

INDIAN RIVER COUNTY
DISTRICT SCHOOL BOARD

Operational Audit



BOARD MEMBERS AND SUPERINTENDENT

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

	District <u>No.</u>
Karen Disney-Brombach, Vice Chair to 11-16-09, Chair from 11-17-09	1
Matthew McCain, Vice Chair from 11-17-09	2
Carol Johnson, Chair to 11-16-09	3
Claudia Jiménez	4
Debbie MacKay	5

Harry J. La Cava, Ed.D., Superintendent

The audit team leader was Clare Waters, CPA, and the audit was supervised by Tim L. Tucker, CPA. For the information technology portion of this audit, the audit team leader was Sue Graham, CPA, 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 or by telephone at (850) 487-9039.

This report and other reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 487-9024; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

INDIAN RIVER COUNTY

District School Board

SUMMARY

Our operational audit disclosed the following:

FINANCIAL MANAGEMENT

Finding No. 1: The District reported a General Fund unreserved fund balance of \$1.3 million at June 30, 2010, or 1.13 percent of General Fund revenues, resulting in less resources available for emergencies and unforeseen situations.

PERFORMANCE ASSESSMENTS AND COMPENSATION

Finding No. 2: District records did not sufficiently evidence that performance assessment procedures for annual contract instructional personnel included consideration of student performance and use of technology in the classroom, 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 for timely obtaining background screenings and fingerprints for District personnel who have direct contact with students.

Finding No. 5: The District did not maintain complete, well-documented procedures to establish the duties and responsibilities of Maintenance Department personnel in properly monitoring and completing projects, complying with applicable building and life safety codes, and tracking facility and equipment warranties.

Finding No. 6: Enhancements were needed in monitoring procedures to ensure the adequacy of insurance coverage for charter schools sponsored by the District, construction contractors, and design professionals.

STUDENT ENROLLMENT

Finding No. 7: The District did not maintain records to evidence its required notifications to parents of eligible students of the opportunities provided by the John M. McKay Scholarships for Students with Disabilities Program.

INFORMATION TECHNOLOGY

Finding No. 8: The District's management of information technology (IT) access privileges needed improvement.

Finding No. 9: Improvements were needed in the IT change management process as the District did not restrict programmers from updating production programs and data.

Finding No. 10: The District's IT security controls related to user authentication, logging, and monitoring needed improvement.

Finding No. 11: The District needed to enhance its procedures to ensure timely removal of IT access privileges for former employees.

Finding No. 12: The District's IT security awareness training program needed improvement.

BACKGROUND

The Indian River County District School Board (District) 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 Indian River County. The governing body of the Indian River County District School Board (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 24 elementary, middle, high, and specialized schools; sponsored five charter schools; and reported 17,516 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

Financial Management

Finding No. 1: Financial Condition

In governmental funds, reserve accounts are used to indicate the portion of fund balance that is restricted to specific purposes and not available for general appropriation by the Board, while unreserved fund balance serves as a measure of net current financial resources available for general appropriation by the Board. The unreserved portion represents the amount that can be used with the most flexibility for emergencies and unforeseen situations.

Section 1011.051, Florida Statutes, requires that the District maintain an unreserved fund balance in the General Fund that is sufficient to address normal contingencies. If at any time, this balance is projected to fall below 3 percent of projected General Fund revenues, the Superintendent must provide written notification to the Board and the Florida Department of Education (FDOE). Further, if the balance is projected to fall below 2 percent of projected General Fund revenues, the Board should have a reasonable plan to avoid a financial emergency, or FDOE will appoint a financial emergency board to implement measures to assist the Board in resolving the financial emergency.

In our report No. 2010-075, dated January 2010, we noted that the District transferred capital outlay millage proceeds, totaling approximately \$2.7 million, to the General Fund during the 2008-09 fiscal year for maintenance expenditures incurred before the 2008-09 fiscal year. However, since reimbursement of prior year maintenance expenditures was not explicitly provided for in Section 1011.71, Florida Statutes, we questioned the allowability of these costs. In a letter dated March 26, 2010, FDOE indicated to the District that the use of the millage proceeds for prior year maintenance expenditures was not one of the allowable uses specified in statute and the transfer represented a temporary loan that must be repaid. To comply with this directive, the District repaid the \$2.7 million from the General Fund to the Local Capital Improvement Fund. Consequently, because of this and other factors, the District experienced a decline in its General Fund unreserved fund balance from \$4 million at June 30, 2009, to \$1.3 million at June 30, 2010, which represents 1.13 percent of General Fund revenues.

In April 2010, the Board approved a budget action plan for the 2010-11 fiscal year, including the elimination of several instructional and administrative positions, salary reductions for nonbargaining staff, repurposing the Thompson Magnet School building to an adult education and pre-K facility, the levy of 0.25 mills for critical operating needs, and other planned actions. The District projects that its efforts will restore the General Fund unreserved fund

balance to 4.95 percent of General Fund revenues at June 30, 2011. In August 2010, the Superintendent notified FDOE and Board Members that the District’s unreserved fund balance at June 30, 2010, was less than 2 percent of General Fund revenues. In a letter dated September 2010, from FDOE to the Superintendent, FDOE indicated that the documented budget action plan of the District may reasonably avoid a financial emergency in the 2010-11 fiscal year.

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

Performance Assessments and Compensation

Finding No. 2: Performance Assessments

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 for continuing contract instructional personnel and school administrators based on criteria prescribed by Section 1012.34(3)(a), Florida Statutes. Annual contract instructional personnel typically maintain records, in consultation with their school principal or administrator, to establish specific goals addressing the improvement of student performance based on FCAT scores and other standardized tests. In addition, annual contract instructional personnel meet periodically with their school administrator throughout the school year to assess the progress in meeting the projected goals. However, for these personnel, District records did not sufficiently evidence a correlation between student performance and the performance assessments and the performance assessments did not address the employee’s ability to use technology in the classroom. According to District personnel, this occurred because the District used an evaluation form, designed before the statutorily required process. District personnel further indicated that a committee comprised of members of the union and District personnel plan to revise the assessment forms and related procedures. Without measuring employee performance by the required criteria, performance assessments of annual contract instructional personnel are incomplete and may not effectively communicate the employee’s accomplishments or shortcomings.

Recommendation: The District should continue its efforts to ensure its performance assessment procedures for annual contract instructional personnel include consideration of student performance and use of technology in the classroom.

Finding No. 3: Compensation and Salary Schedules

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 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.** Contrary to Section 1012.22(1)(c)2., Florida Statutes, the instructional personnel salary schedule and union contracts did not evidence that a portion of the compensation of each instructional employee was based on performance. The instructional personnel salary schedule and union contracts provided that instructors employed on a continuing contract basis, and rated exemplary on their performance assessments, would receive a bonus of 5 percent of their compensation. Of the 1,380 instructors, the District paid 652 continuing contract instructors a total of approximately \$1.7 million for these bonuses. While the performance of continuing contract instructors impacted their compensation, District records did not evidence that instructional employees who were not on a continuing contract had a portion of their compensation based on performance.

The instructional personnel salary schedule and union contracts provided salary supplements for additional responsibilities beyond the standard seven and three-quarter hour day, such as supplements for athletic and drama coaches and department chairpersons. Also, the salary schedule provided an additional \$2,000 for instructional personnel at Title I schools based on school demographics. However, neither the salary schedule nor the union contracts evidenced differentiated pay based on level of job performance difficulties and critical shortage areas for instructional personnel, contrary to Section 1012.22(1)(c)4., Florida Statutes.

- **School-based Administrators.** District personnel indicated that the school-based administrators' salary schedule evidenced consideration for additional responsibilities, school demographics, and level of job performance difficulties by the differing administrative pay grades for elementary, middle, and high schools based on the type 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

As similarly noted in our report No. 2010-075, the District needed to enhance its procedures for timely obtaining fingerprints and background screenings for instructional and noninstructional staff that have direct contact with students. Sections 1012.56(10) and 1012.465, Florida Statutes, require that instructional personnel renewing their teaching certificates and noninstructional personnel undergo required background screenings, which includes fingerprinting, every five years following the initial screening upon employment. In a memorandum dated June 25, 2004, FDOE recommended that districts conduct background screenings for certified instructional employees every five years, at the time of renewal of their teaching certificates, and that background screenings be obtained for approximately 20 percent of noninstructional employees each year.

We initially tested District records for 10 of the approximately 2,700 personnel who had direct contact with students, and noted that 4 instructional and 3 noninstructional personnel were not rescreened within the last five years, contrary to the above guidance. The most recent background screenings and fingerprints for these personnel were during the 2001-02 and 2004-05 fiscal years. We expanded our audit procedures and with the assistance of District staff determined that there were an additional 159 instructional and noninstructional personnel who were not rescreened within the last five years. District staff responsible for the screening process indicated that they attempted to maintain a record of required screening dates, but inadvertently excluded some personnel subject to the screening requirements. District staff further indicated that, during the 2010-11 fiscal year, the District is notifying applicable employees and substitutes that they are required to be rescreened. Absent the required background screenings, there is an increased risk that staff with unsuitable backgrounds may be allowed access to students.

Recommendation: The District should enhance its procedures to ensure that instructional and noninstructional personnel obtain the required background screenings every five years.

Finding No. 5: Maintenance Department

During the 2009-10 fiscal year, the Maintenance Department (Department) employed 54 full-time maintenance staff to provide maintenance services to the District's 24 schools, and administrative and support sites, and expenditures totaled approximately \$3.1 million for the Department.

The FDOE Office of Educational Facilities provides guidance for maintenance operations in a publication titled *Maintenance and Operations Administrative Guidelines for School Districts and Community Colleges*, as presented on its Web site (<http://www.fldoe.org/edfacil/manoguid.asp>). This publication provides general directives relating to work control

methods, maintenance staff training, reasons for considering contracted services, and other standard operating procedures. Also, Section 1013.38, Florida Statutes, requires the District to maintain facilities by complying with building and life safety codes. In addition, the *State Requirements for Educational Facilities* (SREF), Chapter 4.3(1)(e), provides that an annual maintenance permit should name the entity that will perform all required inspections and explain how each project is going to be documented and tracked for code compliance.

As similarly noted in our report No. 2010-075, the Department had a two-page narrative giving broad guidance for maintenance operations; however, the Department lacked complete, well-documented policies and procedures to describe the scope of its functions and activities. Specifically, the two-page narrative did not establish:

- A consistent and documented methodology to initiate, receive, process, document, and effectively respond to work order requests, including the anticipated time and date to commence requested work, cost, and date for completion of necessary maintenance and repairs. In addition, the narrative did not evidence the process to ensure the timely training of Department staff. Without well-written procedures, there is an increased risk that necessary facility repairs will not be performed in an efficient manner.
- The process for determining which maintenance projects would be subject to inspections by Department staff, other District staff, or independent contractors to ensure compliance with building and life safety codes pursuant to Section 1013.38, Florida Statutes, and Chapter 4.3(1)(e) of the SREF. Our review of District 2009-10 fiscal year work orders did not identify maintenance projects that required inspections; however, without written procedures establishing guidelines for determining which maintenance projects require inspections and which District personnel are responsible for making the inspections, there is an increased risk that repairs may not comply with building or life safety codes.
- Written procedures for tracking warranties. The Department generally did not maintain copies of warranty documents for tracking warranties and providing for warranted repairs after the expiration of the one-year builder's warranty period. As noted in our report No. 2010-075, the Department had not, as of September 2010, obtained warranties for two construction projects completed in Summer 2006 (New Liberty Magnet School, costing \$11.8 million; and Gifford Middle School Gymnasium, costing \$4.2 million). In addition, our current review disclosed no copies of warranty documents for two construction projects completed in November 2007 (Vero Beach High School Phase I and Phase II for \$15.5 million and \$26.5 million, respectively). Without written procedures for tracking warranties, the District faces an increased risk of paying for repairs that may be covered by either the contractor's or manufacturer's warranty.

District personnel indicated that the Board contracted with a consultant to assist in preparing detailed procedures for the Department.

Recommendation: The District should continue its efforts to enhance the effectiveness of the Department by developing and adopting complete and well-documented procedures. Such procedures should establish the duties and responsibilities of personnel in properly monitoring and completing maintenance projects, complying with applicable building and life safety codes, and tracking warranties of completed projects.

Finding No. 6: Insurance

As similarly noted in our report No. 2010-075, enhancements could be made in monitoring procedures to ensure the adequacy of insurance coverage for charter schools sponsored by the District, construction contractors, and design professionals, as discussed below.

Charter School Insurance. During the 2009-10 fiscal year, the District sponsored five charter schools that were required to provide evidence to the District of certain insurance for general liability, automobile liability, workers' compensation, errors and omissions, commercial crime, and property damage insurance, with specified limits. The

Risk Management Department is responsible for monitoring the charter schools' compliance with the insurance requirements; however, our review disclosed that the monitoring procedures could be enhanced, as follows:

- The insurance certificate for one charter school did not name the District's members, officers, and employees as additional insured, contrary to the charter school agreement.
- There was no evidence of automobile insurance for one charter school, although the charter agreement requires automobile insurance with policy limits of \$1 million per occurrence and an annual aggregate limit of \$3 million for all owned or nonowned vehicles.
- The policy limits for workers' compensation insurance for three charter schools did not comply with charter agreements. One charter school provided an insurance certificate with policy limits of \$500,000, although the charter agreement required minimum limits of \$1 million per occurrence and \$3 million annual aggregate. One charter school provided an insurance certificate with a policy limit of \$100,000 for each accident per employee and a \$500,000 policy limit; however, the charter agreement required minimum limits of \$1 million each accident or disease per employee. One charter school provided a \$1 million per occurrence and a \$1 million aggregate policy limit, although the contract required \$1 million per occurrence and \$3 million annual aggregate.
- The cancellation notice on the insurance certificates for three charter schools ranged from 10 to 30 days, although the charter school agreements required each certificate of insurance to provide the District no less than 60 days written notice prior to cancellation.

In response to our inquiry, the District, in September 2010, initiated efforts to obtain the required insurance certificates.

Construction Contractor Insurance. The Board approved a construction contract totaling \$3.1 million for the Vero Beach High School Renovation Phase IV project, and the District funded the project by issuing certificates of participation (COPs). The District did not purchase builder's risk insurance because District personnel believed the premium expenditures, deductible, and minimum claim amounts quoted for the project made the purchase of builder's risk insurance cost prohibitive. However, this was contrary to the requirements of the Board-approved contract and COPs agreements, and District records did not evidence that the Board had approved the decision to forgo the coverage.

Design Professional Insurance. The insurance certificates provided by the design professional for the Vero Beach High School Freshman Learning Center Cafeteria Renovation and Gym Renovation projects, with construction budgets of \$807,792 and \$1,004,640 respectively, were not in compliance with Board Policy 6Gx31-10.13: Professional Services-Insurance Requirements, as follows:

- General liability insurance had policy limits of \$1 million aggregate, contrary to Board policy requiring a \$3 million aggregate policy limit.
- Professional liability insurance had policy limits of \$1 million aggregate, contrary to Board policy requiring a \$3 million aggregate policy limit.

While the lack of construction contractor insurance was intentional, District personnel indicated that the discrepancies for charter school and design professional insurance were due to District oversights. Without adequate procedures to monitor the insurance coverage of charter schools, construction projects, and design professionals, there is an increased risk that such coverage may not be adequate, subjecting the District to unexpected loss exposure.

Recommendation: The District should enhance procedures to ensure that its charter schools and design professionals maintain required insurance coverage. The District should also ensure that any deviations from contractual insurance requirements, such as the District's decision to forgo builder's risk insurance on the Vero Beach High School Renovation Phase IV project, are approved by the Board.

Student Enrollment

Finding No. 7: McKay Scholarship Program

Pursuant to Section 1002.39, Florida Statutes, the John M. McKay Scholarships for Students with Disabilities Program (Program) provides funding to parents of eligible students with disabilities for their children to attend an eligible private school, or the opportunity for their children to attend a public school other than the one assigned. Further, Section 1002.39(5)(a), Florida Statutes, provides that by April 1 of each year, the District must inform the parent of these education options and the availability of the Florida Department of Education’s telephone hotline and Web site for additional Program information, and offer that parent an opportunity to enroll the student in another public school within the district. During the 2009-10 fiscal year, the Program provided scholarships, totaling \$255,525, for 51 Indian River County students.

District personnel indicated that on March 22, 2010, the District gave notification letters, evidencing the educational opportunities provided by the Program, to eligible students, and the District expected the students to provide the letters to their parents. District personnel further indicated that the District gave parents letters describing Program opportunities during the students’ individual education plan (IEP) meeting, or the District mailed letters to those parents who did not attend the IEP meetings. In addition, the District provided Program information using the District’s Web site; however, the District did not maintain records, such as address listings of parental notifications or other correspondence, to evidence that the District properly made the required notifications. While there is no statutory requirement for the District to maintain these records, without such records, the District is limited in its ability to demonstrate that parents were properly notified.

Recommendation: The District should enhance its procedures to document its notifications to parents of eligible students with disabilities of the educational opportunities provided by the John M. McKay Scholarships for Students with Disabilities Program.

Information Technology

Finding No. 8: Management of Access Privileges

Access controls are intended to protect 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 responsibility. Periodically reviewing IT access privileges assigned to employees promotes good internal control and is necessary to ensure that employees cannot access IT resources inconsistent with their assigned job responsibilities.

We reviewed selected access privileges to the finance and human resources applications, the supporting operating system, and the network to determine the appropriateness of access privileges. Our audit disclosed that, although end-user departments performed reviews to verify that employees were still active, assigned to the appropriate cost centers, and assigned appropriate profiles, some inappropriate or unnecessary access privileges existed because the department reviews did not include consideration of the employee’s duties. As similarly noted in our report No. 2010-075, the existence of inappropriate or unnecessary access privileges indicated a need for improved District review of access privileges. Specifically:

- The District assigned nine employees from various business departments access privileges that allowed update to vendor payment addresses, and this access was incompatible with their job responsibilities.
- The District assigned one school bookkeeper access privileges that allowed update to journal entries and purchase orders, and this access was unnecessary for her assigned job responsibilities.
- The District assigned one administrative assistant access privileges that allowed update to human resources and payroll information, and this access was inappropriate for her job responsibilities. In response to audit inquiry, District management indicated that the access privileges were reduced for the employee in September 2010 to reflect current job responsibilities.
- Thirteen Information Services (IS) Department employees were granted elevated access privileges within the finance and human resources applications. Ten employees could update the capabilities of other users, create and maintain vendor information, and update purchase orders, while three employees were granted a level of access that allowed update capability to virtually all functions within the applications, including the ability to update accounts payable and payroll data.
- Seven generic user identifications (IDs) not identifiable with particular users had been assigned similar elevated capabilities within the finance and human resources applications even though the generic user IDs were intended for uses other than application access. For example, the generic user IDs were used for submissions of batch jobs. The use of generic rather than individual user IDs for application access was unnecessary and could limit management's ability to affix responsibility for system actions taken with the generic IDs.
- Five employees from various departments had one or more of the special operating system access authorities that allowed, among other things, the ability to view, change, or delete any object on the system; create, change, and delete user profiles; change system hardware and disk configurations; hold, release, change, and cancel other users' jobs; save, restore, and free storage for all objects on the system; and manage output queues. These special operating system access authorities were assigned to the five employees through the use of either a group user profile, special user class, individual user profiles, or a combination thereof. This access was unnecessary for their assigned job duties and should only be granted to selected employees. In addition, one or more of these capabilities were granted to eight generic user IDs. In response to audit inquiry, District management indicated that the access has been removed from three of the employees and all of the generic IDs.

Although the District had controls in place (e.g., management review of change or edit reports and budgetary restrictions) to mitigate some of the risks of the control deficiencies noted above, inappropriate or unnecessary access privileges increase the risk that unauthorized disclosure, modification, or destruction of data and IT resources may occur without timely detection.

Recommendation: The District should be more restrictive in the granting of access privileges to ensure that access privileges are compatible with assigned job responsibilities and promote appropriate separation of duties. Additionally, the District should improve its review of the appropriateness of access privileges and timely remove or adjust any inappropriate access detected.

Finding No. 9: Program Change Management Process

Effective controls over changes to application programs and systems are intended to ensure that only authorized and properly functioning changes are implemented. Program change controls include procedures to ensure that all changes are properly authorized, tested, and approved for implementation. Change controls that are typically employed to ensure the continued integrity of application programs and systems include providing written evidence of the program change process, performing independent testing and approval of program changes, separating the responsibility for moving approved changes into the production environment from employees who developed the changes, and restricting programmers from accessing or updating production data.

The District had a written program change management process that provided for, among other things, program changes to be reviewed, tested, and moved to production by someone independent of the programmer who coded the changes. However, as similarly noted in our report No. 2010-075, the District's practice was to subject only complex changes to independent review, testing, and movement to production, while other changes were tested and moved to production by the programmer who modified programs. District personnel indicated that, due to the limited number of staff, the programmer who modified programs was allowed to test and move uncomplicated changes to production; however, under these conditions, the risk is increased that unauthorized or erroneous programs, including changes or patches, could be moved into the production environment without timely detection.

Recommendation: Pursuant to its written program change management process, the District should ensure that all program changes are independently reviewed, tested, and moved into the production environment.

Finding No. 10: User Authentication, Logging, and Monitoring

Security controls are intended to protect the confidentiality, integrity, and availability of data and IT resources. As similarly noted in our report No. 2010-075, certain District security controls related to user authentication, logging, and monitoring needed improvement. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising District data and IT resources. However, we have notified appropriate District management of the specific issues. Without adequate security controls related to user authorization, logging, and monitoring, 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.

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

Finding No. 11: Timely Removal of Access Privileges

Effective management of IT access privileges includes the timely removal of employee access privileges when employment is terminated. Prompt action is necessary to ensure that a former employee's IT access privileges are not misused by the former employee or others.

The District developed a program that scans the human resources system for dates of termination and automatically removes network access privileges. This program produced a report that was used by the IS Department to remove operating system and application access privileges. Additionally, a nightly termination report was generated and used in an effort to ensure timely removal of access privileges of former employees. However, as similarly noted in our report No. 2010-075, improvements were needed to timely remove access privileges of former employees. Our test of 214 former employees who terminated employment during the period July 2009 through June 2010 disclosed that two former employees had active operating system accounts for 191 and 214 days after the employees' termination dates and ten former employees still had network accounts at the time of our test, 42 to 358 days after their termination dates. In response to audit inquiry, District management indicated that access for seven of ten network accounts had not been removed because of a programming issue with the automated program that removes network access privileges.

Without timely removal of former employees' access privileges, the risk is increased that access privileges could be misused by former employees or others.

Recommendation: The District should enhance its procedures to ensure timely removal of access privileges for former employees.

Finding No. 12: Security Awareness Training Program

A comprehensive security awareness training program appraises new users of, and reemphasizes to current users, the importance of preserving the confidentiality, integrity, and availability of data and IT resources entrusted to them. Significant nonpublic records (e.g., student record information and other records that contain sensitive information) are included in the data maintained by the District's IT systems. The District's security awareness training program included an Acceptable Use Policy that was reviewed and affirmed prior to accessing computer resources for the first time and reaffirmed annually, a presentation on security awareness, and a vendor Non-Disclosure Statement. However, because of an oversight, the security awareness training did not address certain security issues related to acceptable or prohibited methods for storage and transmission of data, data risks associated with portable devices, and the handling of sensitive or confidential information. The District's failure to address certain issues in its security awareness training program increases the risk that the District's IT resources could be unintentionally compromised by users while performing their assigned duties. A similar finding was noted in our report No. 2010-075.

Recommendation: The District should improve its security awareness training program by addressing the security issues discussed above to ensure that all computer users are aware of the importance of preserving the confidentiality, integrity, and availability of data and IT resources.

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the District had taken corrective actions for findings included in our report No. 2010-075.

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 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 our report No. 2010-075. 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.

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EXHIBIT A
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Procedures to timely prohibit terminated employees' access to electronic data files.	Tested employees who terminated during the audit period and examined supporting documentation evidencing when the District terminated access privileges.
Procedures for granting access to IT resources.	Reviewed employee access to selected functions within different applications to determine if an appropriate separation of duties existed in relation to employees' job functions.
Program change controls.	Reviewed the District's change management methodology for production program and data changes related to IT resources.
User authentication controls.	Examined supporting documentation to determine whether certain user authentication controls were configured and enforced in accordance with IT best practices.
John M. McKay Scholarships for Students with Disabilities Program.	Tested 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.
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)4., Florida Statutes.
Fraud policy and related procedures.	Examined written policies, procedures, and supporting documentation related to the District's fraud policy and related procedures.
Charter school administrative fee.	Examined records to determine whether the District correctly calculated and properly withheld charter school administrative fees pursuant to Section 1002.33(20)(a), Florida Statutes.
Financial condition: General Fund.	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.
Financial condition: Special Revenue - Food Service Fund.	Applied analytical procedures to determine whether the District implemented appropriate measures to improve the financial condition of the food service program.
Charter school insurance.	Examined records to determine whether the District effectively monitored charter schools to ensure that the charter schools had evidence of required insurance.
Restrictions on use of novoted capital outlay tax levy proceeds and Public Education Capital Outlay (PECO) funds.	Applied analytical procedures, tested payments made from novoted capital outlay tax levy proceeds and PECO funds, and examined supporting documentation to determine whether the District complied with the requirements related to the use of novoted capital outlay tax levy proceeds and PECO funds.

EXHIBIT A (Continued)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Maintenance Department procedures.	Reviewed adequacy of Maintenance Department operating procedures, including work order system and procedures for inspecting maintenance projects and tracking warranties.
Procedures for insuring architects, engineers, and construction contractors.	Tested major construction projects in progress during the audit period to determine whether architects, engineers, and construction contractors had evidence of required insurance.
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.
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).
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.
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.
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 fingerprinting and background checks for personnel that had direct contact with students	Tested District records for individuals who had direct contact with students to determine whether the District had obtained required fingerprint and background checks.
Purchasing card transactions.	Tested purchasing card transactions for propriety and compliance with related laws, rules, and District procedures.

EXHIBIT B
MANAGEMENT'S RESPONSE

School District of Indian River County

1990 25th Street • Vero Beach, Florida 32960-3395 – Telephone: 772-564-3000 • Fax: 772-569-0424

Harry J. La Cava, Ed.D.
Superintendent

November 29, 2010

David W. Martin, CPA
Office of the Auditor General
State of Florida
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, FL 32399-1450

Dear Mr. Martin:

The purpose of this letter is to respond to the preliminary and tentative audit findings for the School Board of Indian River County as a result of the audit for the fiscal year ended June 30, 2010. The following are the responses as submitted by the appropriate staff.

Financial Condition

Finding No. 1:

The District concurs with the auditor's position that it should continue to closely monitor the District's budget and to take the necessary actions to ensure that an adequate fund balance is maintained in the General Fund. As indicated in its narrative, the auditor notes that in April 2010, the Board approved the Superintendent's Budget Reduction Action Plan which includes a combination of position eliminations and the levy of the 0.25 Critical Operating Needs Millage designed to restore the General Fund balance above 5%. District staff continues to monitor the collection of revenues and expenditures as it progresses through the financial year.

Performance Assessments and Compensation

Finding No. 2:

The District concurs with the auditor's position that a complete evaluation instrument for annual contract teachers needs to be developed based on the criterion established in section 1012.34(3) Florida Statutes. The District is in the process of redesigning the entire evaluation system for all instructional personnel to meet all the requirements of the Statute. This process is an integral component of the District's participation in the Race to the Top federal grant application.

**"Educate and inspire every
Student to be successful"**

Karen Disney-Brombach • Matthew McCain • Carol Johnson • Claudia Jiménez • Jeffrey Pegler
District 1 District 2 District 3 District 4 District 5

"To serve all students with excellence"
Equal Opportunity Educator and Employer

EXHIBIT B
MANAGEMENT'S RESPONSE (Continued)

The redesigned evaluation instrument being developed proposes to have approximately fifty-percent (50%) of the evaluative score tied directly to student achievement, with the remaining fifty percent (50%) tied directly to the Florida Educator Accomplished Practices (FAEP). The FAEP encompasses all aspects of instruction and includes the use of technology as an instructional tool.

Finding No. 3:

The District concurs with the auditor's finding that there are no formal Board policies or procedures which ensure that a portion of each instructional employee's compensation is based on performance pursuant to Section 1012.22(1)(c)(2) and also addresses differentiated pay pursuant to section 1012.22(1)(c)(4). As indicated in our response to Finding No.2., the District is in the process of designing district policies and procedures that will ensure that a portion of each instructional employee's compensation is based on student performance. In addition, salary schedules will be adopted that delineates pay based on student performance and differentiated pay for both instructional personnel and school based administrators, consistent with state statute.

Safety and Security

Finding No. 4:

The District concurs with the auditor's finding and as noted the finding is largely due to the oversight that resulted in the exclusion of some personnel that are subject to the screening procedures. Subsequent to this being brought to our attention, we have notified all applicable staff and substitutes that they are required to be rescreened pursuant to section 1012.56(10) and 1012.465, Florida Statutes.

Finding No. 5:

The District concurs with this finding and is in the process of creating a comprehensive procedures manual for the Maintenance Department which will define the roles and responsibilities of all maintenance personnel. The manual will also document procedures that are currently in place to properly monitor and track projects, track the progress of all work orders, as well as a procedure that determines which maintenance projects will be required to have follow up inspections by the Building Department for compliance with building and life safety codes. It is anticipated that the manual will be completed within the next fiscal year.

Finding No. 6:

Charter School Insurance:

The District concurs with this finding and has taken appropriate steps to ensure that charter schools provide the proper insurance coverage as required by their contracts. The District has met with the charter schools during their monthly meeting, provided a copy of the revised insurance form, which details the breakout of the required coverage by area of liability which will demonstrate compliance with the required coverage. In addition, the District has now received certificates that name the District's members, officers and employees as additional insured.

EXHIBIT B
MANAGEMENT'S RESPONSE (Continued)

Construction Contract Insurance:

Builders Risk Insurance:

The District concurs with the auditor's finding in this area. However, we took the position on these projects that since requirements for the provision of Builder's Risk Insurance are determined unilaterally by the owner and contribute to an increased project cost the decision was made to forgo the coverage. However, we have now required our contractors to include Builder's Risk Insurance for the majority of our projects. This requirement continues to be included in our construction contracts, and it is our intent to continue to require its purchase, as prices have become manageable once more.

Design Professional Insurance:

Although we concur with the auditors recommendation, it is important to note that the renovation of Vero Beach High School is now complete. Subsequent to the original finding by the auditor in their report 2010-040, the District has implemented procedures to include the Building Department's review of all architect and contractor insurance before a permit is issued to proceed on any construction project

Student Enrollment

Finding No. 7:

The District does not concur with this finding in this area. As the auditor points out in its narrative, there is no requirement under the statute to maintain records to evidence that the District made the required notifications. As indicated, the District provided notification letters, evidencing the educational opportunities provided by the McKay Scholarship Program via eligible students as well as during individual educational plan (IEP) meetings or mailed notification letters to parents who did not attend these meetings. However, in an effort to increase accountability we have instituted a check off box and signature line on our IEP forms to evidence notification.

Management of Access Privileges

Finding No. 8:

- The District partially concurs with the auditor's finding. Our review of this finding indicated that the nine employees from various Business Departments that were assigned access privileges that allowed the update vendor payments addresses was found to be compatible with their job duties. These employees require access to change remittance addresses on payments as dictated by the vendor's invoice, change employee remittance addresses for wage garnishments, etc. In addition, compensating controls exist to the vendor system whereby these employees do not have access to create vendor records as vendors are required to fill out an application and be approved and established by the Purchasing Department. However, in the interest of increased accountability we accept the auditors recommendation to creating edit reports for tracking changes to the vendor screen.
- The District concurs with the auditor's finding in this area. The District assigned school bookkeeper that had access to update journal entries subsequently had this access removed from their security profile.

EXHIBIT B
MANAGEMENT'S RESPONSE (Continued)

- The District concurs with the auditor's finding in this area. The administrative assistant's access privilege identified during the audit has been removed.
- The District partially concurs with the auditor's finding in this area. Of the thirteen Information Services Department employees that had been granted elevated access, ten have been changed to a profile allowing only necessary access in order to do their jobs successfully. Three of the employees are still set up with a Master Profile which was found to be necessary in order for them to complete their jobs in the finance and payroll aspects of their work.
- The District partially concurs with the auditor's finding in this area. The seven generic user ID's that were not identifiable with a particular user were changed from a MSTR profile to MSTV profile which does not allow update capability. There are two that will remain with the MSTR profile as they are needed to run jobs in the system.
- The District partially concurs with the auditor's finding in this area. Of the five employees from various departments that were identified in the course of the audit, three were subsequently removed to only have limited access.

Finding No. 9:

- The District concurs with the auditor's finding for a programmer separation between the change development phase and testing / implementation phases with regard to application changes in the production environment. However, while the District's Information Services Department (IS) does follow a separation of duties approach for complex changes, we have found that adherence to such steps for minor changes is not cost effective due to resource constraints. The District believes that it maintains an appropriate balance of risk regarding the program change management process.

Finding No. 10:

- The District concurs with the auditor's finding in this area. However, due to the confidential nature of this finding we will take the appropriate steps to ensure that all issues pertaining to this finding are addressed in a timely manner and with the appropriate response.

EXHIBIT B
MANAGEMENT'S RESPONSE (Continued)

Finding No. 11:

- The District concurs with the auditor's finding in this area. Based on a test of terminated employee access, it was found that even though some of the employees listed on our reports showed them as deleted, the deletion was for only one job and the employees had another job that was still active. Further tests revealed that other employees on this list jobs were terminated on June 30, 2010 due to budget cuts but reinstated on July 1, 2010. Based on this finding we will be taking the appropriate steps to improve our processes to increase the timeliness of reporting terminated employees.

Finding No. 12:

- The District concurs with the auditors finding in this area. We have added to the Security Awareness Training Program's Power Point Program, further information to stress the importance of the storing of confidential information that could be on portable devices and in transmitting this information and also in information put in a email as this information is subject to public knowledge.

In closing, I would like to thank the staff from your office for their professionalism and cooperation in the conduct of the aforementioned audit. Please feel free to contact my office if you have any questions concerning this matter.

Sincerely,



Harry J. La Cava, Ed.D.
Superintendent

Cc: School Board Members
Michael Degutis
Carter Morrison

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