

STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

Report No. 2017-095
January 2017

**INDIAN RIVER COUNTY
DISTRICT SCHOOL BOARD**



Sherrill F. Norman, CPA
Auditor General

Board Members and Superintendent

During the 2015-16 fiscal year, Dr. Mark J. Rendell served as Superintendent of the Indian River County Schools and the following individuals served as School Board Members:

	<u>District No.</u>
Shawn Frost, Vice Chair from 11-17-15	1
Dale Simchick, Chair from 11-17-15	2
Matthew McCain, Chair to 11-16-15	3
Charles Searcy, Vice Chair to 11-16-15	4
Claudia Jimenez	5

The team leader was Clare Waters, CPA, and the audit was supervised by Tim L. Tucker, CPA.

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

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INDIAN RIVER COUNTY DISTRICT SCHOOL BOARD

SUMMARY

This operational audit of the Indian River County School District (District) focused on selected District processes and administrative activities and included a follow-up on findings noted in our report No. 2016-077. Our operational audit disclosed the following:

Finding 1: The Board needs to establish policies identifying a target net position balance or funding level for the health self-insurance plan and continue to take necessary actions to adequately fund the plan.

Finding 2: District controls over cash collections for the Extended Day Program could be enhanced.

Finding 3: District procedures for determining teacher eligibility for the Florida Best and Brightest Teacher Scholarship Program awards provide that one employee determines eligibility and there is no review and approval of the determinations. Additionally, for the 2015-16 fiscal year, the District awarded 2 of the 35 scholarships to ineligible recipients.

Finding 4: The District needs to adopt a spending plan for workforce education program funds. Similar findings were noted in our prior reports, most recently in report No. 2016-077.

Finding 5: District controls continue to need strengthening to ensure that instructional contact hours for adult general education classes are accurately reported to the Florida Department of Education.

Finding 6: Some inappropriate or unnecessary information technology access privileges were granted to District employees.

BACKGROUND

The Indian River County School District (District) is part of the State system of public education under the general direction of the Florida Department of Education, and is governed by State law and State Board of Education rules. Geographic boundaries of the District correspond with those of Indian River County. The governing body of the District is the Indian River County District School Board (Board), which is composed of five elected members. The appointed Superintendent of Schools is the executive officer of the Board. During the 2015-16 fiscal year, the District operated 25 elementary, middle, high, and specialized schools; sponsored five charter schools; and reported 17,656 unweighted full-time equivalent students.

This operational audit of the District focused on selected processes and administrative activities and included a follow-up on findings noted in our report No. 2016-077. The results of our audit of the District's financial statements and Federal awards for the fiscal year ended June 30, 2016, were presented in our report No. 2017-067.

FINDINGS AND RECOMMENDATIONS

Finding 1: Net Position Deficit – Health Self-Insurance Fund

Pursuant to State law,¹ the District provides for employee, retiree, and dependent health insurance through a self-insurance plan and accounts for the health self-insurance program in an internal service fund. State law² requires the District to annually submit to the Florida Department of Financial Services, Office of Insurance Regulation (OIR), a report that includes a statement prepared by an actuary of the plan's actuarial soundness within 90 days after the close of the plan fiscal year. Additionally, State law provides that the approval of the self-insured plan will not be granted unless the OIR determines that the plan is designed to provide sufficient revenues to pay current and future liabilities as determined according to generally accepted actuarial principles.

OIR correspondence³ indicates that the OIR considers a self-insured plan with reserves equal to 60 days of anticipated claims as actuarially sound and, if a self-funded plan does not meet this threshold, the OIR may request additional information to determine the actuarial soundness of the plan. Our review of District records disclosed that, during the 2015-16 fiscal year, the District's Health Self-Insurance Fund net position declined \$4,018,598 from a positive balance of \$203,448 to a deficit balance of \$3,815,150. Table 1 provides a summary of the unrestricted net position balance for the Health Self-Insurance Fund for the past 3 fiscal years.

Table 1
Health Self-Insurance Fund Unrestricted Net Position
For Fiscal Years Ended June 30, 2014, 2015, and 2016

Fiscal Year Ended June 30	Unrestricted Net Position Positive/(Deficit)
2014	\$ 3,267,495
2015	203,448
2016	(3,815,150)

Source: District records.

Our audit procedures also disclosed that the District had not established a target net position balance or funding level for the health self-insurance plan. In November 2015, the District submitted to the OIR the District health self-insurance plan for the plan year ended June 30, 2015, which indicated a plan reserve shortage of \$2.3 million (60 days of anticipated claims totaled \$2.52 million) and District intentions to increase premium contributions to compensate for the shortage. In a letter dated December 2015, the OIR questioned the District's actuarial assumptions and insufficient planned premium contribution increases. In response, the District provided the OIR with a certification, dated January 2016, which

¹ Section 112.08, Florida Statutes.

² Section 112.08(2)(b), Florida Statutes.

³ Rule 60O-149.053, Florida Administrative Code, adopts several forms, such as Form OIR-B2-574, to be used by local governments for self-funded plans. Form OIR-B2-574, *General Information and Surplus Statements for Self-Funded Health Benefit Plans*, indicates that if the plan's surplus is less than 60 days of anticipated claims, the OIR may ask other questions to determine the actuarial soundness of the plan.

indicated that the District had other available funding to compensate for the shortage. Subsequently, the OIR accepted the plan as actuarially sound; however, the District transferred none of the other available funding (e.g., General Fund resources) to the Fund during the 2015-16 plan year.

In September 2016, the District submitted to the OIR the required actuarial report for its self-insurance plan for the plan year ended June 30, 2016. In a September 2016 letter to the OIR, the District requested the OIR to approve the District's 4-year plan to correct the self-insurance plan's negative position by providing \$1.75 million from other available resources for each plan year starting with the 2016-17 plan year and by increasing medical premiums. In September 2016, the Board authorized a \$2.3 million budget transfer for the 2016-17 fiscal year from the General Fund to the Health Self-Insurance Fund and, in October 2016, the OIR accepted the District's plan as actuarially sound, and approved the District's 4-year plan to correct the negative net position of the plan.

While the teachers bargaining union, during insurance workshops in October 2016, rejected the teacher insurance premium restructuring; the Board, effective November 2016, restructured the non-bargaining employee insurance premium rates. As of November 23, 2016, the District had not transferred any General Fund moneys to the Health Self-Insurance Fund nor had other official Board action been taken to establish the plan's target net position balance or funding level necessary to ensure that the plan is adequately funded to meet future obligations of the health self-insurance fund. Without an established target net position balance or funding level there is an increased risk that the District will not maintain sufficient funds to meet the financial responsibilities of its health self-insurance plan.

Recommendation: The Board should establish policies identifying a target net position balance or funding level for the health self-insurance plan to ensure the plan is adequately funded and actuarially sound.

Finding 2: Extended Day Program

The District operates a fee-supported, school-age child care program, known as the Extended Day Program (EDP), for students before and after school at 13 elementary schools and during summer camp at 2 of the schools. During the 2015-16 fiscal year, the District recorded EDP fee collections of \$1 million.

To appropriately account for and safeguard EDP fee collections, it is important to separate the incompatible duties of recording student attendance and collecting, depositing, and recording fees and to prepare independent reconciliations (i.e., fee audits) of student attendance and recorded fee collections and deposits. If the EDP does not have a sufficient number of staff to appropriately separate duties or if it is not practical to prepare independent fee audits of student attendance and fees collected and deposited, compensating controls, such as supervisory review and approval of supporting documentation, are necessary.

As part of our audit, we reviewed District EDP fee collection and reporting procedures, including the EDP staff handbook, and examined District records supporting 30 selected daily deposits totaling \$20,101 for 6 schools to determine whether fees were properly assessed, agreed to attendance records, and were timely deposited. While our examination of the selected records did not disclose any errors or misappropriations, our review of the EDP staff handbook and other District records, as well as discussions

with District personnel, disclosed control deficiencies related to the District's EDP fee collection process. Specifically, we found that:

- The procedures in the EDP staff handbook did not provide for an appropriate separation of duties as the procedures stated that the financial coordinator at each EDP site was responsible for recording student attendance and collecting, depositing, and recording fees in the child care software program. In response to our inquiry in October 2016, District personnel indicated that these duties had not been separated due to limited number of staff at each EDP site.
- While the EDP staff handbook required the EDP central office bookkeeper to perform random site audits and District records evidence that the EDP central office bookkeeper conducted fee audits by verifying weekly that billings at selected schools were based on student attendance records and that collections recorded for all locations agreed to subsequent deposits, the District did not conduct fee audits of total student attendance and recorded fee collections and deposits. Additionally, although the child care software program has a feature that detects when fees collected do not reconcile to student attendance, one employee at each EDP site prepared attendance records and recorded collections. Accordingly, any assurances provided by the fee audits and software fee detection feature are limited.
- According to District personnel, the child care software accounts for EDP revenue based on student attendance, fee rates, prepayments, and charges, regardless of whether revenue is collected, and District personnel record EDP revenue in the District accounting system based only on amounts deposited without consideration of prepayments or charges. For example, at June 30, 2016, the child care software program recorded EDP charges (accounts receivable) totaling \$3,400 that were not recorded in the District accounting system. In response to our inquiries in October 2016, District personnel indicated that, in the future, they will prepare periodic reconciliations of the child care software program to the accounting system. Notwithstanding the District's plans to prepare reconciliations that may identify prepayment and charge transactions, such transactions need to be recorded in the District accounting system to provide appropriate accountability of EDP activities and resources.

Without adequate separation of incompatible duties; independent fee audits for all collections or, if appropriate, effective compensating controls; and entry of prepayment and charge transactions in the District accounting system, errors or fraud, should they occur, may not be timely detected.

Recommendation: The District should enhance EDP procedures by:

- **Separating, to the extent possible, the incompatible duties of recording student attendance and collecting, depositing, and recording fees.**
- **Performing independent fee audits to reconcile total collections to attendance records and approved fee rates with recorded fee collections and deposits.**
- **Recording prepayment and charge transactions in the District accounting system.**

Finding 3: Florida Best and Brightest Teacher Scholarship Program

The Florida Legislature established the Florida Best and Brightest Teacher Scholarship Program (Program)⁴ to reward teachers who achieved high academic standards during their own education. Pursuant to General Appropriations Act⁵ proviso language, to be eligible for a scholarship, a teacher must have scored at or above the 80th percentile on a college entrance exam based on the percentile ranks in

⁴ Section 1012.731, Florida Statutes (2016).

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

effect when the teacher took the assessment and have been evaluated as highly effective pursuant to State law,⁶ or if the teacher is a first-year teacher who has not been evaluated pursuant to State law, must have scored at or above the 80th percentile on a college entrance exam based on the percentile ranks in effect when the teacher took the assessment. To demonstrate eligibility for a scholarship award, an eligible teacher must submit to the District an official record of his or her college entrance exam score demonstrating that the teacher scored at or above the 80th percentile based on the percentile ranks in effect when the teacher took the assessment.

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

District personnel are responsible for determining teacher eligibility for scholarship awards and annually submitting the number of eligible teachers to the Florida Department of Education (FDOE). The FDOE disburses scholarship funds to the District for each eligible classroom teacher to receive a scholarship as provided in the applicable General Appropriations Act. According to District personnel, one employee determines teacher eligibility and there is no review and approval of the determinations to verify that the scholarships are awarded only to eligible recipients.

During the 2015-16 fiscal year, the District awarded Program scholarships totaling \$288,960 to 35 teachers. Our examination of District records supporting the scholarships disclosed that an error considering college entrance exam scores resulted in the District awarding scholarships totaling \$16,512 to 2 ineligible recipients. Specifically, the 2 teachers were ineligible because one of the teachers scored one point below the required college entrance exam score and the other scored 40 points below the required score. In response to our inquiry in November 2016, District personnel indicated that they will inform the 2 recipients that they are not eligible for the scholarship awards but do not plan to seek recovery of the improper payments. Absent effective procedures for determining teacher eligibility and independent review and approval of the eligibility determinations, there is an increased risk that scholarships may be awarded to ineligible recipients.

Recommendation: The District should establish review and approval procedures to verify that Program scholarships are awarded only to eligible recipients. In addition, the District should refund the FDOE for the awards totaling \$16,512 paid to the two ineligible scholarship recipients and recover from those recipients the improper payments.

Finding 4: Workforce Education Programs

Pursuant to State law,⁸ the District receives funding for workforce education programs and is required to use the money to benefit those programs. During the 2015-16 fiscal year, the District's workforce

⁶ Section 1012.34, Florida Statutes.

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

⁸ Section 1011.80, Florida Statutes.

education program revenues totaled \$1.3 million. These revenues, when combined with \$1.7 million of unspent workforce education revenues from prior fiscal years, made \$3 million available for workforce education program expenditures during the 2015-16 fiscal year.

District workforce education program expenditures and encumbrances totaled \$1.3 million for the 2015-16 fiscal year, which was 43 percent of the amount available to be expended, resulting in an unencumbered balance carry forward of \$1.7 million into the 2016-17 fiscal year. Although the workforce education program funds are restricted for adult education purposes and not subject to reversion, carrying forward large balances of program funds into subsequent years does not appear to be consistent with the Legislature's annual funding of the program and related benefits to particular students. In response to our inquiry, District personnel indicated that they are developing a workforce education program spending plan; however, as of November 2016, the plan was not finalized. Similar findings were noted in our report Nos. 2015-076 and 2016-077.

Recommendation: The District should continue efforts to develop a spending plan, and the Board should adopt a spending plan, for workforce education program funds to serve as a guide to ensure that these funds benefit the students and program as intended by the Legislature.

Finding 5: Adult General Education Classes

State law⁹ defines adult general education, in part, as comprehensive instructional programs designed to improve the employability of the State's workforce. The District received State funding for adult general education, and General Appropriations Act¹⁰ proviso language requires each school district to report enrollment for adult general education programs in accordance with the FDOE instructional hours reporting procedures.¹¹

FDOE procedures state 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. The procedures also require school districts to develop a procedure for withdrawing students for nonattendance and provide that the standard for setting the withdrawal date be six consecutive absences from a class schedule, with the withdrawal date reported as the day after the last date of attendance. There is also a minimum enrollment threshold of 12 hours of attendance for each program that must be met before a student can be counted for funding purposes.

For the 2015-16 fiscal year, the District reported 85,677 instructional contact hours for 24 adult general education classes provided to 530 students. As part of our audit, we examined District records for 1,527 hours reported for 30 selected students enrolled in 9 adult general education classes. We found that instructional contact hours were over reported a total of 505 hours (ranging from 4 to 120 hours) for 13 students. In response to our inquiry, District personnel indicated that the over-reported hours occurred primarily because instructors did not record certain student absences in the software program and the software program did not properly withdraw students for non-attendance. District personnel further indicated that, as of November 13, 2016, the software program provides alerts to the adult education

⁹ Section 1004.02(3), Florida Statutes.

¹⁰ Chapter 2015-232, Laws of Florida, Specific Appropriation 118.

¹¹ FDOE Memorandum No. 06-14, dated May 15, 2006, *Reporting Procedures for Adult General Education Enrollments*.

principal and instructors if student attendance is not entered into the program and has been corrected to properly withdraw students for nonattendance. Notwithstanding the corrective measures taken, the full extent of the instructional contact hours that may have been over reported in the 2015-16 fiscal year for the 530 students was not readily available.

Since funding may be based, in part, on enrollment data reported to the FDOE, it is important that the District report accurate data. In addition, the over-reported instructional contact hours may have resulted in more funding than needed and contributed to the excess unspent workforce education funds discussed in Finding 4. Similar findings were noted in our report Nos. 2015-076 and 2016-077.

Recommendation: The District should continue to strengthen controls to ensure instructional contact hours for adult general education classes are accurately reported to the FDOE. The District should also determine to what extent the adult general education hours were misreported for the 2015-16 fiscal year and contact the FDOE for proper resolution.

Finding 6: Information Technology – Access Privileges

Access controls are intended to protect data and information technology (IT) resources from unauthorized disclosure, modification, or destruction. Effective access controls provide employees access to IT resources based on a demonstrated need to view, change, or delete data and restrict employees from performing incompatible functions inconsistent with their assigned responsibilities. Periodic reviews of assigned IT access privileges are necessary to ensure that employees can only access those IT resources that are necessary to perform their assigned job responsibilities and that assigned access privileges enforce an appropriate separation of incompatible duties.

District personnel indicated that, due to infrequent employee responsibility changes, user profiles are reviewed and updated only when users change facilities or jobs. Consequently, the District had not established procedures to periodically review detailed access reports to identify the propriety of access privileges for each employee.

As part of our audit, we examined District records for the 28 employees with IT access privileges to the District's business application, including the finance and human resource (HR) modules. Our examination disclosed some access privileges that permitted certain District employees to perform incompatible functions. Specifically, we found that:

- Five HR Department employees had the ability to update direct deposit information and 2 HR Department employees had the ability to update employee pay rates.
- Four Finance Department employees had the ability to update employee pay rates and 1 Finance Department employee in the accounts payable area had the ability to update direct deposit information.

These access privileges were unnecessary for the employees' assigned job duties and contrary to an appropriate separation duties. Subsequent to our inquiry in October 2016, the inappropriate access privileges were removed. While District controls (e.g., staff review of changes and edit reports and budgetary restrictions) mitigate some of the risks of the access control deficiencies noted, the existence of unnecessary IT access privileges and the absence of a periodic review of IT access privileges increases the risk that unauthorized disclosure, modification, or destruction of District data and IT resources may occur and not be timely detected.

Recommendation: The District should establish and implement periodic reviews of access privileges and the removal of any inappropriate or unnecessary access privileges detected.

PRIOR AUDIT FOLLOW-UP

Except as noted in Findings 4 and 5 and shown in Table 2, the District had taken corrective actions for findings included in our previous report Nos. 2015-076 and 2016-077.

Table 2
Findings Also Noted in Previous Audit Reports

Finding	Operational Audit Report No. 2016-077, Finding	Operational Audit Report No. 2015-076, Finding
4	1	3
5	2	4

OBJECTIVES, SCOPE, AND METHODOLOGY

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

We conducted this operational audit from May 2016 to November 2016 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of this operational audit were to:

- Evaluate management’s performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse, and in administering assigned responsibilities in accordance with applicable laws, rules, regulations, contracts, grant agreements, and other guidelines.
- Examine internal controls designed and placed in operation to promote and encourage the achievement of management’s control objectives in the categories of compliance, economic and efficient operations, reliability of records and reports, and safeguarding of assets, and identify weaknesses in those controls.
- Determine whether management had taken corrective actions for findings included in our report No. 2016-077.
- Identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

This audit was designed to identify, for those programs, activities, or functions included within the scope of the audit, weaknesses in management’s internal controls, instances of noncompliance with applicable laws, rules, regulations, contracts, grant agreements, and other guidelines; and instances of inefficient or ineffective operational policies, procedures, or practices. The focus of this audit was to identify problems so that they may be corrected in such a way as to improve government accountability and

efficiency and the stewardship of management. Professional judgment has been used in determining significance and audit risk and in selecting the particular transactions, legal compliance matters, records, and controls considered.

As described in more detail below, for those programs, activities, and functions included within the scope of our audit, our audit work included, but was not limited to, communicating to management and those charged with governance the scope, objectives, timing, overall methodology, and reporting of our audit; obtaining an understanding of the program, activity, or function; exercising professional judgment in considering significance and audit risk in the design and execution of the research, interviews, tests, analyses, and other procedures included in the audit methodology; obtaining reasonable assurance of the overall sufficiency and appropriateness of the evidence gathered in support of our audit findings and conclusions; and reporting on the results of the audit as required by governing laws and auditing standards.

Our audit included transactions, as well as events and conditions, occurring during the 2015-16 fiscal year audit period, and selected District actions taken prior and subsequent thereto. Unless otherwise indicated in this report, these records and transactions were not selected with the intent of statistically projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

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

In conducting our audit we:

- Reviewed District procedures for maintaining and reviewing access to information technology (IT) resources. We also reviewed District records for all 28 employees who had access to the finance and human resource applications to determine the appropriateness and necessity of the access based on employees' job duties and user account functions and whether the access prevented the performance of incompatible duties.
- Determined whether a comprehensive IT disaster recovery plan was in place, designed properly, operating effectively, and had been recently tested.
- Examined selected operating system, database, and application security settings to determine whether authentication controls were configured and enforced in accordance with IT best practices.
- Evaluated the District data center's physical access controls for the 2015-16 fiscal year to determine whether vulnerabilities existed.
- Determined whether a fire suppression system had been installed in the District's data center.
- Examined District records related to charter schools to determine whether charter schools operating within the District loaned or transferred moneys to other organizations.
- Analyzed the District's General Fund total unassigned and assigned fund balances at June 30, 2016, to determine whether the balances were less than 3 percent of the fund's projected revenues, as specified in Section 1011.051, Florida Statutes. We also performed analytical procedures to determine the ability of the District to make its future debt service payments.

- Based on discussions with District personnel, review of District procedures, and examination of District records, evaluated controls over cash collections for the extended day program (EDP). From the population of 13 schools offering EDP with collections totaling \$1 million for the audit period, we examined District records supporting 30 selected daily deposits totaling \$20,101 at 6 schools to determine whether fees were properly assessed, agreed to attendance records, and were timely deposited.
- Examined supporting documentation for 15 selected expenditures totaling \$638,562 from the population of \$1.3 million total workforce development funds expenditures for the audit period, to determine whether the District used the funds for authorized purposes (i.e., not used to support K-12 programs or District K-12 administrative costs).
- From the population of 61 industry certifications reported for performance funding that were attained by students during the 2015-16 fiscal years, examined 25 selected certifications to determine whether the District maintained documentation for student attainment of the industry certifications.
- From the population of 530 adult general education instructional students reported for 85,677 contact hours for 24 adult general education classes during the audit period, examined District records supporting 1,527 reported contact hours for 30 selected students in 9 adult general education classes to determine whether the District reported the instructional contact hours in accordance with Florida Department of Education (FDOE) requirements.
- Examined the District Web site to determine whether the 2015-16 fiscal year proposed, tentative, and official budgets were prominently posted pursuant to Section 1011.035(2), Florida Statutes.
- From the population of 2,745 employees compensated a total of \$94.9 million during the audit period, examined District records supporting 30 selected compensation payments totaling \$51,633 to determine the accuracy of the rate of pay and whether supervisory personnel reviewed and approved employee reports of time worked and leave taken.
- Examined District records supporting the eligibility of all 35 recipients of the Florida Best and Brightest Teacher Scholarship Program awards, totaling \$288,960, during the audit period, to determine if the recipients qualified for the scholarship.
- Examined District policies, procedures, and related records for school volunteers to determine whether the District searched prospective volunteers' names against the Dru Sjodin National Sexual Offender Public Web site maintained by the United States Department of Justice, as required by Section 943.04351, Florida Statutes.
- From the population of 6,196 non-payroll expenditures totaling \$64.2 million for the audit period, examined documentation related to 30 selected payments totaling \$378,621 to determine whether the expenditures were reasonable, correctly recorded, adequately documented, for a valid District purpose, properly authorized and approved, and in compliance with applicable State laws, rules, contract terms and Board policies.
- From the population of seven significant construction projects with contracts totaling \$22.7 million and in progress during the audit period, examined District records supporting a \$7.1 million construction management guaranteed maximum price (GMP) contract and a \$7 million bid contract to determine whether the District complied with Board policies and procedures and provisions of State laws and rules. Specifically, for these projects, we:
 - Examined records to determine whether the construction manager was properly selected.
 - Reviewed District procedures for monitoring subcontractor selection and licensure, and examined records to determine whether subcontractors were properly selected and licensed.
 - Examined records to determine whether the architects were properly selected and adequately insured.

- Determined whether the District established written policies and procedures addressing negotiation and monitoring of general conditions costs.
- Examined records supporting two selected payments totaling \$2 million to determine whether District procedures for monitoring payments to the construction manager were adequate and payments were sufficiently supported.
- From the population of \$14 million total transfers made during the audit period from nonvoted capital outlay tax levy proceeds, Public Education Capital Outlay funds, and other restricted capital project funds, examined documentation supporting all transfers to determine compliance with the restrictions imposed on the use of these resources.
- Evaluated District procedures for identifying facility maintenance needs and establishing resources to address those needs.
- Evaluated District procedures for determining maintenance department staffing needs including consideration of appropriate factors and performance measures that were supported by factual information.
- Examined District records (e.g., statements prepared by an actuary regarding the health self-insurance plan's actuarial soundness, District accounting records, and Board minutes) and inquired of District personnel to determine whether the Board had established policies identifying a target net position balance or funding level for the health self-insurance plan to ensure the plan is adequately funded and actuarially sound.
- Determined whether the District had established adequate Virtual Instruction Program (VIP) policies and procedures.
- Evaluated District records for the audit period to determine whether the District provided the required VIP options as required by Section 1002.45(1)(b), Florida Statutes.
- For two FDOE-approved VIP providers that contracted with the District for the audit period, determined whether the District obtained a list of provider employees and contracted personnel who had obtained background screenings in accordance with Section 1012.32, Florida Statutes.
- Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.
- Prepared and submitted for management response the findings and recommendations that are included in this report and which describe the matters requiring corrective actions. Management's response is included in this report under the heading **MANAGEMENT'S RESPONSE**.

AUTHORITY

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



Sherrill F. Norman, CPA
Auditor General

MANAGEMENT'S RESPONSE



School District of Indian River County

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Mark J. Rendell, Ed.D. - Superintendent

January 6, 2017

Sherrill F. Norman, CPA
Office of the Auditor General
State of Florida
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, FL 32399-1450

Dear Ms. Norman:

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, 2016. The following are the responses as submitted by the appropriate staff.

Finding No. 1- Net Position Deficit- Health Insurance Fund:

Contact person: Bill Fritz

The District concurs that the School Board needs to establish policies identifying a target net position balance or funding level for the health self-insurance plan and continue to take the necessary actions to adequately fund the plan. As noted by the auditor, the District has already taken necessary actions to adequately fund the health self-insurance plan.

- The State Insurance Commission has approved the District's 2016 F.S. 112.08 filing, allowing the Board to replenish the deficit and required minimum reserves through transfers from the General Fund budget over a period of four (4) years. The first installment of \$2.3 million is incorporated in the 2016-17 budget and will be transferred prior to the end of fiscal 2016-17. The remaining installments will be transferred during the 2017-18, 2018-19, and 2019-20 fiscal years, in accordance with the approved plan.
- Premium increases in the amount of 32% have been implemented either through Collective Bargaining processes with both Unions and Board action for non-represented employees. A 32% increase was recommended by the District's insurance brokers and their actuarial

staff as being sufficient to balance revenue and expenditures within the fund for the 2016-17 insurance plan year.

- The School Board has taken action to offset the employee cost of insurance by increasing its own contribution toward health insurance from \$453/employee per month (\$489/employee per month for CWA Bargaining Employees) to \$540 per employee per month for all employees.

The District will continue to work with its consultants to ensure that that adequate funding levels are achieved in the self-insurance plan and that it is actuarially sound. Based on these consultations, the Superintendent will subsequently recommend to the School Board a policy regarding a net-position balance for the insurance fund.

Finding No. 2- Extended Day Program:

Contact person: Pamela Dampier

The District concurs that it is important to separate incompatible duties of recording student attendance and collecting, depositing and recorded fees and collections, and to prepare independent reconciliations of student attendance and recorded fees collections and deposits. While as pointed out by the auditor no errors or misappropriations were disclosed during their examination, the District concurs that our internal controls can always be improved. Based on the recommendation of the auditor, a staff member other than the financial coordinator at each site will be identified and be responsible for collecting and depositing but **not** recording the child care fees into the software program. The EDP Handbook will be updated to reflect these new procedures. In addition, based on the recommendation of the auditor, the District will enhance EDP procedures by assigning a district-based staff accountant to conduct independent fee audits to reconcile total collections to attendance records and approved fee rates with recorded fee collections and deposits. In addition, the District will take the necessary steps to ensure that all prepayment and charge transactions will be recorded in the District's accounting system.

Finding No. 3- Florida's Best and Brightest Teacher Scholarship Program:

Contact person: Bill Fritz

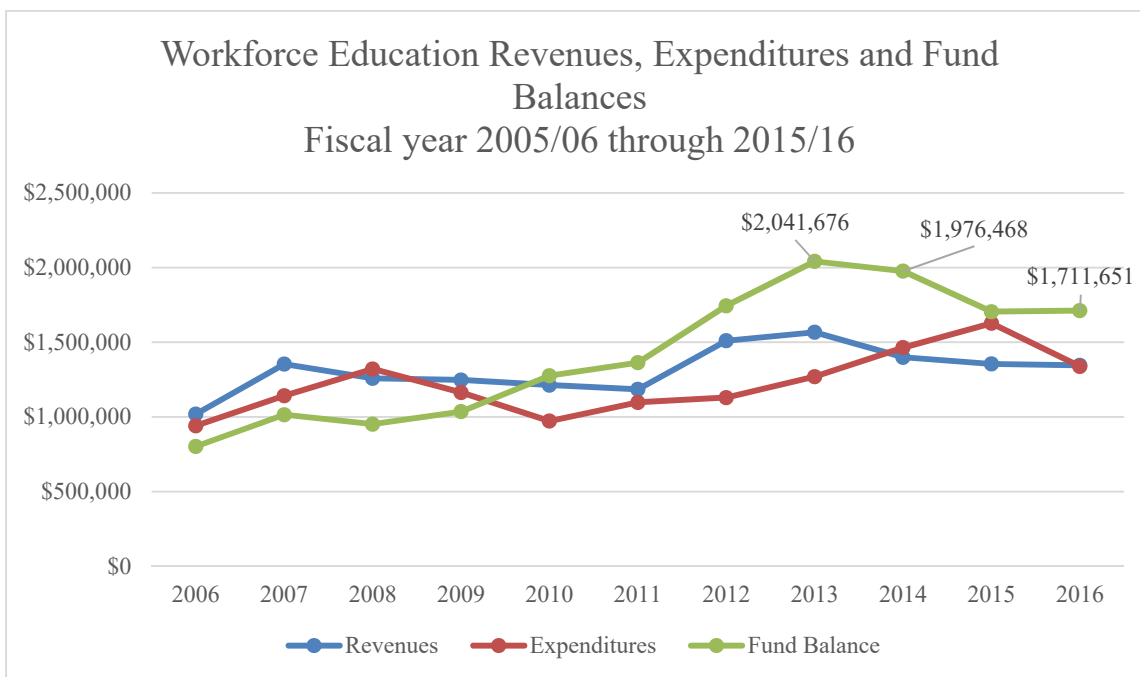
The District acknowledges that two employees were granted eligibility for Best and Brightest Scholarships who were ineligible. The District has implemented an internal procedure whereby a second individual is charged with reviewing the eligibility documentation prior to submission. This procedure has been designed to prevent any errors. The District shall remit \$16,512 to the FDOE to correct the error.

Finding No. 4- Workforce Education Programs:

Contact person: Pamela Dampier

The District concurs with the auditor's finding that the Board should adopt a spending plan for unspent workforce education program funds to serve as a guide to ensure that these funds are spent. As noted in the Audit Report, this finding is a repeat of a similar finding in Report No. 2015-076. Since this matter was brought to our attention, the District has put in place measures to informally spend down the Workforce Education funds. As depicted in the graph below, the District has increased its efforts to reduce the fund balance from \$2 million in 2013 to \$1.7 million in 2016. As noted by the auditor, the District is currently working on a formal spending plan to ensure that these funds are spent to the benefit of the students and program. Unfortunately as of the conclusion of the audit period these plans were not finalized and are the subject of ongoing discussions.

However, once discussions are concluded, we will bring forward the proposed spending plan for Board approval.



Finding No. 5- Adult General Classes:

Contact person: Bruce Green

The District concurs with the auditor’s finding and recommendation that the District should strengthen its controls to ensure accurate reporting of instructional contact hours for adult general classes to the Florida Department of Education (FLDOE). As noted by the auditor, software changes involving the use of notifications and alerts have been implemented that now alerts the adult education principal and instructors if student attendance is not entered into the program and has been corrected to properly withdraw students for nonattendance.

The District is committed to continue to strengthen and improve its controls to ensure that the reporting of adult general education instructional hours are reported accurately to the FLDOE. The District is currently reviewing the attendance to determine the extent to which the adult general education hours were misreported for the 2015-16 fiscal year and will contact the FLDOE for proper resolution.

Finding No. 6- Information Technology – Access Privileges:

Contact person: Bruce Green

The District concurs with the auditor’s recommendation that it should establish and implement periodic reviews of access privileges and the removal of any inappropriate or unnecessary access privileges detected. As noted by the auditor, all access thought to be unnecessary were removed during the audit period. In addition, as the auditor is aware the District will be implementing a new ERP System during the 2016-17 fiscal year which will give it an opportunity to review and reconstruct all user security profiles to ensure proper access privileges within the new system.

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,

A handwritten signature in black ink, appearing to read "Mark J. Rendell". The signature is fluid and cursive, with the first name "Mark" being the most prominent.

Mark J. Rendell, Ed.D.
Superintendent

Cc: School Board Members
Cabinet