must allow differentiated pay based on 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 for ensuring that a portion of each instructional employee's compensation is based on performance pursuant to Section 1012.22(1)(c)2., Florida Statutes. Such policies and procedures could establish and clearly communicate the performance measures affecting instructional employee compensation. In addition, the Board had not adopted formal policies and procedures establishing the documented process to identify the instructional personnel and school-based administrators entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4., Florida Statutes. Such policies and procedures could specify the prescribed factors to be used as the basis for determining differential pay, the documented process for applying the prescribed factors, and the individuals responsible for making such determinations.

The 2009-10 fiscal year salary schedule and applicable union contracts for instructional personnel and school-based administrators provided pay levels based on various factors such as job classification, years of experience, level of education, and other factors. However, the District's procedures for documenting compliance with Section 1012.22(1)(c), Florida Statutes, could be improved, as follows:

- **Instructional Personnel.** The instructional personnel salary schedule and union contracts provided a performance pay stipend of 5 percent of the instructor's base salary if the instructor was rated outstanding; however, since no instructor was rated as outstanding, none received the stipend for the 2009-10 fiscal year. As such, contrary to Section 1012.22(1)(c)2., Florida Statutes, District records did not evidence that a

reasonable attempt had been made to base a portion of each instructional employee’s compensation on the employee’s performance. In addition, neither the salary schedule nor the union contracts evidenced differentiated pay based on level of job performance difficulties for instructional personnel, contrary to Section 1012.22(1)(c)4., Florida Statutes.

District records evidenced the basis for providing salary supplements for additional responsibilities and the instructional personnel salary schedule and union contracts provided supplements for these responsibilities beyond the standard seven and three-quarter hour day, such as supplements paid for athletic and drama coaches and department chairpersons. The salary schedule and union contracts also provided supplements for school demographics, such as supplements paid to teachers who live more than 15 miles from a remote elementary school, and a one-time hiring supplement was provided for critical shortage areas, such as for Title I middle and high school instructional personnel. However, District records did not evidence that anyone received the one-time hiring supplement during the 2009-10 fiscal year.

Also, District records did not sufficiently evidence the basis for identifying the selected school demographic and critical shortage areas. For example, the basis for providing a school demographics salary supplement to teachers according to where they lived was not readily apparent from District records. In addition, the District did not maintain documentation of critical shortage areas, such as records evidencing a minimal number of applicants, high personnel turnover rates, and other factors demonstrating the difficulty of hiring and retaining particular personnel.

- **School-based Administrators.** According to District personnel, the school-based administrators’ salary schedule included consideration for additional responsibilities, school demographics, and level of job performance difficulties. For example, District personnel indicated that the schedule evidenced differing administrative pay grades for elementary, middle, and high schools based on the additional responsibilities, school demographics, and level of job performance difficulties of the type of schools. However, the salary schedule did not provide for differentiated pay based on critical shortage areas for school-based administrators, contrary to Section 1012.22(1)(c)4., Florida Statutes.

Without Board-adopted policies and procedures for ensuring that a portion of each instructional employee’s compensation is based on performance, and sufficiently identifying the basis for the differentiated pay, the District may be limited in its ability to demonstrate that each instructional employee’s performance correlated to their compensation and the various differentiated pay factors were consistently considered and applied.

**Recommendation:** The Board should adopt formal policies and procedures for ensuring that a portion of each instructional employee’s compensation is based on performance, and differentiated pay of instructional personnel and school-based administrators is appropriately identified on salary schedules, consistent with Section 1012.22(1)(c), Florida Statutes.

**Safety and Security**

**Finding No. 4: Fingerprinting Requirements**

Sections 1012.465, 1012.467, and 1012.468, Florida Statutes, establish fingerprinting and background check requirements for contractors who are permitted access on school grounds when students are present or who have direct contact with students. Section 1012.468, Florida Statutes, also sets forth certain exemptions from these requirements for certain noninstructional contractors, such as law enforcement officers, qualified ambulance providers, those who are restricted from school grounds by proper fencing, and those who provide pickup or delivery services involving brief visits on school grounds when students are present.

In a memorandum, *Notification to Individuals, Vendors, and Contractors Doing Business with The School Board of Manatee County, Florida*, dated August 18, 2005, the District informed contractors permitted access on school grounds when students were present that it was their responsibility to comply with the law. The Board Attorney also stated that there is

nothing in the law that requires the District to perform the fingerprinting and screening of contractors who are permitted access on school grounds when students are present.

District personnel indicated that school personnel perform a check on anyone entering school buildings using a background checking system that scans a visitor's driver's license and screens the visitor for sexual offenses in all states. District personnel also informed us that the District had nine open schools with construction projects ongoing during the 2009-10 fiscal year, and contractors working on these projects completely separate the work areas from the student areas with fencing and single access points. The District provided badges to the contractors after proof of screening from the driver's license background checking system or an unexpired required screening from a Florida school district.

While the District screened contractor personnel for sexual offenses, District procedures did not provide for verifying or obtaining evidence that contractor personnel permitted access on school grounds had the required background screening performed or were exempt from these requirements. The required screening is a State and national fingerprint based check of Federal criminal history information conducted through the Florida Department of Law Enforcement and Federal Bureau of Investigation for arrests, warrants, convictions, and other information. A similar finding was noted in our report No. 2008-100.

Given the risk that personnel employed by contractors may have backgrounds that are unsuitable for direct contact with students, the District is responsible for confirming the required background screenings to protect students entrusted to its care. In addition, without proper background screenings of contractor personnel, the District may be exposed to potential litigation should legal claims involving contractors occur.

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**Recommendation:** The District should enhance its personnel procedures to ensure that required fingerprinting and background checks have been performed for contractor personnel who are permitted access to school grounds when students are present or maintain documentation evidencing that these personnel were exempt from these requirements.

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**Follow-up to Management's Response:**

*The District's response indicates that nothing in the law requires the District to perform the fingerprinting and screening of contractual personnel who are permitted access on school grounds when students are present and that the District requires through its contracts that contractual personnel comply with the statute. Also, the District's response indicates that the Department of Education's Technical Assistance Paper for the Jessica Lunsford Act is not accurate and is not binding on the District. Sections 1012.465 and 1012.467, Florida Statutes, and Department of Education Technical Assistance Paper for the Jessica Lunsford Act, dated August 15, 2005, provide that contractual personnel who are permitted access on school grounds when students are present, unless exempted by Section 1012.468, Florida Statutes, must meet specified screening requirements and the District is required by law to screen the results using the specified disqualifying offenses. The point of our finding is that District procedures should be enhanced to ensure that contractual personnel are not permitted access on school grounds when students are present unless they have met the screenings required by law.*

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**Finding No. 5: Collection of Social Security Numbers**

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The Legislature has acknowledged in Section 119.071(5)(a), Florida Statutes, the necessity of collecting social security numbers (SSNs) for certain purposes because of their acceptance over time as a unique numeric identifier for identity

verification and other legitimate purposes. The Legislature has also recognized that SSNs can be used to acquire sensitive personal information, the release of which could result in fraud against individuals or cause other financial or personal harm. Therefore, public entities are required to provide extra care in maintaining such information to ensure its confidential status.

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

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

- The District collected SSNs from employee applicants online; however, the online application did not evidence the purpose for collecting the SSN nor did it provide a link to such information.
- The District collected SSNs on new employee information sheets, and other new employee forms, but did not provide the individual with the required notification.
- District records did not evidence that the District provided notifications to parents or guardians of the purpose for collecting SSNs on student registration and scholarship applications.

Effective controls to properly monitor the need for and use of SSNs and ensure compliance with statutory requirements reduces the risk that SSNs may be used for unauthorized purposes.

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

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<b>Insurance</b>
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**Finding No. 6: Charter School Insurance**

During the 2009-10 fiscal year, the District sponsored eight charter schools and agreements with the schools required the District to obtain evidence of insurance for general liability, automobile liability, workers’ compensation, errors and omissions, and property damage insurance, with specified limits. The District’s Innovative Programs and Parental Options Department is responsible for monitoring the charter schools’ compliance with the insurance requirements. While the District generally maintained evidence of the required insurance for the charters schools, as similarly noted in several of the District’s previous audit reports, our review disclosed the following exceptions:

- Although the Oasis Middle School charter school agreement required errors and omissions insurance of \$1 million per claim and \$1 million aggregate coverage, District records did not evidence that the school had such coverage for the 2009-10 fiscal year.

- The PAL Academy Charter Schools of Manatee County, Inc. (The PAL Academy), charter school agreement required a minimum of \$1 million per claim and \$2 million annual aggregate of errors and omissions coverage. However, District records did not evidence that the school had such insurance for July 1, 2009 to July 30, 2009, and from July 31, 2009, through June 30, 2010, the school's certificate of liability insurance only provided \$1 million annual aggregate coverage.
- Although the Oasis Middle School charter school agreement required a \$1 million per occurrence and \$3 million annual aggregate of commercial general liability insurance, the school's policy only provided \$2 million annual aggregate coverage.
- The charter school agreements for Oasis Middle School and The PAL Academy required \$1 million per occurrence and \$3 million aggregate, and \$1 million per claim and \$2 million aggregate insurance, respectively, for all owned, nonowned, and hired autos used by the schools. While Oasis Middle School and The PAL Academy had appropriate car insurance for most of the 2009-10 fiscal year, District records did not evidence that the schools had such insurance for July 1, 2009 to August 12, 2009, and July 1, 2009 to August 14, 2009, respectively.

Without District records to evidence the required insurance for the charter schools, the District may be subject to potential liability in the event uninsured claims occur at the charter schools.

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**Recommendation:**     **The District should enhance procedures to ensure that its charter schools maintain insurance required by the charter school agreements.**

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#### **Finding No. 7: Design Professional Liability Insurance**

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The District's Board contracts with design professionals, such as architects and engineers, for its construction projects. The Florida Department of Education (FDOE), in its current *Guidelines for State Requirements for Educational Facilities*, recommends that the Board develop a policy requiring either the Board or the design professional to carry professional liability insurance. Our review disclosed that the contracts required design professionals to provide professional liability, including errors and omissions, and other various types of liability insurance, such as automobile liability, and commercial general liability insurance. However, as similarly noted in our report No. 2008-100, the District had not developed a policy that addresses insurance requirements that should be included in contracts with design professionals. Consequently, a determination could not be made whether the types and amounts of professional liability insurance provided by the design professionals was sufficient to protect the District's investments in its construction projects or whether other liability insurance was sufficient to protect the District in case of an accident causing bodily harm to an individual on District grounds.

For example, the District contracted with an architect for \$960,000 related to services for construction of an elementary school, with costs of \$17.6 million. The District also contracted with a design professional for \$602,000 related to services for a repair and renovation project at an elementary school, with a cost of \$8.3 million. For each contract, the District required \$1 million of insurance for professional liability, including errors and omissions, \$1 million commercial general liability, and \$1 million automobile liability insurance. However, since the District had no written policy prescribing minimum liability insurance requirements for design professionals, it was unclear whether the level of coverage for these projects was consistent with the Board's risk management philosophy. The Director of Construction Services stated that the construction services department reviews the required amounts of coverage versus cost of construction with the risk management department and the District's outside insurance and liability consultant for sufficiency every two years and \$1 million is the current recommendation and requirement for professional liability. Adopting a written policy would provide guidance as to the extent of risk the Board is willing to accept when deciding on the types and amounts of liability insurance required.

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**Recommendation:** The District should evaluate its exposure to design risk for construction projects and develop policies and procedures to ensure that it obtains evidence of the appropriate type and amount of professional liability and other liability insurance consistent with the Board's risk management philosophy. Upon acceptance, the Board should formally adopt such policies and procedures.

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**Finding No. 8: Self-Insurance Plans**

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The District provides for employee health and hospitalization insurance through a self-insurance plan pursuant to Section 112.08, Florida Statutes. Section 112.08(2)(b), Florida Statutes, requires the District to submit its self-insured plan, along with a certification as to the actuarial soundness of the plan, to the Florida Department of Financial Services, Office of Insurance Regulation (OIR) to obtain approval of the plan. This section further provides that OIR will not grant approval of the self-insured plan unless it determines that the plan is designed to provide sufficient revenues to pay current and future liabilities as determined according to generally accepted actuarial principles. After implementation of the approved plan, each district must annually submit to OIR a report that includes a statement prepared by an actuary as to the actuarial soundness of the plan. The annual report is due 90 days after the close of the fiscal year of the plan, and since the District's plan year closes on December 31, the annual report should be filed by March 30 of each year. As similarly noted in several previous audit reports, the District had not, as of September 2010, filed its annual report for plan years ending 2006, 2007, 2008, or 2009. Untimely filing of annual reports limits OIR's ability to properly monitor the District's plan.

According to District personnel, the actuary is unable to submit a statement certifying the actuarial soundness of the plan because the self-insurance fund had a deficit ending net assets balance of \$8.4 million at June 30, 2010, which represents a \$1.4 million increase in the deficit ending net assets balance of \$7 million at June 30, 2009. District personnel further indicated that although changes were made to the group health plan in January 2009 to shift more of the health plan costs to employees, these efforts were not enough to eliminate the deficit. For the 2010-11 fiscal year, District personnel indicated that new contract terms were negotiated with the pharmacy benefit manager to reduce costs. In addition, the Board approved a plan in September 2010 to increase health insurance premiums for the Board, employees, and retirees over the next three years in an attempt to eliminate the deficit.

The District is also self-insured for workers' compensation, property, and general liability, and had a deficit ending net assets balance at June 30, 2009, and June 30, 2010, of \$1 million and \$2.5 million, respectively. District personnel indicated that contributing factors for the continued deficits were new claims expenses, increased medical costs, and an increase in the District's self-insurance retention from \$1 million to \$1.25 million for workers' compensation, effective July 1, 2009. District personnel further indicated that the District will review premiums to determine if an increase is needed, and anticipates settling older claims to reduce the estimated claims liability.

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**Recommendation:** The District should ensure that the Group Health Self-Insurance plan and the required actuarial certification are timely filed with the Florida Department of Financial Services, Office of Insurance Regulation. In addition, the District should ensure that future plans, contribution levels, and budgets be developed to eliminate the net asset deficits in the self-insurance plans.

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**Student Enrollment**

**Finding No. 9: Adult General Education Courses**

Section 1004.02(3), Florida Statutes defines adult general education, in part, as comprehensive instructional programs designed to improve the employability of the State’s workforce. Chapter 2009-81, Laws of Florida, Specific Appropriation 111, states that from the funds provided in Specific Appropriations 9 and 111, each school district shall report enrollment for adult general education programs identified in Section 1004.02, Florida Statutes, in accordance with the Florida Department of Education (FDOE) instructional hours reporting procedures. Procedures provided by FDOE to the school districts stated that fundable instructional contact hours are those scheduled hours that occur between the date of enrollment in a class and the withdrawal date or end-of-class date, whichever is sooner.

As similarly noted in the District’s 2007-08 and 2008-09 fiscal year audit reports, improvements in controls were needed over enrollment hours reported to FDOE. The District reported 374,047 adult general education hours to FDOE, and our tests of District records for 10 students enrolled in 27 adult general education classes disclosed the following:

- For five classes, the District reported the hours twice. Hours overreported for these five classes ranged from 8 to 97 hours and totaled 165 hours. District personnel indicated that this was due to an error in the program that reports the hours to FDOE. Subsequent to our inquiry, the District corrected the programming error and the information reported to FDOE.
- For one student enrolled in two online classes, contact hours were underreported by 7 hours. District personnel indicated this was due to the above-mentioned programming error and corrected the information reported to FDOE.
- For one student enrolled in one class, the District mistakenly reported the reenrollment date instead of using the first enrollment date, resulting in 18 hours underreported.

Since future funding may be based, in part, on enrollment data submitted to FDOE, it is important that such data be submitted correctly.

**Recommendation:** The District should enhance its controls over the reporting of instructional contact hours for adult general education courses to the Florida Department of Education. Further, the District should determine the extent that it misreported adult general education course hours because of the programming error and contact the Florida Department of Education for proper resolution.

**Financial Records Management**

**Finding No. 10: Bank Account Reconciliations**

Effective internal control procedures require that bank account reconciliations be performed on a routine basis and reviewed by supervisory personnel. This provides reasonable assurance that cash assets agree with amounts recorded in the accounting records and facilitates the prompt detection and correction of unrecorded or improperly recorded transactions. In the absence of adequate and timely bank account reconciliations, there is an increased risk that errors or fraud could happen without timely detection.

As similarly noted in the District’s 2008-09 fiscal year audit report, improvements were needed in the District’s preparation of bank account reconciliations for its main operating account. During the 2009-10 fiscal year, the ending monthly cash balance of this account ranged from \$2.5 million to \$30.3 million, with an average ending monthly

balance of \$16.8 million. Our review of the monthly bank account reconciliations for the 2009-10 fiscal year disclosed that neither the preparer nor approver signed or dated any of the reconciliations. Based on notations on the preparer’s calendar, the monthly reconciliations for July and August 2009, and March, April, and May 2010, were completed from 46 to 99 days after month-end. According to District personnel, the July and August 2009 bank reconciliations were untimely due to delays in closing the financial records of the 2008-09 fiscal year. District personnel further indicated that the other untimely reconciliations occurred because the preparer had other job priorities.

**Recommendation: The District should enhance procedures to ensure that bank account reconciliations are timely completed, reviewed, and approved, and maintain documentation to evidence this process.**

**Financial Disclosures**

**Finding No. 11: Statement of Financial Interests**

Pursuant to Section 112.3145(2), Florida Statutes, each local officer must file, with the supervisor of elections, a statement of financial interests (statement) no later than July 1 of each year. Section 112.3145(1), Florida Statutes (2009), specifies that local officers for a school district include school board members, the superintendent, and purchasing agents having the authority to make any purchases exceeding \$15,000 (increased to \$20,000 by the 2010 Florida Statutes). Our review disclosed that, as of September 2010, two purchasing agents had not filed the required statement for the 2009 calendar year because they were unaware of these requirements. When local officers timely file required financial disclosure forms, a public record would exist to properly disclose the financial associations of such officers, including potential conflicts of interest.

**Recommendation: The District should ensure that all local officers timely file the required statement of financial interests with the supervisor of elections.**

**Information Technology**

**Finding No. 12: Policies and Procedures**

Each information technology (IT) function needs complete, well-documented policies and procedures to describe the scope of the function and its activities. Sound policies and procedures provide benchmarks against which compliance can be measured and contribute to an effective control environment.

The District lacked written policies and procedures for monitoring end-user workstation administrative rights. Without written policies and procedures, the risk is increased that IT controls may not be followed consistently and in a manner pursuant to management’s expectations.

**Recommendation: The District should establish written policies and procedures to document management’s expectations for the monitoring of end-user workstation administrative rights.**

**Finding No. 13: User Authentication**

Security controls are intended to protect the confidentiality, integrity, and availability of data and IT resources. Our audit disclosed certain security controls related to user authentication that needed improvement. We are not

disclosing specific details of the issue in this report to avoid the possibility of compromising District data and IT resources. However, we have notified appropriate District management of the specific issue. Without adequate security controls related to user authentication, the confidentiality, integrity, and availability of data and IT resources may be compromised, increasing the risk that District data and IT resources may be subject to improper disclosure, modification, or destruction.

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

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#### PRIOR AUDIT FOLLOW-UP

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Except as discussed in the preceding paragraphs, the District had taken corrective actions for findings included in previous audit reports.

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#### OBJECTIVES, SCOPE, AND METHODOLOGY

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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 2010 to September 2010 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: (1) obtain an understanding and make overall judgments as to whether District internal controls promoted and encouraged compliance with applicable laws, rules, regulations, contracts, and grant agreements; the economic and efficient operation of the District; the reliability of records and reports; and the safeguarding of assets; (2) evaluate management's performance in these areas; and (3) determine whether the District had taken corrective actions for findings included in previous audit reports. Also, pursuant to Section 11.45(7)(h), Florida Statutes, our audit may identify statutory and fiscal changes to be recommended to the Legislature.

The scope of this operational audit is described in Exhibit A. Our audit included examinations of various records and transactions (as well as events and conditions) occurring during the 2009-10 fiscal year.

Our audit methodology included obtaining an understanding of the internal controls by interviewing District personnel and, as appropriate, performing a walk-through of relevant internal controls through observation and examination of supporting documentation and records. Additional audit procedures applied to determine that internal controls were working as designed, and to determine the District's compliance with the above-noted audit objectives, are described in Exhibit A. Specific information describing the work conducted to address the audit objectives is also included in the individual findings.

**AUTHORITY**

Pursuant to the provisions of Section 11.45, Florida Statutes, I have directed that this report be prepared to present the results of our operational audit.



David W. Martin, CPA  
Auditor General

**MANAGEMENT'S RESPONSE**

Management's response is included as Exhibit B.

**EXHIBIT A**  
**AUDIT SCOPE AND METHODOLOGY**

Scope (Topic)	Methodology
Security awareness and training program regarding the confidentiality of information.	Examined supporting documentation to determine whether the District had developed a comprehensive information technology (IT) security awareness and training program.
Logical access controls for the human resource/payroll application.	Reviewed employees with access to selected functions within the human resource/payroll application to determine appropriateness of access based on their job functions and responsibilities.
User authentication controls.	Examined supporting documentation to determine whether authentication controls were configured and enforced in accordance with IT best practices.
Change management.	Examined written policies, procedures, and supporting documentation to determine whether change control procedures are in place to ensure modifications are properly authorized, tested, and approved.
Security controls for audit monitoring and logging.	Examined written policies, procedures, and supporting documents to determine whether the District has logging and monitoring controls in place.
Procedures for monitoring charter schools.	Interviewed District personnel and reviewed supporting documentation to determine if the District effectively monitored insurance for the charter schools.
Fraud policy and related procedures.	Examined written policies, procedures, and supporting documentation related to the District's fraud policy and related procedures.
Financial condition.	Applied analytical procedures to determine whether the General Fund unreserved fund balance at June 30, 2010, was less than the percents of the Fund's revenues specified in Section 1011.051, Florida Statutes.
John M. McKay Scholarships for Students with Disabilities Program.	Examined records to determine whether parents and guardians were notified annually of the John M. McKay Scholarships for Students with Disabilities Program pursuant to Section 1002.39(5)(a), Florida Statutes.
Direct-support organization audits.	Reviewed the District's direct-support organizations' audit reports to determine whether the audits were performed pursuant to Chapter 10.700, Rules of the Auditor General, and Section 1001.453, Florida Statutes.
Charter school administrative fee.	Examined records to determine whether the District properly withheld the charter school administrative fee pursuant to Section 1002.33(20)(a), Florida Statutes.
Restrictions on use of ad valorem tax levy, certificates of participation, and discretionary sales surtax proceeds and Public Education Capital Outlay (PECO) funds.	Applied analytical procedures, tested payments made from nonvoted capital outlay tax levy proceeds, certificates of participation and discretionary sales surtax proceeds, and PECO funds, and examined supporting documentation to determine whether the District complied with requirements related to the use of these proceeds and PECO funds.

**EXHIBIT A (Continued)**  
**AUDIT SCOPE AND METHODOLOGY**

Scope (Topic)	Methodology
Restrictions on use of Workforce Development funds.	Tested expenditures charged to Workforce Development to determine whether the District used funds for authorized purposes (i.e., not used to support K-12 programs or District K-12 administrative costs).
Adult general education program enrollment reporting.	Tested adult education students from Florida Department of Education (FDOE) records and examined supporting documentation to determine whether the District reported instructional and contact hours in accordance with FDOE requirements.
Social security numbers.	Examined records to determine whether the District had provided individuals with a written statement as to the purpose of collecting social security numbers pursuant to Section 119.071(5)(a), Florida Statutes.
Bank reconciliations.	Reviewed bank reconciliations and other supporting documentation to determine whether the District timely performed bank reconciliations.
Annual safety inspections.	Obtained copies of the most recent safety inspection reports and determined whether deficiencies noted were timely corrected.
Construction management policies and procedures.	Tested records supporting major construction projects to determine compliance with provisions of law.
Procedures for insuring architects.	Tested significant or representative major construction projects in progress during the audit period to determine whether architects engaged had evidence of required insurance.
Requirements for fingerprinting and background checks for personnel that had direct contact with students.	Reviewed District records for contractors who had direct contact with students to determine whether the District had obtained required fingerprint and background checks.
Compensation and salary schedules.	Examined supporting documentation to determine whether the Board, for instructional personnel, based a portion of each employee's compensation on performance, and adopted a salary schedule with differentiated pay for instructional personnel and school-based administrators based upon District-determined factors, including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties.
Performance assessments.	Examined supporting documentation to determine whether the District had established adequate performance assessment procedures for instructional personnel and school administrators primarily based on student performance and other criteria in accordance with Section 1012.34(3), Florida Statutes.

**EXHIBIT A (Continued)**  
**AUDIT SCOPE AND METHODOLOGY**

Scope (Topic)	Methodology
Superintendent and school board member compensation requirements of Chapter 2009-59, Laws of Florida.	Determined whether the Superintendent was properly paid pursuant to employment agreements and received no more than \$225,000 in remuneration from State funds. Also, determined whether the salary of school board members was calculated according to statutory guidance.
Procedures for monitoring cellular telephone usage.	Reviewed District policies and procedures for the issuance and monitoring of cellular telephones.
Purchasing card transactions.	Tested purchasing card transactions for propriety and compliance with related laws, rules, and District procedures.
Monitoring of self-insurance.	Reviewed District procedures for the filing of the group health self-insurance plan with the Office of Insurance Regulation. Tested group health self-insurance claims payments to determine the accuracy of payments by the service agent.

EXHIBIT B  
MANAGEMENT'S RESPONSE



SCHOOL BOARD

Robert C. Gause  
*Chair*

Harry G. Kinnan  
*Vice Chair*

Julie B. Aranibar  
Karen Carpenter  
Barbara A. Harvey

SUPERINTENDENT

Tim McGonegal

SCHOOL DISTRICT OF MANATEE COUNTY

November 29, 2010

Mr. David Martin, CPA  
Auditor General  
G74 Claude Pepper Building  
111 West Madison Street  
Tallahassee, FL 32399-1450

Dear Mr. Martin:

Noted below are Manatee County District School Board's responses to the preliminary and tentative audit findings and recommendations for the 2009-2010 fiscal year operational audit. Implementation of these recommendations serves to increase accountability and promote effective and efficient operations throughout the District.

**Finding No. 1: Ad Valorem Taxation, Certificates of Participation and Sales Surtax Proceeds**

District records did not always evidence that ad valorem tax levy, certificates of participation, and sales tax proceeds were used consistent with restrictions governing these proceeds, resulting in questioned costs totaling approximately \$6.6 million.

Response:

The District will enhance controls ensuring that capital expenditures are consistent with the authorized uses for those funds. The District will consider the implementation of personnel activity reports to evidence the allowable activities being paid from ad valorem tax levy proceeds and sales surtax proceeds. It should also be noted that the tasks of employees of the network services and communications and technical systems are documented through the use of a work order system.

The District relied on the opinion of bond counsel that specific Board approval was not necessary prior to expending certificates of participation proceeds. However, it should also be noted that, as part of the final budget approval, the Board approved the use of certificate of participation proceeds for the Myakka Elementary School project.

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**EXHIBIT B**  
**MANAGEMENT'S RESPONSE (Continued)**

**Finding No. 2: Performance Assessments**

District records did not sufficiently evidence that performance assessment procedures for instructional personnel and school administrators were based primarily on student performance, contrary to Section 1012.34(3), Florida Statutes.

**Response:**

As noted in the finding, the District is currently negotiating with the teacher's union to formalize the use of student achievement in evaluating instructional personnel. The District will continue its efforts to ensure that performance assessments for instructional personnel and school administrators include consideration of student performance.

**Finding No. 3: Compensation and Salary Schedules**

The Board had not adopted formal policies and procedures for ensuring that a portion of each instructional employee's compensation is based on performance pursuant to Section 1012.22(1)(c)2., Florida Statutes, and documenting the differential pay process of instructional personnel and school-based administrators using factors prescribed in Section 1012.22(1)(c)4., Florida Statutes.

**Response:**

The Board will give consideration to the adoption of formal policies and procedures to ensure that a portion of each instructional employee's compensation is based on performance, and differentiated pay of instructional personnel and school-based administrators is properly identified on salary schedules consistent with applicable Florida Statutes.

**Finding No. 4: Fingerprinting Requirements**

The District needed to enhance its procedures to ensure that required background screenings are obtained for contractor personnel.

**Response:**

The district has established adequate procedures for complying with the requirements of section 1012.465, Florida Statutes (2005), as written. Nothing in the act requires the district to perform the fingerprinting and screening of "contractual personnel who are permitted access on school grounds when students are present." In fact, the amendments to the Jessica Lunsford Act adopted in 2007 specify that the responsibility for the initial criminal history check on non-instructional contractors covered by the new amendments is on the non-instructional contractor, not the school board. The Technical Assistance Paper dated August 15, 2005, is not an accurate statement of the requirements of the Jessica Lunsford Act and is not binding on a school district. It has never been adopted as a rule under the Administrative Procedure Act. Nothing in the original act places the burden on the school board to do the fingerprinting and screening.

The District has not delegated its responsibility but has in our contracts required "contractual personnel" to comply with the requirements of the statute. There is no language in the statute to suggest the district cannot do that. Contractors are informed that failure to comply will result

**EXHIBIT B**  
**MANAGEMENT'S RESPONSE (Continued)**

in sanctions provided in section 1012 .465 (3) Florida Statutes (2005). The statute requires nothing more.

As far as construction personnel, subcontractors and day laborers hired by subcontractors being present on school grounds when students were present without undergoing the required background screenings, unless they were under contract with the school board there was no fingerprint screening requirement. The statute as written only required contractual personnel "under contract with the school board" to meet level 2 screening requirements.

As far as exposing the district to potential litigation, the 2007 amendment addressed that by providing that none of the amendments contained in the Jessica Lunsford Act create or imply any private cause of action for violation and do not create any new duty of care or basis of liability.

**Finding No. 5: Collection of Social Security Numbers**

**Controls could be enhanced to ensure compliance with Section 119.071(5)(a), Florida Statutes, regarding notifying individuals of the need for and the use of social security numbers.**

Response:

The District will improve its efforts to comply with the applicable statutes by evidencing the purpose for collection of social security numbers and providing the required notification.

**Finding No. 6: Charter School Insurance**

**The District could enhance the monitoring of insurance for District charter schools.**

Response:

The District will increase its efforts to ensure that its charter schools are in compliance with the contract provisions regarding insurance coverage.

**Finding No. 7 – Design Professional Liability Insurance**

**The District did not have a policy that addresses liability insurance that should be included in contracts with design professionals.**

Response:

The Board will consider the adoption of a policy that addresses liability insurance that should be included in contracts with design professionals upon the evaluation of the necessity of such a policy.

**Finding No. 8 – Self-Insurance Plans**

**The District had not filed its annual report for its self-insurance group health plan for plan years ending 2006 through 2009, contrary to Section 112.08(2)(b), Florida Statutes. In addition, the group health and workers compensation, property, and general liability**

**EXHIBIT B**  
**MANAGEMENT'S RESPONSE (Continued)**

self-insurance plans had ending deficit net asset balances as of June 30, 2010, of \$8.4 million and \$2.5 million, respectively.

Response:

The District will file the required actuarial certification at the point in time that the actuary is able to provide the District with such certification. Currently, the District is in the process of developing plans to provide for the elimination of the net asset deficits in the self-insurance plans within three fiscal years.

**Finding No. 9 – Student Enrollment**

Improvements were needed in District procedures to ensure the accurate reporting of instructional contact hours for adult general education courses to the Florida Department of Education.

Response:

As noted in the finding, the District corrected the reporting errors disclosed in the audit tests. The District will continue to enhance its controls to ensure the accurate reporting of instructional contact hours for adult general education courses.

**Finding No. 10 – Bank Account Reconciliations**

Improvements were needed in District bank account reconciliation procedures.

Response: The District will continue to enhance its procedures to ensure that bank account reconciliations are timely completed, reviewed and approved along with the appropriate documentation to evidence this process.

**Finding No. 11 – Financial Disclosures**

Certain District employees did not timely file statements of financial interests with the supervisor of elections, contrary to Section 112.3145(2), Florida Statutes.

Response:

In the future, the District will ensure that all local officers timely file the required statement of financial interests with the supervisor of elections.

**Finding No. 12 – Information Technology**

The District lacked written information technology (IT) policies and procedures for monitoring end-user administrative rights.

Response:

The District will develop the written policies and procedures to mitigate the risk that IT controls may not be followed consistently and pursuant to management's expectations.

**EXHIBIT B**  
**MANAGEMENT'S RESPONSE (Continued)**

**Finding No. 13 – Information Technology**

**Certain IT security controls related to user authentication needed improvement.**

Response:

The District will strive improve those certain IT security controls related to user authentication.

We appreciate the professionalism and courtesy of the audit staff throughout the process. Please feel free to contact Mr. Jim Drake, Assistant Superintendent of Business Services, at 941-708-8770, extension 2110 if you have any questions.

Sincerely,



Mr. Tim McGonegal, Superintendent  
Manatee County School District