

STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

Report No. 2018-101
February 2018

**CALHOUN COUNTY
DISTRICT SCHOOL BOARD**



Sherrill F. Norman, CPA
Auditor General

Board Members and Superintendent

During the 2016-17 fiscal year, Ralph B. Yoder served as Superintendent of the Calhoun County Schools and the following individuals served as School Board Members.

	<u>District No.</u>
Daniel E. Ryals III, Chair	1
Charles R. Howell from 11-22-16	2
Kelly E. King through 11-21-16 ^a	2
Clifford A. Newsome from 6-5-17 ^b	3
Timothy G. Smith through 2-9-17 ^c	3
Kenneth F. Speights, Vice Chair from 11-22-16	4
Danny M. Hassig, Vice Chair through 11-21-16	5

^a Board Member resigned.

^b Appointed by the Governor of the State of Florida.

^c Board Member deceased, and position remained vacant through 6-4-17.

The team leader was Douglas R. Conner, CPA, and the audit was supervised by Shelly G. Curti, CPA.

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

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CALHOUN COUNTY DISTRICT SCHOOL BOARD

SUMMARY

This operational audit of the Calhoun County School District (District) focused on selected District processes and administrative activities and included a follow-up on applicable findings noted in our report No. 2016-088. Our operational audit disclosed the following:

Finding 1: District personnel did not compare construction management entity (CME) pay requests for the Altha School Project with the CME guaranteed maximum price (GMP) contract totaling \$22.6 million or subcontractor bids and contracts.

Finding 2: District construction administration monitoring procedures for the Altha School Project did not include documented comparisons of the subcontractor bid awards and subcontractor contracts to verify that the CME used a competitive selection process to select subcontractors and that the bid award and contract amounts agreed.

Finding 3: The District did not verify the licenses of subcontractors before they commenced work on the Altha School Project.

Finding 4: The District needs to enhance controls over negotiating, monitoring, and documenting the reasonableness of CME general conditions costs.

Finding 5: The CME contract for the Altha School Project did not contain penalties to be paid by the contractor for failure to comply with contract terms.

Finding 6: The Board did not adopt salary schedules for the 2016-17 fiscal year that provided annual salary adjustments for school administrators based on student performance and instructional leadership.

Finding 7: District records did not always demonstrate that the District complied with State law and conducted name searches of prospective volunteers against the applicable registration information regarding sexual predators and sexual offenders.

Finding 8: The District had not developed a comprehensive, written information technology (IT) risk assessment.

Finding 9: The District IT disaster recovery plan was not up to date, increasing the risk that the District may be unable to continue critical IT operations, or maintain availability of information systems data and resources, in the event of a disruption of IT operations.

Finding 10: The District IT security incident response plan lacked Board approval and could be improved.

BACKGROUND

The Calhoun 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 Calhoun County. The governing body of the District is the Calhoun 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 six elementary, middle, high, and specialized schools, and reported 2,170 unweighted full-time equivalent students.

This operational audit of the District focused on selected processes and administrative activities and included a follow-up on applicable findings noted in our report No. 2016-088. 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

Finding 1: Monitoring Construction Pay Requests

Under the construction management entity (CME) process, contractor profit and overhead are contractually agreed upon, and the CME is responsible for all scheduling and coordination in both the design and construction phases and is generally responsible for the successful, timely, and economical completion of the construction project. The CME may be required to offer a guaranteed maximum price (GMP), which allows for the difference between the actual cost of the project and the GMP amount, or the 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 successful completion of GMP contracts, it is important that District personnel verify that CME pay requests agree with supporting documentation such as subcontractor bids, contracts, and invoices.

The Board approved a construction contract in January 2015 with a CME for the Altha School Project (Altha Project) and, in July 2015, the Board amended the contract to establish a GMP of \$14 million. In April 2016, the Board approved a second amendment to increase the GMP by \$8.6 million for a total Altha Project cost of \$22.6 million. For the 2016-17 fiscal year, 12 CME pay requests totaling \$10 million were processed by the District for the Altha Project. To evaluate District monitoring controls over CME pay requests, we inquired of District personnel and examined District records supporting selected expenditures totaling \$2.5 million, including \$1.6 million paid to the CME for subcontractor services.

In response to our inquiries, District personnel indicated that, upon receipt of a payment request from the CME, District personnel compared cost lines on the schedule of values to subcontractor invoices, verified the mathematical accuracy of the request, and also verified that prior payments were properly accumulated. However, District personnel did not compare applicable amounts billed in the CME pay requests to the CME contract or the subcontractor bids and contracts. Additionally, as further discussed in Finding 4, District personnel did not compare general conditions costs billed in the CME pay requests to appropriate supporting documentation.

We requested, and in April 2017 the District obtained from the CME, the subcontractor bids and contracts supporting the \$1.6 million paid to the CME for subcontractor services. Our review disclosed that the selected CME pay requests were consistent with the GMP contract and subcontractor bids and contracts; 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 enhance procedures for monitoring CME pay requests to include a documented comparison of the cost items in the CME pay requests to supporting documentation, including, as applicable, GMP contracts and subcontractor bids and contracts, before payment is made to the CME.

Finding 2: Subcontractor Selections

The CME construction contract for the Altha Project required the CME to solicit bids and award subcontracts, as necessary. Good business practice dictates that District personnel monitor the subcontractor selection process to ensure services are obtained at the lowest cost consistent with acceptable quality and to realize maximum cost savings under the GMP contract.

Our review of subcontractor bid tabulation sheets disclosed that District personnel attended the subcontractor bid openings and signed the bid tabulation sheets. However, according to District personnel, they did not compare subcontractor bid awards listed on the bid tabulation sheets to the CME subcontractor contracts to verify that the subcontractors were competitively selected and that the bid award and contract amounts agreed. Instead, District personnel relied on the CME to ensure that subcontractors were competitively selected.

From the population of 35 subcontractors that provided services totaling \$13.8 million for the Altha Project, we requested, and District personnel obtained from the CME, subcontractor contracts totaling \$11.3 million for 7 selected subcontractors. We compared the bid awards listed on the bid tabulation sheets and the subcontractor contracts and confirmed that the subcontractors were competitively selected and that the bid award and contract amounts agreed. However, our procedures cannot substitute for the District's responsibility to verify that subcontractor contracts are awarded by the CME using a competitive selection process and that the bid award and contract amounts agree. Without documented comparisons of bid awards and subcontractor contracts, the risk increases that subcontractor services may not be obtained at the lowest cost consistent with acceptable quality and the District may not realize maximum cost savings under a GMP contract.

Recommendation: The District should enhance procedures to include a documented comparison of subcontractor bid awards and subcontractor contracts to verify that the CMEs used a competitive selection process to select subcontractors and that the bid award and contract amounts agree.

Finding 3: Subcontractor Licenses

State law¹ provides that a CME must consist of, or contract with, licensed or registered professionals for the specific fields or areas of construction to be performed. State law² also 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.

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

² Chapter 489, Florida Statutes.

District personnel indicated that, at the bid openings, they verified the licenses of the 35 subcontractors that performed services for the Altha Project; however, documentation of the license verification was not retained. We selected 6 subcontractors who received payments totaling \$7.3 million and verified through online licensing searches that the subcontractors were properly licensed. However, our procedures do not substitute for the District's responsibility to implement adequate internal controls over subcontractor services.

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 documentation be retained to demonstrate the verification of subcontractor licenses before the subcontractors commence work on District facilities.

Finding 4: 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.

The CME GMP contract amendments for the Altha Project included provisions for general conditions costs totaling \$1.25 million and CME pay requests referenced these costs as they were incurred. However, based on our discussion with District personnel, the District had not established policies or 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 Altha Project's general conditions costs and detailed documentation, such as CME payroll records or copies of CME-paid invoices, was not always obtained by the District to support the propriety of the general conditions costs billed and paid.

As part of our audit, we requested for examination District records supporting two payments to the CME for general conditions costs totaling \$140,347. In response to our request, the District provided records, such as CME personnel time sheets and CME invoices, to support general conditions costs totaling \$108,791. However, because the CME did not always submit support to the District for these costs, the District lacked support for costs totaling \$31,556, including CME payroll costs totaling \$28,118 and other various charges totaling \$3,438. Subsequent to our inquiries, District personnel obtained documentation from the CME to support the CME payroll costs for the two payments and paid invoices supporting \$1,286 of the other various charges. However, our procedures do not substitute for management's responsibility to implement adequate controls to monitor general conditions costs. 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 with the CME to determine 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 and CME-paid invoices, and confirming that the costs comply with the CME GMP contract.

Absent appropriate policies and procedures, the District may be limited in its ability to monitor the reasonableness of general conditions costs and to determine the propriety of pay requests for general conditions costs or to realize cost savings associated with general conditions costs in GMP contracts.

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 5: Penalty Clauses

State law³ requires construction contracts contain the penalty to be paid by the contractor for failure to comply with the contract terms. The Board-approved construction contract with the CME for the Altha Project contained processes for dispute resolution and termination clauses for breach of contract. However, neither the original CME contract nor subsequent amendments thereto contained any penalties (e.g., penalties for untimely completion of the Altha Project) to be paid by the contractor for failure to comply with the contract terms.

In response to our inquiry, District personnel indicated that the Altha Project was completed during the 2016-17 fiscal year and penalty clauses had been inadvertently excluded from the construction contract. Without such clauses, the Board has limited recourse in the event the contractor fails to comply with the contract terms and cannot demonstrate compliance with State law.

Recommendation: The Board should ensure that future construction contracts contain penalties to be paid by contractors for failure to comply with the contract terms.

Finding 6: Performance Salary Schedule

Although State law⁴ requires the Board to adopt salary schedules that provide annual salary adjustments for school administrators based on student performance and instructional leadership, the Board did not adopt a performance pay salary for school administrators for the 2016-17 fiscal year. Accordingly, the Board was not in compliance with State law for the 2016-17 fiscal year.

³ Section 1013.47, Florida Statutes.

⁴ Section 1012.22(1), Florida Statutes.

In response to our inquiries, District personnel indicated that the salary schedule was not adopted due to an oversight. District personnel also indicated that the Board would adopt the appropriate salary schedule for the 2017-18 fiscal year.

Recommendation: The Board should comply with State law by adopting salary schedules that provide annual salary adjustments for school administrators based on student performance and instructional leadership.

Finding 7: School Volunteers

State law⁵ requires the District, before making any decision to appoint a person to work as a volunteer where children regularly congregate, to conduct a search of that person's name or other identifying information against the registration information regarding sexual predators and sexual offenders through the Dru Sjodin National Sexual Offender Public Website (NSOPW) maintained by the United States Department of Justice. If that site is not available, a search of the registration information regarding sexual predators and sexual offenders (i.e., Florida Sexual Offenders and Predators Registry) maintained by the Florida Department of Law Enforcement is required. State law also provides that the search does not apply to District positions or appointments for which a level 2 background screening⁶ is conducted.

Board policies⁷ require school volunteers who have single-student access (i.e., unsupervised, direct contact with students), or who work in a situation that the principal deems appropriate, to meet level 2 background screening requirements. According to District personnel, District procedures require school volunteers to sign-in on the respective school visitor log and a school-designated employee is responsible for ensuring each volunteer's compliance with Board policy requirements. However, for school volunteers who are not required to obtain level 2 background screenings, Board policies do not require the District to conduct a background search of the volunteer's name against the registration information through the NSOPW.

To determine whether District schools documented appropriate background screenings or name searches for volunteers, we inquired of District personnel and requested for examination District records supporting 25 selected volunteers from the population of 148 school volunteers during the 2016-17 fiscal year. However, although we requested, District records evidencing the conduct of the screenings or name searches were not provided for 8 of the 25 selected school volunteers. In response to our inquiries, District personnel indicated that, because the 8 school volunteers were supervised by District personnel, neither background screenings or name searches were conducted. Notwithstanding this response, State law does not exempt volunteers supervised by District personnel from the required search of volunteers' names or other identifying information against the NSOPW registration information.

As part of our audit, we extended our procedures and determined that none of the 8 selected volunteers were listed as a sexual predator or sexual offender on the NSOPW. However, our procedures cannot substitute for the District's responsibility to perform appropriate searches of volunteer names and other

⁵ Section 943.04351, Florida Statutes.

⁶ A level 2 background screening includes fingerprinting for Statewide criminal history records checks through the Florida Department of Law Enforcement and national criminal history records checks through the Federal Bureau of Investigation.

⁷ Board Policy 3.80, *School Volunteers*.

identifying information in accordance with State law. In August 2017, the District installed software at all District schools enabling staff to screen every volunteer against the NSOPW registration information. Absent effective controls to evidence that searches of volunteer names and information are timely and appropriately performed, the District has limited assurance that only volunteers with suitable backgrounds have direct contact with students and the District cannot demonstrate compliance with State law.

Recommendation: The District should take immediate action to identify those volunteers who work where children regularly congregate and have not obtained a level 2 background screening or had their names searched against the NSOPW registration information. For those volunteers identified, the District should ensure that the screening or name search, as appropriate, is promptly conducted and the results are evaluated so that appropriate decisions may be made. In addition, Board policies should be revised to require the names of prospective volunteers be searched against the registration information regarding sexual predators and sexual offenders through the NSOPW when level 2 background screenings are not required to be obtained.

Finding 8: Information Technology Risk Assessment

Management of the risks related to information technology (IT) is a key part of enterprise IT governance. Incorporating an enterprise perspective into day-to-day governance actions helps an entity understand its greatest security risk exposures and determine whether planned controls are appropriate and adequate to secure IT resources from unauthorized disclosure, modification, or destruction. IT risk assessment, including the identification of risks, the evaluation of the likelihood of threats, and the severity of threat impact, helps support management's decisions in establishing cost-effective measures to mitigate risk and, where appropriate, formally accept residual risk.

Although District personnel indicated that they had considered external and internal risks, a comprehensive, written IT risk assessment had not been developed. A comprehensive, written IT risk assessment would consider network vulnerability assessments and threats and vulnerabilities at the Districtwide, system, and application levels, and document the range of risks that the District systems and data may be subject to, including those posed by internal and external users.

The absence of a comprehensive, written IT risk assessment may lessen the District's assurance that all likely threats and vulnerabilities have been identified, the most significant risks have been addressed, and appropriate decisions have been made regarding which risks to accept and which risks to mitigate through appropriate controls. In addition, the absence of a comprehensive, written IT risk assessment may have contributed to the control deficiencies noted in Findings 9 and 10.

Recommendation: The District should develop a comprehensive, written IT risk assessment to provide a documented basis for managing IT-related risks.

Finding 9: Disaster Recovery Plan

Disaster recovery planning is an important element of IT controls established to manage the availability of valuable data and computer resources in the event of a disruption. The primary objective of disaster recovery planning is to provide the entity a plan for continuing critical operations in the event of a major hardware or software failure. The effectiveness of a disaster recovery plan requires key elements such as identifying key recovery personnel and critical data, processes, and applications; an alternative

processing facility to be used in the event of a disaster, and contracting for use of the facility; and testing of the plan.

The District is a member of the Panhandle Area Educational Consortium - Gateway Educational Computing Consultants (GECC). The District disaster recovery plan is composed of a formal disaster recovery agreement through the GECC whereby participating districts agree to serve as alternate processing sites for each other if a disaster interrupts critical IT operations. While the disaster recovery plan identified certain District personnel who are responsible for recovery efforts, the disaster recovery plan did not identify critical data, processes, and applications; did not include step-by-step procedures for recovery; and had not been tested. In response to our inquiry, in September 2017, District personnel indicated that a new enterprise resource planning (ERP) software was being implemented during the 2017-18 fiscal year and the disaster recovery plan would be revised to include the additional plan elements during implementation of the new ERP software.

Without an up-to-date, comprehensive, written disaster recovery plan, there is an increased risk that the District may be unable to continue critical IT operations or maintain availability of information systems data and resources in the event of a disruption of IT operations.

Recommendation: The District should continue efforts to develop a comprehensive, written disaster recovery plan, including identifying critical data, processes, and applications and establishing step-by-step procedures for recovery. In addition, once developed, the District should test the plan at least annually.

Finding 10: Security Incident Response Plan

State law⁸ requires the Board to determine the policies and programs that are necessary for the efficient operation and general improvement of the District. To ensure an appropriate, effective, and timely response to security incidents, it is important for District management to develop, and the Board to approve, a comprehensive IT security incident response plan and distribute the plan to each incident response team member.

Comprehensive security incident response plans typically detail responsibilities and procedures for identifying and logging security violations through use of a centralized reporting structure; notifying appropriate local, State, and Federal authorities when loss or damage to entity data or IT resources has or may have occurred; training incident response team members to ensure members understand and can perform required procedures; promptly notifying affected parties about security breaches of confidential personal information; periodically reviewing critical system resources to ensure continued integrity; and analyzing and assessing security incidents to determine whether additional actions are necessary.

Although the District had established an IT security incident response plan that details many useful responsibilities and procedures for the critical incident response team, the plan could be improved to include the procedures for:

⁸ Section 1001.41(1), Florida Statutes.

- Notifying appropriate local, State, and Federal authorities when loss or damage to District data or IT resources has or may have occurred.
- Training critical incident response team members to ensure members understand and can perform required procedures.
- Periodically reviewing critical system resources to ensure continued integrity.

In addition, although we requested, District records were not provided to evidence Board approval of the plan, that the plan was distributed to four of the five District-level critical incident response team members, or any activities by team members to identify security incidents.

Should an incident occur that involves the potential or actual compromise, loss, or destruction of District data or IT resources; a comprehensive IT security incident response plan that has been Board approved and properly distributed may help the District take appropriate and timely action to prevent further loss or damage to District data and IT resources.

Recommendation: To provide reasonable assurance that the District will timely and appropriately respond to events that may jeopardize the confidentiality, integrity, or availability of District data and IT resources, the District should develop a comprehensive IT security incident response plan that includes procedures for:

- **Notifying appropriate authorities when loss or damage to District data or IT resources has or may have occurred.**
- **Training critical response team members.**
- **Periodically reviewing critical system resources to ensure continued integrity.**

We also recommend that the District obtain Board approval of the plan and document distribution of the Board-approved plan to each critical incident response team member.

PRIOR AUDIT FOLLOW-UP

The District had taken corrective actions for applicable findings included in our report No. 2016-088.

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 September 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 applicable findings included in our report No. 2016-088.
- 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, systems development and maintenance, network configuration management, system backups, and disaster recovery.

- Evaluated 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 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. We also examined the administrator account access privileges granted and procedures for oversight of administrative accounts for the network and applications to determine whether these accounts had been appropriately assigned and managed. Specifically, we tested the eight roles that allowed update access privileges to selected critical ERP system finance application functions, resulting in the review of the appropriateness of access privileges granted for 29 accounts.
- Reviewed District procedures to prohibit former employees' access to electronic data files. We also reviewed selected user access privileges for all 17 former employees who separated from District employment during the audit period to determine whether the access privileges had been timely deactivated.
- Evaluated the District's security policies and procedures governing the classification, management, and protection of sensitive and confidential information.
- Determined whether a comprehensive IT disaster recovery plan was in place, designed properly, operating effectively, and had been recently tested.
- Determined whether a comprehensive, written IT risk assessment had been developed to document the security controls intended to protect the confidentiality, integrity, and availability of data and IT resources.
- Evaluated the adequacy of District policies and procedures related to security incident response and reporting.
- Evaluated District policies and procedures and examined supporting documentation to determine whether audit logging and monitoring controls were configured in accordance with IT best practices.
- Examined 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).
- Examined District records to determine whether the District had developed an anti-fraud policy to provide guidance to employees for communicating known or suspected fraud to appropriate individuals. Also, we examined District records to determine whether the District had implemented appropriate and sufficient procedures to comply with its anti-fraud policy.
- From the population of 22 individuals who had hard copy or electronic access to student social security numbers, determined whether District controls granted access to only individuals with a demonstrated need.
- 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.
- From the population of expenditures totaling \$137,361 during the period July 2016 through February 2017 and transfers totaling \$427,618 during the audit period from nonvoted capital outlay tax levy proceeds, Public Education Capital Outlay (PECO) funds, and other restricted capital project funds, examined documentation supporting selected expenditures and transfers totaling \$33,918 and \$427,618, respectively, to determine compliance with the restrictions imposed on the use of these resources.

- Determined whether PECO funds were properly encumbered by the required reversion date or returned as required by Section 216.301(2)(a) and (c), Florida Statutes.
- Selected three expenditures totaling \$42,232 from the population of \$73,021 total workforce education program funds expenditures for the period of July 2016 through February 2017 and examined supporting documentation 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 5,535 contact hours for 29 adult general education instructional students during the 2016 Fall term, examined District records supporting 1,574 reported contact hours for 19 selected students 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 2016-17 fiscal year proposed, tentative, and official budgets were prominently posted pursuant to Section 1011.035(2), Florida Statutes.
- Examined District records to determine whether required internal funds audits for the 2016-17 and 2 preceding fiscal years were timely performed pursuant to SBE Rule 6A-1.087, Florida Administrative Code, and Chapter 8 – School Internal Funds, *Financial and Program Cost Accounting and Reporting for Florida Schools (Red Book)*, and whether the audit reports were presented to the Board.
- From the population of compensation payments totaling \$6,549,780 made to 425 employees during the period July 2016 through February 2017, examined District records supporting compensation payments totaling \$67,557 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 30 employees selected from the population of 191 instructional personnel and 10 school administrators evaluated during the audit period, to determine whether the District had developed adequate performance assessment procedures for instructional personnel and school administrators based on student performance and other criteria in accordance with Section 1012.34(3), Florida Statutes, and determined whether a portion of each selected instructional employee's compensation was based on performance in accordance with Section 1012.22(1)(c)4., Florida Statutes.
- Examined District records for 30 employees selected from the population of 427 employees employed during the audit period to assess whether District personnel who had direct contact with students were subjected to the required fingerprinting and background checks.
- Examined District records related to the 18 individuals employed by eight contractors for the audit period to assess whether employees of contractors who had direct contact with students were subjected to the required background screenings.
- Examined District policies, procedures, and related records for the audit period for school volunteers to determine whether the District performed a level 2 background screening or 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 to determine whether the eligibility of the three employees who received Florida Best and Brightest Teacher Scholarship Program awards totaling \$20,451 during the audit period was supported.
- Reviewed District procedures for bidding and purchasing health insurance to determine District compliance with Section 112.08, Florida Statutes.

- Examined documentation for the only significant construction project contract (guaranteed maximum price totaling \$22.6 million) with a construction management entity (CME) and associated expenses totaling \$14.9 million for the audit period to determine compliance with District policies and procedures and provisions of State laws and rules. Also, for this project, we:
 - Examined District records to determine whether the CME was properly selected and the CME contract contained the required provisions.
 - 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 supporting two payments totaling \$2.5 million to determine whether District procedures for monitoring payments were adequate and payments were sufficiently supported.
 - Examined District records supporting seven selected payments totaling \$1.3 million 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.
- From the population of expenditures totaling \$14.2 million for the audit period, examined documentation relating to 30 selected payments for general expenditures totaling \$74,713. Specifically, we determined whether 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 and applicable vendors were properly selected and carried adequate insurance.
- From the population of Superintendent and Board Member travel expenses totaling \$3,488 during the period July 2016 through March 2017, examined documentation supporting two selected transactions totaling \$2,198 to determine if expenses were supported and in compliance with Section 112.061, Florida Statutes.
- From the population of expenditures totaling \$402,980 related to the 55 vendor and consultant contracts in effect during the period July 2016 through February 2017, examined District records supporting 27 selected expenditures totaling \$114,903 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 established adequate Virtual Instruction Program (VIP) policies and procedures.
- Examined the contract documents for the FDOE-approved VIP provider to determine whether the contracts contained required statutory provisions. Also, we:
 - Examined the contract documents to determine whether provisions were included to address compliance with contract terms, the confidentiality of student records, and monitoring of the providers' quality of virtual instruction and data quality.
 - Examined the contract and other related records to determine whether the District documented the reasonableness of the student-teacher ratios established in the contract.

- 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

CALHOUN COUNTY SCHOOL DISTRICT

RALPH YODER

Superintendent Of Schools

20859 Central Ave. East, RM-G20 • Blountstown, FL 32424 • Phone: 850-674-5927 • Fax: 850-674-5814

January 29, 2018

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

Dear Ms. Norman:

Pursuant to the provisions of Section 11.45(4)(d), Florida Statutes, I am responding to the findings cited in the operational audit of Calhoun County School Board for the fiscal year ending June 30, 2017.

I would like to thank the members of your staff who conducted the audit for the efficient and courteous manner in which they did their job.

Our responses are as follows:

Finding No. 1: Monitoring Construction Pay Requests

The District will update the procedures for monitoring construction management entity (CME) pay requests to include documenting comparison of subcontractor bids and contracts with pay requests.

Finding No. 2: Subcontractor Selections

The District will enhance the construction administration monitoring procedures to include documenting that the CME uses a competitive selection process and that bid award and contract amounts agreed.

Finding No. 3: Subcontractor Licenses

The District will enhance procedures to require that documentation of subcontractor license verification is retained at the District level.

Finding No. 4: General Conditions Costs

The District will enhance controls over documenting the reasonableness of CME general conditions costs.

Danny Ryals
District 1

Ray Howell
District 2

Clifford Newsome
District 3

Kenneth Speights
District 4

Danny Hassig
District 5

Finding No. 5: Penalty Clauses

The District will ensure that future construction contracts contain penalties to be paid by contractors for failure to comply with contract terms.

Finding No. 6: Performance Salary Schedule

The District will adopt salary schedules that provide annual salary adjustment to school based administrators based on student performance and instructional leadership.

Finding No. 7: School Volunteers

The District has implemented procedures to ensure that every volunteer is screened appropriately. The District will revise policies to require the names of prospective volunteers be searched as state law specifies.

Finding No. 8: Information Technology Risk Assessment

The District will work towards developing a comprehensive, written IT risk assessment.

Finding No. 9: Disaster Recovery Plan

The District will work towards updating the written disaster recovery plan.

Finding No. 10: Security Incident Response Plan

The District will work towards updating the comprehensive, written IT security incident response plan.

Again, we wish to express our appreciation to your audit staff for the professional manner in which the audit was conducted. We appreciate your recommendations and have taken action to implement them. Calhoun County has been diligent in the past in attempting to conduct their affairs in a correct and efficient manner, and we plan to continue in the same manner in the future. If you need additional information, please let me know.

Sincerely,



Ralph Yoder, Superintendent
Calhoun County School District