

**STATE OF FLORIDA AUDITOR GENERAL**

**Operational Audit**

Report No. 2018-201  
April 2018

**BAY COUNTY  
DISTRICT SCHOOL BOARD**



Sherrill F. Norman, CPA  
Auditor General

## Board Members and Superintendent

During the 2016-17 fiscal year, William V. Husfelt III served as Superintendent of the Bay County Schools and the following individuals served as School Board Members:

	<u>District No.</u>
Jerry Register	1
Ginger Littleton, Chair from 11-22-16, Vice Chair through 11-21-16	2
Joe Wayne Walker	3
Ryan Neves, Vice Chair from 11-22-16	4
Steven Moss, Chair through 11-21-16	5

The team leader was Pamela L. Corbin, CPA, and the audit was supervised by Shelly G. Curti, CPA.

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# BAY COUNTY DISTRICT SCHOOL BOARD

## ***SUMMARY***

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This operational audit of the Bay 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. 2015-147. Our operational audit disclosed the following:

**Finding 1:** Required background screenings were not always performed for applicable contractor workers.

**Finding 2:** The District's career center, Tom P. Haney Technical Center, did not properly inform students and employees about sexual predator and sexual offender public information.

**Finding 3:** The District disbursed Florida Best and Brightest Teacher Scholarship Program (Program) awards totaling \$173,302 to recipients who did not meet the eligibility requirements for the awards, including 23 employees during the 2016-17 fiscal year and 2 employees during the 2015-16 fiscal year. In addition, during the 2015-16 fiscal year, the District disbursed non-Program scholarship awards totaling \$24,768 to 3 employees without specific legal authority.

**Finding 4:** District controls over the purchasing card program need enhancement.

**Finding 5:** District controls over the procurement of, and payment for, contractual services need improvement.

**Finding 6:** Although required for meetings subject to the Sunshine Law, the District did not always provide public notice of prospective meeting locations and times or record minutes of those meetings.

**Finding 7:** District controls over the monitoring of health self-insurance claim payments need improvement.

**Finding 8:** District controls over virtual instruction program operations and related activities continue to need enhancement.

**Finding 9:** Some unnecessary information technology (IT) user access privileges existed that increased the risk that unauthorized disclosure of student social security numbers (SSNs) may occur. In addition, the District did not document that periodic reviews of assigned IT user access privileges to student SSNs were conducted to determine whether such privileges were necessary or that any inappropriate or unnecessary access privileges detected were timely removed.

**Finding 10:** The District third-party provider software license agreement lacked certain necessary provisions.

**Finding 11:** The District IT disaster recovery plan was outdated, 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. In addition, as of October 2017, the plan had not been tested since December 2014.

## **BACKGROUND**

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The Bay 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 Bay County. The governing body of the District is the Bay 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 37 elementary, middle, high, combination, and specialized schools; sponsored 10 charter schools; and reported 27,355 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. 2015-147. The results of our audit of the District's financial statements and Federal awards for the fiscal year ended June 30, 2017, were presented in a separate report.

## **FINDINGS AND RECOMMENDATIONS**

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### **Finding 1: Background Screenings**

State law<sup>1</sup> requires each person hired or contracted to serve in an instructional or noninstructional capacity who is permitted access on school grounds when students are present or who has direct contact with students to undergo background screenings. In addition, State law<sup>2</sup> provides that instructional and noninstructional employees and contractor workers who are permitted access on school grounds when students are present, who have direct contact with students, or who have access or control of school funds must undergo a level 2 background screening<sup>3</sup> at least once every 5 years.

State law<sup>4</sup> also provides that noninstructional contractors may be exempt from the background screening requirements if the contractors are under the direct supervision of a school district employee or contractor who has had a criminal history check and meets the statutory screening requirements. Additionally, State law<sup>5</sup> requires the District to verify the results of a noninstructional contractor's background screening using the Florida Shared School Results (FSSR) system implemented by the Florida Department of Law Enforcement (FDLE).

To promote compliance with the statutory background screening requirements, the District Safety and Security Department is responsible for ensuring that contractor workers and employees who have access to school grounds undergo required background screenings every 5 years. Additionally, for previously screened contractor workers, the District relies on contractors and District personnel in the schools and departments where the contractors work to ensure required background screenings are obtained. For

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<sup>1</sup> Section 1012.32(2), Florida Statutes.

<sup>2</sup> Sections 1012.56(10), 1012.465, and 1012.467, Florida Statutes.

<sup>3</sup> A level 2 background screening includes fingerprinting for Statewide criminal history records checks through the FDLE and national criminal history records checks through the FBI.

<sup>4</sup> Section 1012.468, Florida Statutes.

<sup>5</sup> Sections 1012.467(2)(f) and 1012.467(7)(a), Florida Statutes.

new contractor workers, District personnel indicated that they rely on personnel in the departments that will receive the contracted services to send the workers to the Safety and Security Department for background screenings before the services are performed.

According to District records for the period July 2016 through February 2017, 267 contractor workers provided various services under 15 contracts including maintenance, lunchroom, and therapy services and were not exempt from the screening requirements. To determine whether required background screenings had been timely obtained for these contractor workers, we examined District records for 51 selected individuals<sup>6</sup> in June 2017 and found that:

- For 3 contractor workers, District records did not evidence the required background screenings. In response to our inquiries, District personnel indicated that the contractor workers were virtual instruction program instructors and employees of another school board. District personnel also indicated that, for such workers, they typically only obtain verbal confirmation of background screening dates from the workers instead of reviewing the FSSR system. Subsequent to our inquiries, 1 contractor worker was fingerprinted and a screening was performed using the FSSR system in July 2017 and the other 2 workers were fingerprinted and received background screenings in September 2017. While no unsuitable backgrounds were noted, the 3 contractor workers had provided services for the District ranging from 2 to 6 years without the required background screenings.
- For 2 other contractor workers, the required background screenings had not been performed at least once in the past 5 years. One contractor worker was a virtual instruction program instructor who was last screened in July 2011 and the District contracted with the other worker, who was last screened in August 2011, to provide therapy services at a private school based on the school's participation in the Special Education Federal grant. The lack of the required screenings was an oversight because these 2 workers were not at a District school campus. Subsequent to our inquiries, the 2 contractor workers received background screenings by the District in July and October 2017, respectively, or approximately 1 year late.

Absent effective controls to ensure that required background screenings are timely performed, there is an increased risk that contractor workers with unsuitable backgrounds may have direct contact with students.

**Recommendation:** The District should take immediate action to identify contractor workers who have not obtained the required background screenings, ensure that the screenings are promptly obtained and evaluated, and make decisions, as necessary, based on evaluations of the screenings. We also recommend that, in the future, the District ensure that required background screenings are performed for District contractor workers at least once every 5 years.

## **Finding 2: Florida Department of Law Enforcement Sexual Predator and Sexual Offender Registry Notification**

State law<sup>7</sup> requires each career center to inform students and employees at orientation and on the career center's Web site of the existence of the Florida Department of Law Enforcement (FDLE) sexual predator and sexual offender registry Web site and the toll-free telephone number that gives access to sexual predator and sexual offender public information. Our audit procedures disclosed that, for the

<sup>6</sup> The 51 selected individuals included 16 instructional personnel (9 of whom were also virtual instruction program instructors), 9 noninstructional personnel, and 26 contractor workers.

<sup>7</sup> Section 1006.695, Florida Statutes.

2016-17 fiscal year, the District's career center, the Tom P. Haney Technical Center (HTC), did not inform its students or employees of the FDLE's sexual predator and sexual offender registry Web site or toll-free telephone number at orientation, nor was the information posted on the HTC Web site. While the information was posted on the District's Web site on the Safety and Security page and the HTC Web site provided a link to the District's Web site, the HTC Web site did not provide a direct link to the District's Safety and Security page.

In response to our inquiries, HTC personnel indicated that they were unaware of the statutory requirement to provide the information. Subsequent to our inquiries, District personnel added the required information regarding the FDLE's registered sexual predator and sexual offender registry Web site and toll-free telephone number to the 2017-18 fiscal year Student Handbook and student orientation presentation. However, as of October 2017, the HTC Web site had not been updated to include the required information. Without proper notification of the FDLE's sexual predator and sexual offender registry Web site and toll-free telephone number, students and employees may be unaware of how to obtain information about the sexual predators and sexual offenders who may be on campus.

**Recommendation:** The District should continue efforts to ensure that the HTC informs students and employees of the FDLE's sexual predator and sexual offender registry Web site and toll-free telephone number at orientation and on the HTC Web site.

### **Finding 3: Florida Best and Brightest Teacher Scholarship Program**

The Florida Legislature established the Florida Best and Brightest Teacher Scholarship Program (Program)<sup>8</sup> to reward teachers who achieved high academic standards during their own education. Pursuant to State law, to be eligible for a scholarship, a teacher must have scored at or above the 80th percentile on a college entrance examination based on the national percentile ranks in effect when the teacher took the assessment and have been evaluated as highly effective pursuant to State law,<sup>9</sup> or if the teacher is a first-year teacher who has not been evaluated pursuant to State law, must have scored at or above the 80th percentile on a college entrance examination based on the national percentile ranks in effect when the teacher took the assessment. In addition, subsequent legislation<sup>10</sup> clarified that the term "teacher" as used in the proviso language was limited to the State law<sup>11</sup> definition of "classroom teacher."

Pursuant to State law,<sup>12</sup> once a classroom teacher is deemed eligible by the District the teacher shall remain eligible as long as he or she remains employed by the District as a classroom teacher at the time of the award and receives an annual performance evaluation rating of highly effective based, in part, on student performance. Other than the Program scholarship awards, no specific legal authority exists for scholarship awards to teachers.

District personnel are responsible for determining teacher eligibility for scholarship awards and annually submitting the number of eligible teachers to the Florida Department of Education (FDOE) by

<sup>8</sup> Section 1012.731, Florida Statutes.

<sup>9</sup> Section 1012.34, Florida Statutes.

<sup>10</sup> Chapter 2016-62, Laws of Florida.

<sup>11</sup> Section 1012.01(2)(a), Florida Statutes.

<sup>12</sup> Section 1012.731(3)(b), Florida Statutes.

December 1st of each year. To demonstrate eligibility for a scholarship award, eligible District teachers must submit to the District an official record of his or her college entrance examination score demonstrating that the teacher scored at or above the 80th percentile based on the national percentile ranks in effect when the teacher took the assessment.

During the 2015-16 fiscal year, the District awarded Program scholarships totaling \$759,577 to 74 District teachers and to 6 charter schools to distribute to 18 charter school teachers. Our examination of District records disclosed that:

- In February 2016, the District identified 3 District teachers who were inadvertently excluded from the list of eligible teachers submitted to the FDOE and awarded to the teachers non-Program scholarship awards totaling \$24,768. According to District personnel, the scholarships were awarded because the December 1, 2015, FDOE notification deadline had expired and the District wanted the otherwise eligible teachers to receive the scholarships. Notwithstanding District personnel's explanation for the awards, no specific legal authority exists for awarding any scholarship to a teacher who was not included on the list of Program-eligible teachers submitted to the FDOE.
- In May 2016, the District returned \$16,513 to the FDOE for Program scholarships awarded to 2 literacy coaches who were deemed ineligible by the FDOE. While the FDOE does not routinely perform eligibility determinations, District personnel indicated that reimbursement was not sought from the 2 literacy coaches because FDOE correspondence indicated that the District was responsible for such decisions and the District decided against seeking reimbursement. Notwithstanding, District records did not evidence the public purpose served for not seeking reimbursement for these unauthorized disbursements.

During the 2016-17 fiscal year, the District awarded Program scholarships totaling \$1 million to 126 District employees and to 8 charter schools for distribution to 26 charter school teachers. Our examination of District records supporting scholarship awards totaling \$299,944 to 44 selected recipients (39 District school employees and 5 charter school employees) disclosed District records did not demonstrate the eligibility of 23 scholarship recipients who received awards totaling \$156,789. Specifically:

- For 21 selected District school scholarship recipients, Program scholarship awards totaling \$143,155 were awarded to employees<sup>13</sup> who held positions that did not meet the statutory definition<sup>14</sup> of a classroom teacher. According to District personnel, they thought these employees were eligible scholarship recipients because, in August 2016, the Board had approved employees paid from the District instructional salary schedule as eligible for the scholarships; however, such rationale is contrary to State law.
- For 2 other selected District school scholarship recipients, scholarships totaling \$13,634 were incorrectly awarded to classroom teachers who scored below the required college entrance examination score. These errors occurred because the District used an estimated composite score and not the actual composite score of the examination.

In response to our inquiries, District personnel indicated that, effective for the 2017-18 fiscal year Program scholarships, the District revised procedures to ensure that only classroom teachers are considered

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<sup>13</sup> The 21 employees included school psychologists, media specialists, guidance counselors, literacy and math coaches, and staff training specialists.

<sup>14</sup> Section 1012.01, Florida Statutes.

eligible. In addition, District personnel plan to review eligibility documentation more closely to ensure that appropriate college entrance examination scores are used in determining applicant eligibility.

Absent effective Program scholarship eligibility determinations and timely submission of the accurate number of eligible teachers to the FDOE, there is an increased risk that scholarships may be awarded to ineligible recipients.

**Recommendation:** To ensure that scholarships are awarded only to eligible recipients, the District should:

- Absent specific legal authority, discontinue awarding scholarships to teachers not included on the list of Program-eligible teachers submitted to the FDOE.
- For the ineligible scholarships awarded during the 2015-16 fiscal year, take appropriate actions to recover from the 3 teachers the non-Program scholarship awards totaling \$24,768 and the Program scholarship awards totaling \$16,513 from the 2 literacy coaches.
- In addition to the 44 scholarships awarded to District employees included in our procedures, determine the propriety of the other 108 scholarships totaling approximately \$700,000 that were awarded during the 2016-17 fiscal year and refund to the FDOE the amounts related to scholarships awarded to ineligible recipients, including the awards totaling \$156,789 identified by our procedures. In addition, the District should take appropriate actions to recover from applicable recipients any improper scholarships awarded.
- Continue efforts to ensure that eligibility determinations for Program scholarship awards comply with the statutory requirements for the awards.

#### **Finding 4: 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 business purchases on behalf of the District. P-card purchases are subject to the same rules and regulations that apply to other District purchases.

The District designated a Program Administrator to oversee the P-card program and developed a comprehensive *Purchasing Card Program Policies and Procedures Manual (P-Card Manual)* that addresses management controls over the issuance, use, and deactivation of P-cards. We inquired of District personnel and examined District records and determined that:

- A P-card request form is used to set an initial total purchase limit until balances are paid off monthly. For new cardholders, the purchase limit is set at \$3,000 for administrators and \$2,000 for all other employees. Higher or lower purchasing limits must be approved by the cost center manager and the Program Administrator and the *P-Card Manual* specifies that subsequent cardholder limit increases are to be requested by the cost center manager and sent by e-mail to the Program Administrator. In addition, the Program Administrator submits a listing of cardholder limits annually to each cost center manager to review the appropriateness of the limits and notify the Program Administrator of any needed changes.
- A request to use P-card form is required to preapprove P-card purchases. The form requires the vendor and cardholder names, a description of the quantity and price of goods and services being acquired, and the name and signature of the cost center manager approving the purchase.

- Cost center managers are responsible for informing the Program Administrator if a cardholder separates from District employment or transfers between departments. In addition, District personnel periodically review reports of active cardholder listings to look for cardholders who separated from District employment that may have been overlooked. The Program Administrator is responsible for notifying the bank of all card cancellations.

To determine the reasonableness of P-card monthly total and single transaction dollar limits for the period July 2016 through March 2017, we inquired of District personnel and examined District records supporting the P-card limits for 12 cardholders with monthly total dollar purchase limits greater than \$15,000 and 11 cardholders with single transaction limits greater than \$15,000. As shown in Table 1, we found that 3 cardholders had monthly total limits that appeared excessive given the cardholder's usage and, as shown in Table 2, 7 cardholders had single transaction limits that appeared excessive given the amount of the cardholder's highest single transaction.

**Table 1  
P-Card Excessive Monthly Total Purchase Limits**

Number	Employee Position	Total Purchase Limit	Highest Monthly Total Dollar Expenditures	Difference
1	Assistant to General Manager of Purchasing, Contracting, and Materials Management	\$30,000	\$9,682	\$20,318
2	Financial Services Manager	\$15,000	\$ -	\$15,000
3	Administrative Secretary	\$18,000	\$3,577	\$14,423

**Table 2  
P-Card Excessive Single Transaction Limits**

Number	Employee Position	Single Transaction Limit	Highest Single Transaction	Difference
1	Assistant to General Manager of Purchasing, Contracting, and Materials Management	\$30,000	\$5,220	\$24,780
2	Material Controller	\$24,999	\$4,540	\$20,459
3	Bookkeeper	\$24,999	\$5,659	\$19,340
4	Administrative Secretary	\$18,000	\$1,211	\$16,789
5	Confidential Secretary	\$18,000	\$2,745	\$15,255
6	Payroll/Purchaser	\$18,000	\$8,657	\$9,343
7	Assistant Principal	\$15,000	\$6,447	\$8,553

In response to our inquiries, District personnel indicated that monthly and single transaction limits were based on anticipated card use for employee positions; however, although we requested, District records were not provided to evidence District monitoring to ensure that the limits were reasonable based on such use. Without documented monitoring of the reasonableness of purchasing limits, there is an increased risk of P-card misuse.

P-card expenditures totaled \$2.1 million for the period July 1, 2016, through March 3, 2017, and as of April 11, 2017, 514 P-cards were in use. Our examination of District records supporting 30 selected P-card expenditures totaling \$68,089 disclosed that a request to use P-card form was not completed for 9 P-card expenditures totaling \$27,910. These expenditures were for items such as reservations for a senior trip, books, and a rental truck. In response to our inquiries, District personnel explained, for example, that 7 of the expenditures totaling \$27,517 were made by cardholders who were in positions that exempted them from completing the form. However, the *P-Card Manual* did not exempt anyone from completing the form and, without the completed form, District records did not evidence prior authorization for these P-card expenditures.

Additionally, we examined District records supporting the P-cards for 24 cardholders who separated from District employment during the period July 1, 2016, through April 11, 2017, to determine whether the P-cards were promptly canceled. We found that the P-cards for 11 cardholders were canceled 56 to 553 days, or an average of 317 days, after the cardholders employment separation dates, including the P-cards for 5 cardholders that were not canceled until after our inquiries.

Further discussions with District personnel indicated that the untimely P-card cancellations were due to delays by the cost center managers in notifying the Program Administrator of the employment separations. While the agreement between the District and the bank that administers the P-card program allows the District 60 days to dispute charges, and our examination of P-card activity for these 11 former employees disclosed that no purchases were made after the employment separation dates, untimely cancellation of P-card privileges increases the risk that such privileges could be misused by former employees or others and may limit the District's ability to satisfactorily resolve disputed charges.

**Recommendation: The District should enhance P-card procedures to:**

- **Evaluate each cardholder's total monthly purchasing limits and single transaction limits based on the cardholder's District spending needs and, as appropriate, adjust the limits.**
- **Ensure that request to use P-card forms are properly completed and maintained to evidence the prior authorization of cardholder purchases.**
- **Ensure P-card privileges are promptly canceled upon a cardholder's separation from District employment.**

### **Finding 5: Contractual Services**

Effective contract management ensures contract provisions establish required services and related service times and satisfactory receipt of contracted services prior to payment. State Board of Education (SBE) rules<sup>15</sup> require the District to request bids or proposals through the competitive solicitations process from 3 or more sources for any authorized purchase or contract for services exceeding \$50,000.

The Board routinely enters into contracts for services, and internal controls have been designed and implemented to ensure payments are generally consistent with contract terms and conditions. From the population of 162 vendor contracts for services totaling \$9.6 million during the period July 2016 through

<sup>15</sup> SBE Rule 6A-1.012, Florida Administrative Code.

February 2017, we examined District records associated with 27 selected payments totaling \$2.6 million for 14 contracts to determine the proprietary of payments for services. We found that:

- 3 payments totaling \$200,166 were for janitorial services received absent a competitive solicitations process. In June 2011, the Board approved a bid award and contract to a company for janitorial services. The contract was for the period July 2011 through June 2012 and provided for annual renewals up through June 2015. However, the District continued to receive janitorial services from this company and pay for these services through June 2017 or 2 years beyond the period authorized.

We extended our procedures and examined District payment records for the janitorial services company after the June 2015 contract expiration date and found that the District paid the company \$2 million during the 2015-16 and 2016-17 fiscal years in addition to the 3 payments totaling \$200,166. District personnel indicated that, due to a change in Purchasing Department personnel, the janitorial services were not re-bid at the correct interval. Absent use of a competitive solicitations process, District records did not demonstrate that the janitorial services were obtained at the lowest and best price consistent with desired quality. In June 2017, the District completed a competitive solicitations process and selected a different company to provide janitorial services effective July 1, 2017.

- The District made 3 payments totaling \$18,855 for optional health center services without documenting, prior to payment, satisfactory receipt of the services or that the detailed costs associated with the services agreed with the applicable service contract provisions. In December 2014, the Board approved a contract with a vendor to provide onsite health center services for District employees and their dependents. The contract provided for a service fee, due each month for a year, and fees for optional services. Depending on the optional services, the District was to be billed at a set amount, at the cost incurred by the health center, or at current standard rates.

In response to our inquiries, District personnel indicated that the District Financial Services Manager was performing procedures to determine the reasonableness of the optional health center services charges. However, without evidence of the services received and related costs prior to payment, there is an increased risk that the services may not be received consistent with the Board's expectations, the costs may not agree with applicable service contract provisions, and any overpayments that occur may not be timely detected or recovered.

**Recommendation: The District should continue efforts to award contracts using a competitive solicitations process as required and, prior to payment, document satisfactory receipt of services in accordance with applicable contracts. In addition, prior to payment, the District should verify and document that the detailed costs associated with services agree with applicable contract provisions. The District should also continue efforts to determine the reasonableness of the onsite health center service fees for optional services.**

## **Finding 6: Sunshine Law**

State law<sup>16</sup> requires that reasonable notice of public meetings be given and minutes of public meetings be promptly recorded and open for public inspection. The Florida Supreme Court<sup>17</sup> has held that meetings of certain advisory boards and fact-finding committees participating in the decision-making function of a State agency or authority are public meetings under the Sunshine Law.<sup>18</sup> Additionally,

<sup>16</sup> Section 286.011(1) and (2), Florida Statutes.

<sup>17</sup> Wood v. Marston, 442 So. 2d 934 (Fla. 1983).

<sup>18</sup> The Sunshine Law regarding open government is established in Article I, Section 24 of the State Constitution and codified in Chapter 286, Florida Statutes.

Attorney General Guidelines<sup>19</sup> suggest, in part, that the notice should contain the time and place of the meeting.

The Board established the Professional Services Selection Committee (PSSC) to perform fact-finding procedures and make recommendations to decision makers. For example, the PSSC evaluates proposals for professional services such as engineering and architectural services and makes recommendations to the Board regarding the firm or person to be retained and the exclusion of other candidates from further consideration. Consequently, based on its responsibilities, the PSSC is subject to the Sunshine Law.

Our inquiries of District personnel regarding the PSSC and review of District records disclosed that the PSSC did not always comply with the Sunshine Law. For example, the PSSC held four meetings during the 2016-17 fiscal year to select architects for two District construction projects. Public notices were published that contained the deadline for receipt of architectural proposals and the dates that the PSSC would rank and interview proposers. However, the public notices did not identify the PSSC's respective meeting locations and times and minutes were not recorded for the meetings.

Absent public notices of prospective meeting locations and times, the public may not be informed of prospective meetings, which may reduce attendance at the meetings. Absent effective controls to ensure that minutes of PSSC meetings are recorded and open for public inspection, the public may not be informed of the issues discussed and actions taken at the meetings. Also, without evidence of such notices and meeting minutes, the District cannot demonstrate compliance with State law.

**Recommendation: The District should ensure that, for meetings subject to the Sunshine Law, public notices contain prospective meeting locations and times and that minutes of those meetings are recorded and open for public inspection in accordance with State law.**

#### **Finding 7: Health Self-Insurance Claim Payments**

The District established a group health self-insurance plan for employees, retirees, and dependents pursuant to State law.<sup>20</sup> In addition, as authorized by State law,<sup>21</sup> the Board contracted with a service agent to administer the plan by evaluating and paying insurance claims. During the period January 2016 through February 2017, the District remitted \$14.4 million to the service agent for claim payments.

To provide assurances that claim payments were for eligible participants, for accurate amounts, and to appropriate service providers, it was important for the District to require the service agent to provide the District a service organization controls (SOC) 1 Type 2 report as described in *Statement on Standards for Attestation Engagements*.<sup>22</sup> Such a report could have addressed the suitability of internal control

<sup>19</sup> Attorney General Opinion No. 2004-44, dated September 4, 2004.

<sup>20</sup> Section 112.08, Florida Statutes.

<sup>21</sup> Section 1011.18(6), Florida Statutes.

<sup>22</sup> A *Statement on Standards for Attestation Engagements No. 16* (SSAE 16), *Reporting on Controls at a Service Organization*, SOC 1 Type 2 report contains a service auditor's opinion on the fairness of the presentation of the service organization management's description of the service organization's system and the suitability of the design and operating effectiveness of the service organization's controls to achieve the related control objectives included in the description throughout a specified period. The SSAE 16 SOC 1 Type 2 report was replaced with the SSAE 18, *Attestation Standards: Clarification and Recodification AT-C Section 320 Reporting on an Examination of Controls at a Service Organization Relevant to User Entities' Internal Control Over Financial Reporting*, SOC 1 Type 2 report effective for service organization reports dated May 1, 2017, or after.

policies and procedures placed in operation for claims processing and disclosed the effectiveness of the service organization's claims processing controls. Alternatively, if the report was not provided or did not provide assurances regarding the effectiveness of the claims processing controls, the District should have performed, or contracted for the performance of, a test of claim payments processed by the service agent to obtain those assurances.

District personnel indicated that they did not perform a review of claims documentation for the District self-insurance plan because they relied on an insurance consultant to approve payments to the District service agent prior to making claim payments. However, based on review of the insurance consultant contract, a review of claims documentation supporting self-insurance claims was not required and according to District personnel, the insurance consultant did not perform a review of claims documentation. Notwithstanding, the insurance consultant obtained a copy of the service agent's most recent SOC 1 Type 2 report for the period October 2015 through September 2016, which identified controls over benefit changes that were not operating effectively and included a qualified opinion related to benefit changes.

As part of our audit, we requested for examination documentation supporting 30 selected claim payments totaling \$122,308 and determined that the selected payments were authorized and for eligible participants; however, our procedures cannot substitute for management's responsibility to establish and maintain an adequate system of internal control over processing claim payments. Without assurance that controls over claim payments are suitably designed and operating effectively, there is an increased risk of erroneous or fraudulent payments.

**Recommendation: The District should establish procedures to effectively monitor group health self-insurance claim payments. Such procedures could specify that:**

- **To provide assurance as to the effectiveness of claims processing controls, the District's contract with the service agent require the service agent to annually obtain and timely submit to the District a service auditor's report on the service agent's controls.**
- **If the service auditor's report discloses that the service agent's controls over claims processing are not suitably designed and operating effectively, the District should explicitly require the consultant to verify support for health insurance claims or assign District staff to review claims support at least on a test basis.**

### **Finding 8: Virtual Instruction Program**

State law<sup>23</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>24</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

<sup>23</sup> Section 1001.41(3), Florida Statutes.

<sup>24</sup> Section 1002.45, Florida Statutes.

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 enrolled 110 part-time and 125 full-time VIP students and contracted with an FDOE-approved VIP provider for VIP services. The District had written policies and procedures addressing eligibility, provider options, open enrollment, instructors, graduation addressing student learning, parent responsibilities, promotion/retention, attendance, and academic integrity. While the District contract with the FDOE-approved provider contained the provisions required by State law,<sup>25</sup> the contract lacked certain necessary provisions. Specifically:

- The contract did not include data quality requirements. The provider is to maintain significant amounts of data used to support the VIP administration and to meet District reporting needs for compliance with State funding, information, and accountability requirements in State law. Accordingly, it is essential that accurate and complete data maintained by the provider on behalf of the District be readily available. Inclusion of data quality requirements in the provider contract would help ensure that District expectations for the timeliness, accuracy, and completeness of education data are clearly communicated to the provider.
- The contract did not specify any minimum required security controls the District considered necessary to protect the confidentiality, availability, and integrity of critical and sensitive education data. While the contract contained requirements for the provider to implement, maintain, and use appropriate administrative, technical, or physical security measures required by Federal law, without specified minimum required security controls, there is an increased risk that provider information security and other information technology (IT) controls may not be sufficient to protect the data.
- The contract did not provide for the District's monitoring of provider compliance with contract terms or quality of instruction. Without such a provision, District personnel may be limited in their ability to perform monitoring. Such monitoring could include confirmation or verification that the VIP provider protected the confidentiality of student records and supplies students with necessary instructional materials.

Subsequent to our inquiries, the District amended the contract in September 2017 to remedy these contract deficiencies. A similar finding was noted in our report No. 2015-147.

**Recommendation: The District should continue efforts to ensure that VIP provider contracts include all necessary provisions.**

### **Finding 9: Information Technology User Access Privileges**

The Legislature has recognized in State law<sup>26</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 the confidential status of such information. Effective controls restrict employees from accessing information unnecessary for their assigned job responsibilities and provide for documented, periodic reviews of employee access privileges to help prevent personnel from accessing sensitive personal information inconsistent with their responsibilities.

<sup>25</sup> Section 1002.45(4), Florida Statutes.

<sup>26</sup> Section 119.071(5)(a), Florida Statutes.

Pursuant to State law,<sup>27</sup> the District identified each student using a Florida education number assigned by the FDOE. However, student SSNs are included in the student records maintained within the District management information system (MIS). Student SSNs are maintained in the District MIS to, for example, register newly enrolled students and transmit that information to the FDOE through a secure-file procedure and provide student transcripts to colleges, universities, and potential employers based on student-authorized requests. Board policies<sup>28</sup> allow designated District school personnel access to student records to perform administrative, supervisory, or instructional responsibilities that serve a legitimate educational purpose in accordance with applicable State law, State Board of Education rules, and Federal laws and District employees are required to certify that they will comply with these requirements.

The District MIS Department maintains the MIS and provides finance, human resources, and student records data processing services. As of September 2017, the MIS contained SSNs for 143,679 former and 24,365 current District students and 883 employees had IT user access privileges to student information, including student SSNs. District personnel indicated that periodic reviews of IT user access privileges to student information are performed to help monitor these privileges; however, although we requested, District records were not provided to evidence that such reviews had been performed.

As part of our audit, we observed various MIS computer screens showing District employee access privileges and requested District personnel to confirm that the 883 employees with access privileges to student SSNs needed this access to perform their assigned responsibilities. Our observations and District personnel responses disclosed that 16 employees responsible for advanced program, testing, and financial aid programs needed access to student SSNs; however, 867 of the 883 employees did not need such access. The 867 employees with the unnecessary IT user access privileges included teachers, media specialists, lunch room managers, and administrators such as the Director of Facilities and the Director of Transportation.

Subsequent to our inquiry, District personnel removed the SSN fields from all profiles and implemented a stand-alone profile that would allow access to SSN fields. As of September 18, 2017, the District had restored access to SSNs for the 16 employees whose access to student SSNs was necessary. The existence of unnecessary access privileges and the lack of documented, periodic reviews of assigned IT user access privileges increases the risk of unauthorized disclosure of student SSNs and the possibility that sensitive personal information may be used to commit a fraud against District students and others.

**Recommendation: The District should continue efforts to ensure that only those employees who have a demonstrated need to access student SSNs have such access. Such efforts should include documented, periodic reviews of IT user access privileges to determine whether such privileges are necessary and ensure the timely removal of any inappropriate or unnecessary access privileges detected.**

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<sup>27</sup> Section 1008.386, Florida Statutes.

<sup>28</sup> Board Policy 7.301, Student Records.

## Finding 10: Software License Agreement

To ensure the continuity of business operations and the accuracy and reliability of data processing information, good business practices necessitate that management include certain assurances in contracts with third parties that provide data processing services. For example, the contract could require the third party to obtain a SOC 1 Type 2 report and provide the report for assurance that the third party's controls were suitably designed and operating effectively.

On May 24, 2012, the Board entered into a software license agreement with a third-party provider (TPP) for use of the TPP school system management software for the District student records application through June 30, 2018. For the 2016-17 fiscal year, the District made payments totaling \$124,436 for the software license agreement. However, our examination of the District TPP software license agreement disclosed that the agreement lacked certain necessary provisions to:

- Establish ownership of District data.
- Guarantee the availability of the system to the District.
- Define the minimum required security controls that the District considers necessary to protect the confidentiality, availability, and integrity of critical and sensitive data.
- Disclose the TPP disaster recovery controls in place to ensure the continuity of the District's business operations in the event of a disaster.
- Require the TPP contracted data center to obtain a SOC 1 Type 2 report or otherwise provide assurance for the design and operating effectiveness of data center controls.

District personnel indicated that, in May 2015, discussions were held with the TPP regarding certain concerns about TPP processes and the TPP provided correspondence to address the concerns. However, as of February 2018, the license agreement had not been amended and District personnel indicated that continued use of the TPP school system management software is anticipated.

Without provisions in the District's TPP agreement to require and ensure the effectiveness of controls for the TPP contracted data center, the District has limited assurance that the TPP controls will effectively protect the confidentiality, integrity, and availability of the District's data.

**Recommendation: District management should ensure that agreements with TPPs include necessary provisions to ensure the continuity of business operations and the accuracy and reliability of data processing information. Such agreements should also include provisions to protect the confidentiality of sensitive District data.**

## Finding 11: Information Technology – Disaster Recovery Plan

An important element of an effective internal control system over IT operations is a disaster recovery plan to help minimize data and asset loss in the event of a major hardware or software failure. A disaster recovery plan should identify key recovery personnel and critical applications, provide for backups of critical data sets, and provide a step-by-step plan for recovery. In addition, plan elements should be tested annually to disclose any areas not addressed and to facilitate proper conduct in an actual disruption of IT operations.

The District developed an IT disaster recovery plan specifying the procedures for providing continuity, restoration, and recovery of critical data and systems, including a formal agreement with another district to serve as alternate processing site if a disaster interrupts critical IT operations. However, certain elements of the District's plan are outdated, including some of the IT infrastructure, IT systems, designated personnel, and contact information, and the plan was last tested in December 2014. We also noted that the offsite location for the District's primary backup critical data sets was less than 1 mile from the District servers and, due to this proximity, the District's ability to recover data in the event of a major disaster may be limited. In addition, while the plan requires a second set of backups to be maintained if a category 3 or above hurricane is threatening the area, the specific details on the location and the responsibility for storage of the backups were not addressed in the plan.

In response to our inquiry, District personnel indicated that staff responsible for implementation of the IT disaster recovery plan were aware that the plan needed to be changed but that changes had only partially been incorporated into the plan. As of February 2018, the District was in the process of updating the disaster recovery plan.

Without an up-to-date comprehensive disaster recovery plan that is tested at least annually, 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:** District management should continue efforts to update the disaster recovery plan to ensure that the plan is relevant and applicable to resuming the operation of critical systems and minimizing the disruption of operations in the event of a disaster. The plan should also address the storage of critical data set backups in locations that would be less susceptible to the same disasters affecting both the District servers and the offsite backup location. Additionally, once updated, the District should test the plan annually.

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

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The District had taken corrective actions for applicable findings included in our report No. 2015-147, except that Finding 8 was also noted in our report No. 2015-147 as Finding 10.

## ***OBJECTIVES, SCOPE, AND METHODOLOGY***

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

We conducted this operational audit from March 2017 to February 2018 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. 2015-147.
- 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:

- 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 (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. 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 17 profiles that allowed update access privileges to selected critical ERP system HR application functions resulting in the review of the appropriateness of access privileges granted for 43 users.
- Tested the one network administrator system group that allows complete access to network resources resulting in the review of the appropriateness of administrator access privileges granted to 16 accounts for the network.
- Reviewed District procedures to prohibit former employees' access to electronic data files. We also reviewed selected user access privileges for 37 of the 393 employees who separated from District employment during the period July 1, 2016, through April 11, 2017, to determine whether the access privileges had been timely deactivated.
- Reviewed the written agreement between the Board and a software license and hosting provider to determine whether the agreement provisions adequately addressed the security controls related to the District's student records system application.
- Determined whether an up-to-date, comprehensive IT disaster recovery plan was in place, designed properly, operating effectively, and had been recently tested.
- Examined selected network and 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 District policies and procedures and examined supporting documentation to determine whether audit logging and monitoring controls were configured in accordance with IT best practices.
- Evaluated the District data center's physical access controls to determine whether vulnerabilities existed.
- Determined whether a fire suppression system had been installed in the District's data center.
- 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.
- Determined whether District controls granted user access to student social security numbers to only individuals with a demonstrated need for such access.
- 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 expenditures totaling \$73.1 million and transfers totaling \$44.2 million for the period July 2014 through February 2017 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 \$10.5 million and \$10 million, 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.
- Evaluated District procedures for limiting and monitoring student access to inappropriate Web sites using District-issued take-home electronic devices.
- Selected 30 expenditures totaling \$1 million from the population of \$2.9 million total workforce education program funds expenditures for the period July 2016 to 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 100 industry certifications eligible for the 2016-17 fiscal year performance funding that were attained by students during the 2015-16 and 2016-17 fiscal years, examined 25 selected certifications to determine whether the District maintained documentation for student attainment of the industry certifications.
- From the population of 53,937 contact hours for 539 adult general education instructional students during the audit period, examined District records supporting 4,052 reported contact hours for 30 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.
- For the period January 2015 through February 2017, examined District records to determine whether District personnel documented supervisory review and approval of journal entries.
- Examined District records for the audit period to determine whether the District's career center 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.
- Examined documentation supporting the 192 bank reconciliations for the period July 2016 through February 2017, to determine whether the District timely performed the reconciliations.
- Examined supporting documentation to determine whether required internal funds audits for the 2015-16 fiscal year were timely performed pursuant to State Board of Education (SBE) Rule 6A-1.087, Florida Administrative Code, and whether the audit reports were presented to the Board.
- Reviewed organizational charts, audit plans, and audit agendas for the audit period to determine whether the internal auditor reported directly to the Board or its designee as required by Section 1001.42(12)(l), Florida Statutes.
- Examined District records supporting the \$2,454 payment by the District to its direct-support organization during the audit period to determine the legal authority of the transaction. Also, we reviewed District records to determine whether direct-support organization employees were paid with District funds.
- Evaluated severance pay provisions in the District's two union agreements to determine whether the severance pay provisions complied with Section 215.425(4), Florida Statutes. From the population of 27 employees who received severance pay totaling \$340,331 during the period

July 2016 through February 2017, we examined District records for 5 selected employees paid severance pay totaling \$75,457 to determine whether severance payments complied with State law and the applicable union agreement.

- From the population compensation payments totaling \$82.4 million to 4,653 employees during the period July 2016 through February 2017, examined District records supporting compensation payments totaling \$242,035 to 56 selected employees to determine the accuracy of the rate of pay and whether supervisory personnel reviewed and approved employee reports of time worked.
- For the population of 2,015 noninstructional and administrative employees compensated a total of \$25.7 million during the period July 2016 through February 2017, evaluated District procedures and records to determine whether supervisory personnel reviewed and approved employee reports of time worked and leave taken.
- From the population of 622 employees hired as new non-substitute employees during the period July 2016 through February 2017, examined District records for 30 selected employees to determine whether the supporting documentation evidenced the correct number of years of experience granted.
- Examined District records supporting the 30 employees who worked as support employees in the 2015-16 fiscal year but as instructional employees in the 2016-17 fiscal year to determine whether their rate of pay in the 2016-17 fiscal year was calculated in accordance with applicable salary schedules and union contract provisions.
- From the population of 1,735 instructional personnel and 106 school administrators during the period July 2016 through February 2017, examined supporting documentation for 30 selected employees 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. We also 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 the period July 2016 through February 2017 for contracted workers and employees to assess whether individuals who had direct contact with students were subjected to the required fingerprinting and background screenings.
- Examined Board policies, District 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:
  - 39 selected District school recipients of the 2016-17 fiscal year Florida Best and Brightest Teacher Scholarship Program awards from the population of 126 District teachers who received scholarship awards totaling \$858,931 during the audit period.
  - 5 selected charter school recipients of the 2016-17 fiscal year Florida Best and Brightest Teacher Scholarship Program awards from the population of 26 charter school teachers who received scholarship awards totaling \$177,240 during the audit period.

We also reviewed District procedures related to the recovery of 2015-16 fiscal year Florida Best and Brightest Teacher Scholarship Program funds from recipients for amounts returned by the District to the FDOE because the FDOE determined the amounts were awarded to ineligible recipients.

- Evaluated District policies and procedures to ensure health insurance was provided only to eligible employees, retirees, and dependents. We also determined whether the District had

procedures for reconciling health insurance premium costs to employee, retiree, and Board-approved contributions.

- From the population of 64 health self-insurance expenses totaling \$18.1 million (49 vouchers totaling \$3.6 million and 15 journal entries totaling \$14.5 million) for the period January 2016 through February 2017, examined documentation relating to 13 selected transactions totaling \$3.9 million (10 vouchers totaling \$759,445 and 3 journal entries totaling \$3.1 million) to determine whether the health self-insurance expenses were reasonable and necessary for the health self-insurance program, correctly recorded, adequately documented, properly authorized and approved, and in compliance with applicable State laws, rules, contract terms and Board policies.
- Evaluated District procedures for informing the District health self-insurance program service agent of the eligibility of employee and dependent participants. To determine the propriety of District claims expense, we examined District records supporting 30 selected claims totaling \$122,308 from the claims population totaling \$14.4 million for the audit period that were processed by the service agent and compared the claims tested to the health insurance program requirements.
- For the District health self-insurance program, reviewed District procedures for the reasonableness of procedures for acquiring insurance consultant services, selecting the service agent, and acquiring the stop loss coverage to determine whether the basis for selecting such was documented in District records and conformed to good business practices.
- For the two significant construction projects (guaranteed maximum price construction management contracts totaling \$16 million) with expenditures totaling \$5.2 million and in progress during the 2015-16 and 2016-17 fiscal years, examined documentation for project expenditures of \$1.3 million for one project to determine compliance with District policies and procedures and provisions of State laws and rules. Specifically, we:
  - Examined District records to determine whether the construction manager was properly selected.
  - Reviewed District procedures for monitoring subcontractor selection and licensure, and examined records to determine whether subcontractors were properly selected and licensed.
  - Examined District records to determine whether the engineer was properly selected and adequately insured.
  - Examined District records to determine whether projects progressed as planned and were cost effective and consistent with established benchmarks, and whether District records supported that the contractors performed as expected.
  - Examined District records supporting 5 selected payments totaling \$1.2 million to determine whether District procedures for monitoring payments were adequate and payments were sufficiently supported.
  - Examined District records supporting 5 selected payments totaling \$118,238 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.
- Examined copies of the most recent annual fire safety, casualty safety, and sanitation inspection reports noting 21 serious life safety deficiencies and selected all serious life safety deficiencies to determine whether the deficiencies were timely corrected.
- Reviewed Board policies and District procedures to determine if the District had a policy establishing liability insurance requirements for design professionals, and that procedures were in place to implement the policy.

- Observed District procedures over food service collections to evaluate the District's procedures over food service cash collections.
- From the population of 12,780 purchasing card (P-card) transactions totaling \$2.1 million for the period July 1, 2015, through March 3, 2017, examined documentation supporting 30 selected transactions totaling \$68,089 to determine whether P-cards were administered in accordance with District policies and procedures. We also evaluated whether 30 cardholders accepted the terms of card usage and signed the District's cardholder agreement form at the time the P-card was issued, and determined whether the District timely canceled the P-cards for 24 cardholders who separated from District employment during the period July 1, 2016, through April 11, 2017. From the listing of cardholders as of April 11, 2017, reviewed the reasonableness of all 12 cardholders with monthly total dollar limits exceeding \$15,000 and all 11 cardholders with single transaction limits exceeding \$15,000.
- Determined whether rebate revenues for the audit period totaling \$46,454 for the P-card program were allocated to the appropriate District funds.
- Reviewed Board policies and District procedures related to identifying potential conflicts of interest. For all 15 District employees required to file statements of financial interests, we reviewed Florida Department of State, Division of Corporation, records; statements of financial interests; and District records to identify any potential relationships with District vendors that represent a conflict of interest.
- Examined District records to determine whether the Board had established an adequate and comprehensive electronic funds transfer (EFT) policy and evaluated the adequacy of EFT controls. From the population of 189 EFTs and payments from the District General Fund operating bank account totaling \$269.8 million during the audit period, we examined 15 selected EFTs and payments totaling \$62.6 million to determine whether the EFTs and payments were adequately supported, properly authorized, and complied with SBE Rule 6A-1.0012, Florida Administrative Code.
- For the two charter schools that were not renewed or were terminated in the 2014-15 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, except as previously agreed upon by the District.
- 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.
- Examined District records and evaluated construction planning processes for the audit period to determine whether processes were comprehensive, included consideration of restricted resources and other alternatives to ensure the most economical and effective approach, and met District short-term and long-term needs.
- Evaluated District procedures for identifying facility maintenance needs and establishing resources to address those needs and District procedures for determining maintenance department staffing needs. We also determined whether such procedures included consideration of appropriate factors and performance measures that were supported by factual information.
- From the population of non-payroll expenditures totaling \$64.2 million for the period July 2016 through February 2017, examined documentation relating to 31 selected transactions totaling \$1.4 million to determine whether non-payroll 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.
- From the population of 228 Safety and Security Department expenditures totaling \$112,546 for the period July 2016 through February 2017, we examined documentation for 18 selected

transactions totaling \$37,372 to determine whether expenditures were correctly recorded, classified, and adequately documented.

- From the population of 162 vendor contracts totaling \$9.6 million during the period July 2016 through February 2017, examined supporting documentation, including the contract documents, for 27 selected payments totaling \$2.6 million related to 14 contracts to determine whether:
  - The District complied with competitive selection requirements for applicable vendors.
  - 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.
  - Any of the vendors were also District employees to evaluate whether the District complied with Section 112.313, Florida Statutes, and had not contracted with its employees for services provided beyond those in their salary contract.
- Determined whether the District used supplemental academic instruction and research-based reading instruction allocations to provide, to the applicable schools, pursuant to Section 1011.62(9), Florida Statutes, an additional hour of intensive reading instruction to students every day, schoolwide during the audit period. Also, for five of the seven participating schools, we reviewed District records to determine whether the District appropriately reported to the FDOE, pursuant to the 2016 General Appropriations Act (Chapter 2016-066, Laws of Florida), the funding sources, expenditures, and student outcomes.
- Examined financial records of the District self-insured health insurance program during the audit period to determine whether the program was fiscally sound.
- Determined whether the District had adequate Virtual Instruction Program (VIP) policies and procedures.
- For the FDOE-approved VIP provider that contracted with the District for the audit period, determined whether the District obtained a list of provider employees and contracted personnel who had obtained background screenings in accordance with Section 1012.32, Florida Statutes.
- Evaluated District records for the audit period to determine whether the District provided the required VIP options.
- Reviewed the contract documents for the FDOE-approved VIP provider:
  - 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***

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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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WILLIAM V. HUSFELT III  
SUPERINTENDENT

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Panama City, Florida  
32401-2080

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Board Members:

Jerry Register  
District 1

Ginger Littleton  
District 2

Joe Wayne Walker  
District 3

Ryan Neves  
District 4

Steve Moss  
District 5

April 5, 2018

Ms. Sherrill F. Norman, CPA  
Auditor General  
Claude Denson Pepper Building, Suite G74  
111 West Madison Street  
Tallahassee, FL 32999-1450

Subject: Operation Audit for Bay District Schools

Dear Ms. Norman:

In response to the preliminary and tentative operational audit findings of the Bay County School District for fiscal year ended June 30, 2017, I am offering the attached summary of findings and corrective actions.

If you have any additional questions or concerns, please contact Sandra Davis at 850.767.4217 or [davissd@bay.k12.fl.us](mailto:davissd@bay.k12.fl.us).

Sincerely,

A handwritten signature in blue ink that reads "Sandra A. Davis".

William V. Husfelt, III  
Superintendent



WILLIAM V. HUSFELT III  
SUPERINTENDENT

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District 3

Ryan Neves  
District 4

Steve Moss  
District 5

June 6, 2017

To Whom It May Concern:

In my absence, I hereby delegate to Sandra Davis, Deputy Superintendent of Bay District Schools, the authority to sign Proposals, Grant Agreements, Contracts, Financial Documents or any other documents requiring my signature during the 2017-2018 School Year.

  
William V. Husfelt  
Superintendent

  
Sandra D. Davis  
Deputy Superintendent

**Finding 1: Required background screenings were not always performed for applicable contractor workers.**

Bay Virtual School contacted the contractors and instructed them to obtain the proper fingerprinting/background check. Each of the 3 contractors noted complied, and their fingerprints were uploaded to the FSSR system. In the future, all contractors working for Bay Virtual School will follow this new procedure for proper background checks.

**Finding 2: The District’s career center, Tom P. Haney Technical Center, did not properly inform students and employees about sexual predator and sexual offender public information.**

Starting with the 2017-18 school year, a PowerPoint presentation is presented to students at all student orientations for every enrollment, noting the following information:

*In accordance with Florida State Statutes, registered sexual predators and sexual offenders must register with the Department of Law Enforcement. Convicted sex offenders from out of state must register in Florida within 48 hours of establishing residence. The Florida Department of Law Enforcement has set a website for interested parties to search their database. This database may be used to find sex offenders and predators by either name, address, city, county, or zip code. That site is <http://offender.fdle.state.fl.us/offender/homepage.do>*

*FDLE has also established a toll-free number (1-888-357-7332) that allows the public to request information about Sexual Predators and Sex Offenders living in their communities and around the state. Requests may be made between the hours of 8am and 7pm. Monday-Friday.*

Starting with the 2017-18 school year, pre-printed student handbooks also note the above information on a label (sticker) applied to each book prior to distribution.

Additionally, the Haney Technical Center website now has the above information at the bottom of the homepage.

**Finding 3: The District disbursed Florida Best and Brightest Teacher Scholarship Program (Program) awards totaling \$173,302 to recipients who did not meet the eligibility requirements for the awards, including 23 employees during the 2016-17 fiscal year and 2 employees during the 2015-16 fiscal year. In addition, during the 2015-16 fiscal year, the District disbursed non-Program scholarship awards totaling \$24,768 to 3 employees without specific legal authority.**

Bay District is confident that it has put into place several safeguards to ensure that only eligible teachers were included in Florida Best and Brightest Teacher Scholarship Program awards for the 2017-18 school year:

- The District notified all employees of eligibility requirements in accordance with state statute, including the reversal of the Board’s stance that all employees on the instructional pay scale be deemed eligible for the award. The District clarified that, per state statute, only classroom teachers would be eligible and that all applicants would be screened as such.

- The District conducted informational meetings with locally assigned auditors to better understand eligibility requirements and also to better understand how to read the score reports that were received to determine eligibility. Score reports were carefully and individually examined.
- The District continues to use a locally created electronic submission process that will not accept applications beyond the November 1 deadline (in this year's case, the December 1 deadline).
- Bay District Human Resources and Finance personnel worked closely together while disbursing funds to ensure that ineligible personnel were not awarded funds. Job titles were closely scrutinized for eligibility determinations.
- Bay District Human Resources verified through each cost center manager that the numbers of classroom teachers submitted to the Florida Department of Education was accurate; each cost center manager was asked to verify a list that was sent to them before numbers were submitted to FDOE.

#### **Finding 4: District controls over the purchasing card program need enhancement.**

Cardholder limits are increased (and decreased) at the request of cost center managers (or their designees). While in the past the request was made either verbally or by email to the program administrator and the request was carried out, the request was not always documented for future evidence of such request. The program administrator now requires requests via email and saves them for one fiscal year for future reference.

The current manual does not exempt anyone from completing the form. The Purchasing Department will be updating the P-card Use Manual and the exemptions will be addressed at that time. The new manual will then be issued to all current cardholders.

The Card Program Administrator requests the reconciler from each location to review the list of their cardholders twice a year, and asks that she be notified of any change in status. From this point forward, the program administration will make this a monthly request.

#### **Finding 5: District controls over the procurement of, and payment for, contractual services need improvement.**

The District will continue its effort to remain in compliance when conducting a solicitation and or in the establishment of a contract, as provided and allowed by any /all applicable policy, statute and law. These efforts shall also be enhanced by the clearer determination and definition of all contracts terms, requirements, conditions and specifications, by referencing specific said policy, statute and law within the solicitation, ensuring said compliance is clear and concise with and for all parties involved.

The provision of structural maintenance, custodial, and operational services is required by contract with the health care provider selected by the District. The operational service in question would then reference the solicitation terms, requirements, conditions, and specifications from which such services are established.

**Finding 6: Although required for meetings subject to the Sunshine Law, the District did not always provide public notice of prospective meeting locations and times or record minutes of those meetings.**

In the future, the Facilities Department will include the meeting location and time as well as the date of the meetings of the Professional Services Selection Committee (PSSC) in the initial legal ad soliciting qualifications proposals from firms. Additionally, the Facilities Department will work with the Assistant of the School Board to provide Public Notice of these meetings to required media outlets.

The written recommendation from the committee that is provided to the School Board and is published in the Board Book for the meeting in which the recommendation is presented, will serve as the Minutes of the PSSC Meetings. The Board Book material is recorded and open for public inspection.

**Finding 7: District controls over the monitoring of health self-insurance claim payments need improvement.**

The District recently issued a Request for Proposal for a Self-Insured Healthcare Claims Auditing Services and is currently in the process of evaluating those proposals. Once a company has been chosen and their findings received, the District will know what new procedures will be needed.

The District recently started its 3<sup>rd</sup> year as a self-insured health insurance plan and was told by its consultant that it needed to mature its plan before this service could be performed.

**Finding 8: District controls over virtual instruction program operations and related activities continue to need enhancement.**

Bay Virtual School contacted each VIP provider to request the required updates to the contract. Revised contracts were sent back to Bay Virtual immediately.

**Finding 9: Some unnecessary information technology (IT) user access privileges existed that increased the risk that unauthorized disclosure of students social security numbers (SSNs) may occur. In addition, the District did not document that periodic reviews of assigned IT user access privileges to student SSNs were conducted to determine whether such privileges were necessary or that any inappropriate or unnecessary access privileges detected were timely removed.**

Historical data still holds SSNs. IT department did go through the process of changing its policies for handling access control to SSNs. The security officer created a new profile for SSN access. All access to SSNs via the profile were then removed. The Student Services Director decides if access is required. The security officer then activates the profile at the Director's request. The access file is reviewed 4 times a year, at the beginning of each 9 weeks of school. At this time, 27 authorized users have access to SSNs.

**Finding 10: The District third-party provider software license agreement lacked certain necessary provisions.**

The District reviewed present agreement and initially addressed concerns with the vendor. Upon receiving the audit findings, the District forwarded the finding to the vendor; the IT department is working on an updated document that will go to the board for approval.

**Finding 11: The District IT disaster recovery plan was outdated, 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. In addition, as of October 2017, the plan had not been tested since December 2014.**

The District reviewed and rewrote the IT Disaster Recovery Plan. Major changes were as follows:

- Changed names to positions to create a fluid document; changes to jobs will be noted in Appendix A instead of throughout the entire document.
- All areas of the plan were updated with the latest information for procedures and steps to the plan.
- Shelter lists were updated.
- Offsite backups were moved to Deane Bozeman because of its location at the North end of the county.
- The plan will be updated annually, tested annually, and training will occur annually.
- The updated plan has been shared with School Board at a workshop on April 2<sup>nd</sup>, 2018.