

**STATE OF FLORIDA AUDITOR GENERAL**

**Operational Audit**

Report No. 2018-093  
January 2018

**WALTON COUNTY  
DISTRICT SCHOOL BOARD**



Sherrill F. Norman, CPA  
Auditor General

## **Board Members and Superintendent**

During the 2016-17 fiscal year, A. Russell Hughes served as Superintendent of Schools from 11-22-16, Carlene H. Anderson served as Superintendent before that date, and the following individuals served as School Board Members:

	<u>District No.</u>
Gail Smith	1
Kim Kirby, Chair from 11-22-16, Vice Chair through 11-21-16	2
William (Bill) Eddins Jr., Vice Chair from 11-22-16	3
Marsha Winegarner from 11-22-16	4
Mark D. Davis through 11-21-16	4
Jason Catalano, Chair through 11-21-16	5

The team leader was Barbara J. Sturdivant, CPA, and the audit was supervised by Kenneth C. Danley, CPA.

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

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# WALTON COUNTY DISTRICT SCHOOL BOARD

## ***SUMMARY***

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This operational audit of the Walton County School District (District) focused on selected District processes and administrative activities and included a follow-up on findings noted in our report No. 2016-109. Our operational audit disclosed the following:

**Finding 1:** District personnel did not compare construction management entity (CME) pay requests with applicable GMP contracts or subcontractor bids, contracts, and invoices.

**Finding 2:** District personnel did not verify that CME subcontractors were appropriately licensed before work on District projects commenced.

**Finding 3:** District controls over negotiating, monitoring, and documenting the reasonableness of CME general conditions costs need improvement.

**Finding 4:** The District needs to strengthen controls over the collection of school-age child care fees.

**Finding 5:** District procedures for assigning single transaction and monthly dollar limits for purchasing cards could be enhanced.

**Finding 6:** Controls over virtual instruction program (VIP) operations and related activities could be enhanced by developing and maintaining comprehensive, written VIP policies and procedures. A similar finding was noted in our report No. 2016-109.

**Finding 7:** Two Payroll Department employees had the incompatible duties of entering employee pay rate changes into the payroll system, generating payroll checks, and making direct deposits. In addition, no one independently verified, of record, the accuracy and propriety of the pay rate changes.

**Finding 8:** The District did not always limit access to employee personal information, such as employee social security numbers, to only those users who required such access.

## ***BACKGROUND***

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The Walton 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 Walton County. The governing body of the District is the Walton County District School Board (Board), which is composed of five elected members. The elected Superintendent of Schools is the Executive Officer of the Board. During the 2016-17 fiscal year, the District operated 16 elementary, middle, high, and specialized schools; sponsored 2 charter schools; and reported 8,917 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. 2016-109. The results of our audit of the District's financial statements and Federal awards for the fiscal year ended June 30, 2017, will be presented in a separate report.

## ***FINDINGS AND RECOMMENDATIONS***

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### **Finding 1: Monitoring Construction Pay Requests**

Pursuant to State law,<sup>1</sup> the Board may contract with a construction management entity (CME) for the construction or renovation of facilities. The Board may require a CME to offer a guaranteed maximum price (GMP), which allows for the difference between the actual cost of the project and the GMP amount, or net cost savings, to be returned to the District. To ensure potential savings in material and labor costs and prevent cost overruns or other impediments to the successful completion of CME GMP contracts, it is important that District personnel verify that CME pay requests agree with supporting documentation such as subcontractor bids, contracts, and invoices.

Pursuant to State law,<sup>2</sup> in May 2014 the Board entered into a \$26.8 million GMP contract with a CME for the New Walton Middle School (NWMS) project and, during the 2016-17 fiscal year, the District completed that project. Also during that fiscal year, the Board entered into a contract and amended the contract to establish a GMP of \$3.6 million with a CME for the New Elementary School South (NESS) project for preconstruction, site work, and foundation services. As part of our audit, we evaluated District monitoring controls over the CME pay requests totaling \$4.9 million for the period July 1, 2016, through June 8, 2017. Specifically, we inquired of District personnel and examined District records supporting expenditures totaling \$2.5 million, including \$2.1 million paid to the CMEs for subcontractor services.

In response to our inquiries, District personnel indicated that they relied on the respective project architects and design consultants to verify the monthly pay requests submitted by the CME, and District personnel verified that the architect certified the CME pay requests. However, District personnel did not compare applicable amounts billed in the CME pay requests to the GMP contracts and subcontractor bids, contracts, and invoices. Additionally, as further discussed in Finding 3, District personnel did not compare general conditions costs billed in the CME pay requests to appropriate supporting documentation.

We requested, and the District obtained in May 2017, the subcontractor bids and contracts from the CMEs. Based on our review, we noted that selected CME pay requests were consistent with the GMP contracts and subcontractor bids, contracts, and invoices; however, our procedures cannot substitute for the District's responsibility to properly monitor CME pay requests. Absent a documented reconciliation of each line in the schedule of values for each pay request to supporting documentation, there is an increased risk that the District may overpay for services and may not realize maximum cost savings under GMP contracts.

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

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<sup>1</sup> Section 1013.45(1)(c), Florida Statutes.

<sup>2</sup> Section 287.055, Florida Statutes.

## Finding 2: Subcontractor Licenses

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

For the NWMS and NESS projects, District personnel indicated that they relied on the respective CMEs to ensure that the subcontractors were licensed and, therefore, did not verify the subcontractors' licenses. As part of our audit, we selected 9 subcontractors required to be licensed from the 51 subcontractors engaged by the CMEs to determine whether the subcontractors were appropriately licensed for these two projects. We requested, and the District obtained in May 2017, evidence that the selected subcontractors were appropriately licensed; however, these subcontractors had already commenced work on the projects. Timely documented verifications that subcontractors are appropriately licensed provides the District assurance that the subcontractors who will be working on District facilities meet the qualifications to perform the work for which they are engaged.

**Recommendation: The District should enhance procedures to require verification that subcontractors are appropriately licensed before they commence work on District facilities. Such verifications should be documented in District records.**

## Finding 3: General Conditions Costs

GMP contracts typically include provisions for general conditions costs that are not directly associated with a particular activity and may include costs relating to labor supervision, temporary offices and utilities, travel expenses, clean-up, permits, and testing. Established policies and procedures that provide appropriate guidance for effectively negotiating, monitoring, and documenting the reasonableness of general conditions costs are essential to ensure that potential cost savings are realized under GMP contracts.

As of June 30, 2017, the general conditions costs for the NWMS and NESS GMP contracts were \$1.2 million and \$293,246, respectively. The general conditions costs included in the CME pay requests were billed evenly over 19 payments for the NWMS Project and as costs were incurred for the NESS Project. However, according to District personnel, the District had not established policies and procedures for effectively negotiating, monitoring, and documenting the reasonableness of general conditions costs. Additionally, District records did not document the methodology used and factors considered during the negotiation process to establish the reasonableness of the general conditions costs for these projects. Further, while the CME for the NESS project provided detailed documentation, such as CME payroll records or copies of CME-paid invoices, to support the propriety of the general conditions costs billed and paid, detailed documentation for the NWMS project was not provided to support the propriety of the general conditions costs and, therefore, was not available for the District to effectively monitor the reasonableness of these costs.

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<sup>3</sup> Section 1013.45(1)(c), Florida Statutes.

<sup>4</sup> Chapter 489, Florida Statutes.

In response to our inquiries regarding general conditions costs, District personnel indicated that, as the architect, CME staff, and District personnel reviewed these costs in the GMP contract, District personnel believed additional efforts were not necessary to negotiate the reasonableness of the general conditions costs or to confirm whether payments for general conditions costs complied with the GMP contract terms. Notwithstanding this response, absent appropriate established policies and procedures, the District may be limited in its ability to determine the propriety of pay requests for general conditions costs or to realize applicable cost savings associated with the project. For contracts that include general conditions costs, appropriate policies and procedures include, for example:

- Comparing proposed general conditions costs to those of similar projects, including similar projects at other school districts.
- Negotiating a reasonable amount for total budgeted general conditions costs.
- Verifying that the general conditions costs are supported by detailed documentation, such as CME payroll records or CME-paid invoices, and confirming that the costs comply with the CME GMP contract.

**Recommendation: The District should establish policies and procedures for negotiating, monitoring, and documenting the reasonableness of general conditions costs. Such policies and procedures should require documentation of the methodology used and factors considered in negotiating general conditions costs and the receipt and review of sufficiently detailed documentation supporting the general conditions costs included in CME pay requests.**

#### **Finding 4: School-Age Child Care Fee Collections**

The District operates a fee-supported, school-age child care program known as Student Programs in Community Education (SPICE) after school and during the summer at five District schools. During the 2016-17 fiscal year, the District recorded \$439,247 in SPICE fee collections. Additionally, State Board of Education (SBE) rules<sup>5</sup> require the Board to establish appropriate fees for such programs.

To appropriately account for and safeguard SPICE fee collections, it is important that the Board establish effective controls over the fee collection process. Effective controls over such collections require that the incompatible duties of collecting fees, recording student attendance, and recording fee collections be appropriately separated; properly controlled prenumbered receipts be used to document and account for fee collections; custodial responsibility for fee collections be established; and fee collections be properly secured. If the District does not have a sufficient number of staff to appropriately separate duties, compensating controls, such as independent reconciliations of deposits to source documents or independent reconciliations (i.e., fee audits) of student registration and attendance records to recorded fee collections and deposits, are necessary.

To obtain an understanding of District controls over the SPICE collection process and evaluate the adequacy and sufficiency of these controls, we inquired of District personnel and examined District procedures and records associated with two schools that participated in SPICE. We noted that:

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<sup>5</sup> SBE Rule 6A-1.09983, Florida Administrative Code.

- District SPICE procedures for the 2016-17 fiscal year addressed fee payment and cash collection procedures. The procedures required that fees be paid in full on or before the beginning of each week based on the fee rate schedule. The procedures also required that employees collecting fees issue prenumbered receipts for each collection, record each collection on a moneys collected form, and sign the form. Additionally, employees were to transmit the collections and the form to the District Finance Secretary who signed the moneys collected form and prepared the bank deposits. However, District records were not available to evidence that the Board had adopted the procedures or the fee rate schedule and the procedures did not provide for fee exemptions or discounts.
- An inappropriate separation of duties existed as an employee at each school was responsible for recording student attendance, collecting fees, issuing prenumbered receipts to parents, recording entries in and maintaining student account ledgers, and preparing the moneys collected form for transmittal to the District office. Additionally, the District did not have compensating controls to mitigate the inappropriate separation of duties. Without adequately separating incompatible duties, or establishing adequate compensating controls, errors or fraud, should they occur, may not be timely detected and resolved.
- The District Office purchased prenumbered receipt books from a printing company for use with school collections, including SPICE fee collections. However, while District personnel believed the prenumbered receipts were consecutively numbered, printer affidavits or other documents were not obtained, of record, to validate the continuity of the receipts.

The SPICE Director's Secretary assigned the prenumbered receipt books to employees at each SPICE location; however, District personnel, independent of the collection process, did not account for the consecutive use of the prenumbered receipts or trace the amounts listed on the receipts to the amounts deposited. Obtaining a printer's affidavit to validate that the receipt books contained consecutively prenumbered receipts, independent verification of the consecutive use of prenumbered receipts, and independently tracing amounts listed on receipts to deposits, would strengthened District fee collection controls.

- Fee collections were not properly secured as fee collections were kept in money boxes accessible to several employees during the day and, at night, the collections were taken home by employees responsible for collecting fees. Without established responsibility for cash custody during the day and securely maintaining collections onsite overnight, the District may be limited in its ability to effectively fix responsibility should a loss of collections occur.

Our audit procedures included examinations of District records at two of the five schools supporting the attendance of 30 selected SPICE students for whom fees totaling \$640 should have been assessed for the week ending February 17, 2017, to determine whether fees were properly assessed, agreed to attendance records, collected in advance of the services provided, and timely deposited. We noted that:

- No fees were assessed or collected for 1 of the 30 students, although the student should have been assessed \$35 based on established fee rates. In response to our inquiries, District personnel explained that this student was 1 of the 17 SPICE employees' children who were allowed to participate in SPICE at no charge. District personnel also indicated that 15 students who were children of other District employees were allowed to participate in SPICE at a 25-percent discount. Notwithstanding District personnel's explanations, the Board had not approved any fee exemptions or discounts.

Subsequent to our inquiries, in August 2017 the Board approved the 2017-18 fiscal year SPICE procedures and fee rate schedule, including fee exemptions for students who are children of District SPICE employees and a 25-percent fee discount for students who are children of other District employees.

- Contrary to SPICE procedures, the District provided services for 19 of the 30 students before collecting fees and, therefore, extended credit to the students' parents. According to District records, at the end of the week selected for testing, the balances due for the 19 students ranged from \$2 to \$488 and totaled \$1,673. Our examination also disclosed an unpaid balance of \$713 at the end of the 2016-17 school year for 1 of the 30 SPICE students. Failure to collect fees before services are provided increases the risk that fees may not be ultimately collected.

Subsequent to our inquiries, in August 2017 the Board approved the 2017-18 fiscal year SPICE procedures requiring a \$10 late fee assessment and that students not be permitted to participate in SPICE until fees are paid in full.

**Recommendation: The District should continue efforts to ensure Board adoption of SPICE procedures, including timely approval of fee rate schedules that establish applicable fee charges, exemptions, and discounts. Such procedures should include appropriate controls over fee collections to ensure that:**

- **Incompatible duties are appropriately separated or, if the District does not have a sufficient number of staff to appropriately separate duties, compensating controls exist.**
- **Printer's affidavits are obtained to validate that receipts are consecutively numbered.**
- **Prenumbered receipts are properly controlled, used, and accounted for.**
- **Custodial responsibility for fee collections is established.**
- **Collections are properly secured.**

#### **Finding 5: Purchasing Cards**

The District established a Purchasing Card (P-card) program, which gives employees the convenience of purchasing items without using the standard purchase order process. P-cards are designed to provide a cost-effective, convenient, and decentralized method for individuals to make certain purchases on behalf of the District. During the 2016-17 fiscal year, District P-card purchases totaled \$5.1 million, and there were 118 P-cards assigned to employees.

The District *P-Card Manual* states that controls over P-cards should include both single transaction and monthly dollar limits and that the principal or department head may request changes to preestablished dollar limits with the approval of the Chief Financial Officer (CFO). District procedures also require an employee's immediate supervisor to approve all purchases and the CFO to approve all purchases greater than \$999. However, our inquiries of District personnel and examination of District P-card records disclosed that:

- Although the *P-Card Manual* required both single transaction and monthly dollar limits, the District had not established single transaction dollar limits for P-cards assigned to employees. In response to our inquiries, District personnel indicated that they were not initially aware that single transaction limits could be imposed and that the limits would be imposed in the future. Absent established P-card single transaction dollar limits, there is an increased risk that the entire monthly dollar limit could be spent on a single transaction for unauthorized purposes. Established P-card single transaction dollar limits based on District needs would help the District regulate individual P-card purchases and provide additional assurance that P-cards are used in accordance with the District *P-Card Manual*.
- The monthly dollar limits established for some P-cards appeared excessive based on the cardholder's monthly purchases during the 2016-17 fiscal year. Specifically:

- Although the monthly dollar limits ranged from \$20,000 to \$50,000 for 46 cardholders, the cardholders' purchases did not exceed \$10,000 for any month during the 2016-17 fiscal year. The monthly purchases made by 1 of the 46 cardholders, a Federal Program Coordinator, did not exceed \$400; however, the Coordinator had a monthly dollar limit of \$50,000.
- A District maintenance employee had a P-card for maintenance-related purchases with a monthly dollar limit of \$100,000; however, his monthly purchases did not exceed \$67,000.
- The Facilities Secretary had a P-card for construction-related purchases with a monthly dollar limit of \$150,000; however, her monthly purchases did not exceed \$106,000.
- A Federal Programs Project Specialist and Curriculum and Instruction Staff Secretary each had a P-card for textbook purchases with monthly dollar limits of \$175,000; however, their monthly purchases did not exceed \$109,000 and \$114,000, respectively.

We noted that the *P-Card Manual* did not require periodic evaluations of dollar limits, and a recent evaluation had not been performed. In response to our inquiries, District personnel indicated that the monthly dollar limits would be reviewed and reduced where appropriate.

Without established single transaction limits and the effective monitoring of single transaction and monthly dollar limits, there is an increased risk of unauthorized P-card use or purchases in excess of budget constraints.

**Recommendation:** The District should revise the *P-Card Manual* to require, and ensure, that periodic evaluations of single transaction and monthly dollar limits be performed for each P-card and that necessary adjustments be made to the limits based on cardholder use and District needs.

#### **Finding 6: Virtual Instruction Program – Policies and Procedures**

State law<sup>6</sup> provides that school districts are to prescribe and adopt standards and policies to provide each student the opportunity to receive a complete education. Education methods to implement such standards and policies may include the delivery of learning courses through traditional school settings, blended courses consisting of both traditional classroom and online instructional techniques, participation in a virtual instruction program (VIP), or other methods. State law<sup>7</sup> establishes VIP requirements and requires school districts to include mandatory provisions in VIP provider contracts; make available optional types of virtual instruction; provide timely, written parental notification of VIP options; ensure the eligibility of students participating in the VIPs; and provide computer equipment, Internet access, and instructional materials to eligible students.

During the 2016-17 fiscal year, the District operated a Florida Virtual School franchise and enrolled 355 part-time and 3 full-time VIP students. The District developed written VIP policies and procedures; however, the policies and procedures did not identify the processes necessary to ensure compliance with statutory requirements, document personnel responsibilities, provide consistent guidance to staff during personnel changes, ensure sufficient and appropriate training of personnel, or establish a reliable standard to measure the effectiveness and efficiency of operations. Additionally, the lack of comprehensive, written VIP policies and procedures may have contributed to the following control deficiency and instance of noncompliance.

<sup>6</sup> Section 1001.41(3), Florida Statutes.

<sup>7</sup> Section 1002.45, Florida Statutes.

State law<sup>8</sup> requires the District to provide information to parents and students about a student's right and choice to participate in a VIP. In addition, State law<sup>9</sup> requires the District to provide parents with timely, written notification of at least one open enrollment period for full-time students of 90 days or more that ends 30 days before the first day of the school year. While the methods used to provide information about the District VIP to parents and students were adequate, parents were not notified of the District's open enrollment period. In response to our inquiries, District personnel indicated that open enrollment period notifications for the 2016-17 school year were not provided because, at the time, there was uncertainty regarding whether the District would provide the VIP services internally or through contracts with VIP providers. Without timely notifications to parents about the open enrollment period, the District potentially limited student access to virtual instruction. A similar finding was noted in our report No. 2016-109.

**Recommendation:** To enhance the effectiveness of VIP operations and related activities, the District should continue efforts to develop and maintain comprehensive, written VIP policies and procedures. Such policies and procedures should ensure that written notifications of the District's open enrollment periods are timely provided to parents.

#### **Finding 7: Payroll Processing**

Effective internal controls over payroll processing require an appropriate separation of duties, including separating the duties of entering employee pay rate changes into the payroll system from those of generating payroll checks and making direct deposits. To provide reasonable assurance that pay rate changes are based on properly authorized personnel actions and comply with Board-approved pay rates, such controls also require independent, documented verification of the changes so that errors or fraud, should they occur, are timely detected and resolved.

Our examination of District records disclosed that the District assigned two Payroll Department employees the incompatible duties of entering employee pay rate changes into the payroll system, generating payroll checks, and making direct deposits. Although District personnel indicated that independent verifications of the accuracy and propriety of pay rate changes were performed, District records were not maintained to demonstrate that the verifications were made. While our analytical procedures and tests did not disclose any unauthorized pay rate changes, such procedures and tests cannot substitute for management's responsibility to establish effective internal controls over payroll processing.

**Recommendation:** The District should ensure that the duties of entering employee pay rate changes into the payroll system are separated from the duties of generating payroll checks and making direct deposits. Additionally, we recommend that independent verifications of the accuracy and propriety of pay rate changes be documented.

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<sup>8</sup> Section 1002.45(10), Florida Statutes.

<sup>9</sup> Section 1002.45(1)(b), Florida Statutes.

## Finding 8: Information Technology User Access Privileges

The Legislature has recognized in State law<sup>10</sup> that social security numbers (SSNs) can be used to acquire sensitive personal information, the release of which could result in fraud against individuals, or cause other financial or personal harm. Therefore, public entities are required to provide extra care in maintaining such information to ensure its confidential status. Effective controls restrict employees from accessing information unnecessary for their assigned job responsibilities and provide for documented, periodic reviews of information technology (IT) access privileges to help prevent personnel from accessing sensitive personal information inconsistent with their responsibilities.

According to District personnel and records, the District established a unique identifier, other than the SSN, to identify employees. However, the District collects, maintains in the District business application, and uses SSNs for various authorized purposes, including identification and verification of employees, benefits processing, tax reporting, and reporting to State agencies and the Federal Government. The District has implemented a network and Internet use policy that prohibits employees from attempting to access information, such as SSNs, that is protected by privacy laws. District employees are to annually agree to abide by the policy. In addition, the District provides employee security awareness training, and District records document periodic reviews of IT user access privileges to help monitor the appropriateness of the access privileges.

As of February 2017, District personnel estimated the business applications contained SSNs for a total of 6,050 employees, including 1,520 current employees and 4,530 former employees, and 19 IT users had access to the employee SSNs. Our examination of District records supporting the access privileges of the 19 IT users disclosed that the CFO and a vendor who prepared a program cost report for the District had been inadvertently granted unnecessary access to view employee personal information, including employee SSNs. In response to our inquiries, District personnel agreed that the CFO did not need that access and indicated that they mistakenly believed the vendor needed the access to prepare the cost report. As a result of our inquiries, the unnecessary access privileges were removed in February and March 2017, respectively.

The existence of unnecessary access privileges increases the risk of unauthorized disclosure of employee personal information, including SSNs, and the possibility that sensitive personal information may be used in a fraud against District employees.

**Recommendation:** The District should continue efforts to limit access to employee personal information, such as SSNs, to only those users who require such access for their assigned job responsibilities.

## ***PRIOR AUDIT FOLLOW-UP***

The District had taken corrective actions for applicable findings included in our report No. 2016-109, except that Finding 6 was also noted in our report No. 2016-109, as Finding 2.

<sup>10</sup> Section 119.071(5)(a), Florida Statutes.

## **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 February 2017 to October 2017 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of this operational audit were to:

- Evaluate management's performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse, and in administering assigned responsibilities in accordance with applicable laws, rules, regulations, contracts, grant agreements, and other guidelines.
- Examine internal controls designed and placed in operation to promote and encourage the achievement of management's control objectives in the categories of compliance, economic and efficient operations, reliability of records and reports, and safeguarding of assets, and identify weaknesses in those controls.
- Determine whether management had taken corrective actions for findings included in our report No. 2016-109.
- 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 2016-17 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 the District's information technology (IT) policies and procedures to determine whether the policies and procedures addressed certain important IT control functions, such as security, authentication, data loss prevention, and disaster recovery.
- Reviewed District procedures for maintaining and reviewing employee access to IT resources. We examined selected access privileges to the District's enterprise resource planning (ERP) system finance and human resources (HR) applications to determine the appropriateness and necessity of the access based on employees' job duties and user account functions and whether the access prevented the performance of incompatible duties.
- Reviewed District procedures to prohibit former employees' access to electronic data files. We also reviewed selected access privileges for all three former employees who had access to finance or HR applications and separated from District employment during the period July 1, 2016, through February 8, 2017, to determine whether the access privileges had been timely deactivated.
- Examined selected application security settings to determine whether authentication controls were configured and enforced in accordance with IT best practices.
- Determined whether a comprehensive, written IT risk assessment had been developed to document the District's risk management and assessment processes and security controls intended to protect the confidentiality, integrity, and availability of data and IT resources.
- Evaluated Board, committee, and advisory board meeting minutes to determine whether Board approval was obtained for policies and procedures in effect during the audit period and for evidence of compliance with Sunshine Law requirements (i.e., proper notice of meetings, meetings readily accessible to the public, and properly maintained meeting minutes).
- Reviewed District policies and procedures related to identifying potential conflicts of interest. For 14 selected District employees including the Superintendent, Board members, and other key employees, we reviewed Florida Department of State, Division of Corporation, records; statements of financial interests, where applicable; and District records to identify any potential relationships with District vendors that represent a conflict of interest.
- Examined District records to determine whether the District had developed an anti-fraud policy and procedures to provide guidance to employees for communicating known or suspected fraud, investigating potential or actual incidents of fraud, and reporting evidence obtained during the investigation to the appropriate authorities.
- Examined District records for the audit period to determine whether the District's technical college had informed students and employees at orientation and on its Web site of the existence of the Florida Department of Law Enforcement sexual predator registry Web site and the toll-free

telephone number that gives access to sexual predator and sexual offender public information, as required by Section 1006.695, Florida Statutes.

- Evaluated District controls based on review of selected records to determine whether the District provided individuals with a written statement as to the purpose of collecting their social security numbers (SSNs). Also, for SSNs collected, we evaluated whether District controls appropriately secured and protected the confidentiality of the SSNs.
- Examined the District's Web site to determine whether the 2016-17 fiscal year proposed, tentative, and official budgets were prominently posted pursuant to Section 1011.035(2), Florida Statutes.
- For the one charter school that ceased operations in the 2015-16 fiscal year, evaluated District procedures to determine whether applicable funds and property appropriately reverted to the District and whether the District did not assume debts of the school.
- Evaluated the sufficiency of District procedures to determine whether District charter schools were required to be subjected to an expedited review pursuant to Section 1002.345, Florida Statutes.
- Analyzed the District's General Fund total unassigned and assigned fund balances at June 30, 2017, to determine whether the total was less than 3 percent of the fund's projected revenues, as specified in Section 1011.051, Florida Statutes. We also performed analytical procedures to determine the ability of the District to make future debt service payments.
- From the population of \$15.6 million total expenditures from the period July 1, 2016, through May 16, 2017, and \$3.8 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 selected expenditures and transfers totaling \$6 million and \$3.5 million, respectively, to determine compliance with the restrictions imposed on the use of these resources.
- From the population of four significant construction projects with expenditures totaling \$10.5 million during the period July 1, 2016, through June 8, 2017, selected two construction management entity (CME) projects with expenditures totaling \$6.8 million, and:
  - Examined District records to determine whether the CMEs were properly selected.
  - Reviewed District procedures for monitoring subcontractor selection and licensure, and examined records to determine whether subcontractors were properly selected and licensed.
  - Examined District 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 District records to determine whether District procedures for monitoring payments were adequate and payments were sufficiently supported.
  - Examined District records to determine whether the District made use of its sales tax exemption to make direct purchases of materials, or documented its justification for not doing so.
- Pursuant to Section 1013.64(6)(d)2., Florida Statutes, obtained from the Florida Department of Education (FDOE) the 2016 calendar year reports of District student station costs. For the New Elementary School South Project, which added educational plant space during the period January 1, 2016, through December 31, 2016, we examined District records to determine whether the District maintained accurate documentation to support the construction costs reported to the FDOE.
- Evaluated District controls over the collection of school-age child care fees.

- Examined supporting documentation for selected expenditures totaling \$287,424 from the population of \$510,448 total workforce education program funds expenditures for the period July 1, 2016, through December 31, 2016, 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 70 industry certifications eligible for performance funding that were attained by students during the 2015-16 and 2016-17 fiscal year, examined 24 selected certifications to determine whether the District maintained documentation for student attainment of the industry certifications.
- From the population of 36 adult general education students reported for 4,847 contact hours during the Fall 2016 and Winter 2016 terms, examined District records supporting 3,293 reported contact hours for 31 selected students to determine whether the District reported the instructional contact hours in accordance with FDOE requirements.
- From the population of 1,427 employees compensated a total of \$20.3 million during the period July 1, 2016, through December 31, 2016, examined District records supporting compensation payments totaling \$80,571 to 30 selected employees to determine the accuracy of the rate of pay and whether supervisory personnel reviewed and approved employee reports of time worked.
- Examined District records for 20 employees selected from the population of 1,427 employees, and for 10 contractor workers selected from a population of 1,112 contractor workers, to assess whether individuals who had direct contact with students were subjected to the required fingerprinting and background checks.
- Examined District policies, procedures, and related records for the audit period 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.
- Examined District records supporting the eligibility of:
  - 18 selected District recipients of the Florida Best and Brightest Teacher Scholarship Program awards from the population of 25 District teachers who received scholarships totaling \$170,423 during the audit period.
  - All 3 charter school teachers who received scholarships totaling \$20,451 during the audit period.
- From the population of purchasing card (P-card) transactions totaling \$2.3 million during the period July 1, 2016, through December 31, 2016, examined documentation supporting 30 selected transactions totaling \$78,062 to determine whether P-cards were administered in accordance with District policies and procedures. We also reviewed District P-card procedures for assigning single transaction and monthly dollar limits.
- From the population of expenditures, excluding salary and P-card expenditures, totaling \$17.5 million for the period July 1, 2016, through December 31, 2016, examined documentation relating to 30 selected expenditures totaling \$64,688 to determine whether expenditures were reasonable, correctly recorded, adequately documented, for valid District purposes, properly authorized and approved, and in compliance with applicable State laws, rules, and Board policies.
- From the population of travel expenditures totaling \$210,725 for the period July 1, 2016, through May 10, 2017, examined documentation relating to 42 travel expenditures totaling \$21,512 to determine whether travel expenditures were adequately documented, properly approved, and for valid District purposes.
- From the population of professional, technical, and other purchased services expenditures totaling \$1.6 million during the period July 1, 2016, through May 18, 2017, selected 10 payments

totaling \$369,117 and examined supporting documentation, including the 10 contract documents, to determine whether:

- The District complied with competitive selection requirements.
- The contracts clearly specified deliverables, time frames, documentation requirements, and compensation.
- District records documented satisfactory receipt of deliverables before payments were made.
- The payments complied with contract provisions.
- Determined whether the District had adequate Virtual Instruction Program (VIP) policies and procedures.
- Evaluated District records for the audit period to determine whether the District properly informed parents and students about students' rights to participate in a VIP and the VIP enrollment periods as required by Section 1002.45(1)(b), and (10) Florida Statutes.
- Examined student records and evaluated District procedures for the audit period to determine whether the District ensured that, for those eligible VIP students who did not already have such resources in their home, computing resources necessary for program participation were provided as required by Section 1002.45(3)(d), 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**

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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

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A. Russell Hughes  
Superintendent of Schools



145 Park Street  
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[www.walton.k12.fl.us](http://www.walton.k12.fl.us)

January 12, 2018

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

Ms. Sherrill Norman:

The Walton County School District acknowledges the receipt of the list of preliminary and tentative audit findings and recommendations. Attached you will find written statements of explanation concerning all of the findings and our planned corrective actions.

Please feel free to contact my office if there should be any further information that is needed.

Respectfully,

A handwritten signature in black ink that reads "A. Russell Hughes". The signature is written in a cursive style.

A. Russell Hughes  
Superintendent of Schools

*"Preparing the Whole Child for a Life of Success"*

Gail Smith  
District 1

Kim Kirby  
District 2

Bill Eddins, Jr.  
District 3

Marsha Winegarner  
District 4

Jason Catalano  
District 5

**Walton County District School Board  
Management's Corrective Action Plan  
For the Fiscal Year Ended June 30, 2017**

<b>Finding Number:</b>	<b><u>2017-001: Monitoring Construction Pay Requests</u></b>
<b>Planned Corrective Action:</b>	On a monthly basis, the District Facilities Team, Architectural / Engineering Consultants and the Construction Management Team will review in detail the monthly pay applications. Subcontractor pay request will be vetted by all during this process comparing the percent of work completed, materials used or on site and the schedule of values for each subcontractor's contract with the CM.
<b>Anticipated Completion Date:</b>	Ongoing, implementation will be February, 2018
<b>Responsible Contact Person:</b>	Mark Gardner, Director of Facilities

**Walton County District School Board  
Management's Corrective Action Plan  
For the Fiscal Year Ended June 30, 2017**

Finding Number:	<b><u>2017-002: Subcontractor Licenses</u></b>
Planned Corrective Action:	The Construction Manager will provide subcontractor license with their GMP contract approval package. The subcontractors, that are required to have a state license, will provide this documentation with their pre-qualification submittal to the Construction Manager. Final GMP provided by the Construction Manager will include all subcontractor licenses that are required by Florida Statute.
Anticipated Completion Date:	Ongoing, implementation will be February, 2018
Responsible Contact Person:	Mark Gardner, Director of Facilities

**Walton County District School Board  
Management's Corrective Action Plan  
For the Fiscal Year Ended June 30, 2017**

<b>Finding Number:</b>	<b><u>2017-003: General Conditions Costs</u></b>
<b>Planned Corrective Action:</b>	The Facilities Department and the Construction Manager will negotiate the parameters of general conditions. The Construction Manager will provide a narrative of project staffing, equipment rental, utility cost estimates, office supply estimates and other items in the general conditions category. The Facilities Department will reach out to other School Districts and compare "General Conditions" in their CM contracts. Each month, documentation of each item will be detailed and provided in the CM monthly pay application.
<b>Anticipated Completion Date:</b>	Ongoing, implementation will be March, 2018, prior to next CM contract
<b>Responsible Contact Person:</b>	Mark Gardner, Director of Facilities

**Walton County District School Board  
Management's Corrective Action Plan  
For the Fiscal Year Ended June 30, 2017**

<b>Finding Number:</b>	<b><u>2017-004: School-Age Child Care Fee Collections</u></b>
<b>Planned Corrective Action:</b>	The District will develop an updated SPICE policies and procedures manual. This manual will be developed for WCSB approval and implementation in two phases: (1) Policies and procedures addressing SPICE fee rate schedules, including establishment of applicable fee charges, exemptions, and discounts and (2) Procedures addressing appropriate controls over fee collections to ensure: appropriate separation of incompatible duties/compensating controls, validation and proper control and accounting for consecutive, pre-numbered receipts, custodial responsibility of fee collections, and proper security of all collections, and requirement for annual review, updating, and WCSB approval of the SPICE policies and procedures manual.
<b>Anticipated Completion Date:</b>	Phase 1 Policies and Procedures: August, 2017 Phase 2 Policies and Procedures: April, 2018
<b>Responsible Contact Person:</b>	Charlie Morse, Administrator for SPICE Programs

**Walton County District School Board  
Management's Corrective Action Plan  
For the Fiscal Year Ended June 30, 2017**

Finding Number:	<u><b>2017-005: Purchasing Cards</b></u>
Planned Corrective Action:	The District has reviewed the single transaction and monthly dollar limits for all outstanding purchase cards and adjusted to appropriate expenditure levels. The P-Card Manual is in the process of revision to reflect these current levels and to ensure regular, periodic reviews are conducted and adjustments made accordingly.
Anticipated Completion Date:	9/22/2017
Responsible Contact Person:	Debra Noyes, CFO

**Walton County District School Board  
Management's Corrective Action Plan  
For the Fiscal Year Ended June 30, 2017**

Finding Number:	<u><b>2017-006: Virtual Instruction Program–Policies &amp; Procedures</b></u>
Planned Corrective Action:	<p>The District will:</p> <ol style="list-style-type: none"> <li>1. Revise procedures to ensure compliance with ALL statutory requirements for VIP.             <ol style="list-style-type: none"> <li>a. Include procedure to ensure that written notifications of the District's open enrollment periods are provided to parents in a timely manner.</li> </ol> </li> <li>2. Create procedures outlining personnel responsibilities:             <ol style="list-style-type: none"> <li>a. Program Coordinator responsibilities for the program</li> <li>b. Other staff responsibilities for the program (which become Coordinator responsibilities in the absence of support staff)</li> </ol> </li> <li>3. Develop a program evaluation process for the VIP.</li> <li>4. Collaborate with the Finance Department to develop a budget to provide computer equipment, Internet access, and instructional materials.</li> </ol>
Anticipated Completion Date:	05/31/2018
Responsible Contact Person:	Kay Dailey, Director of Curriculum and Development

**Walton County District School Board  
Management's Corrective Action Plan  
For the Fiscal Year Ended June 30, 2017**

<b>Finding Number:</b>	<b><u>2017-007: Payroll Processing</u></b>
<b>Planned Corrective Action:</b>	The District transitioned from the TERMS Payroll Processing System to Skyward ERP Payroll System for the 10/31/17 pay-period, which enabled the appropriate segregation of duties and establishment of internal controls that were not in place prior to the transition. These enhanced controls provide reasonable assurance that pay rates are in alignment with board-approved payroll schedules and document verification of all changes.
<b>Anticipated Completion Date:</b>	10/31/2017
<b>Responsible Contact Person:</b>	Debra Noyes, CFO

<b>Finding Number:</b>	<b><u>2017-008: Information Technology User Access Privileges</u></b>
<b>Planned Corrective Action:</b>	Walton County's Application Security Review Team (CFO, CIO, Security Manager) performs a quarterly audit of data access. Any adjustments made are recorded, signed by all parties, dated and filed with the Security Manager.
<b>Anticipated Completion Date:</b>	Ongoing, implemented May, 2017
<b>Responsible Contact Person:</b>	Henry Martin, Director of Information and Technology