

STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

Report No. 2017-070
December 2016

**OSCEOLA COUNTY
DISTRICT SCHOOL BOARD**



Sherrill F. Norman, CPA
Auditor General

Board Members and Superintendent

During the 2015-16 fiscal year, Melba Luciano served as Superintendent of Osceola County Schools through 3-20-16, and Dr. Debra P. Pace served as Acting Superintendent after that date. Also, the following individuals served as School Board Members:

	<u>District No.</u>
Jay Wheeler	1
Kelvin Soto, Vice Chair to 11-16-15	2
Tim Weisheyer, Chair to 11-16-15	3
Clarence Thacker, Chair from 11-17-15	4
Ricky Booth, Vice Chair from 11-17-15	5

The team leader was Mary W. Lynn, CPA, and the audit was supervised by David A. Blanton, CPA. For the information technology portion of this audit, the team leader was Rebecca Ferrell, CISA, and the supervisor was Heidi G. Burns, CPA, CISA.

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OSCEOLA COUNTY DISTRICT SCHOOL BOARD

SUMMARY

This operational audit of the Osceola County School District (District) focused on selected District processes and administrative activities and included a follow-up on findings noted in our report No. 2014-071. Our operational audit disclosed the following:

Finding 1: The District did not competitively select, in accordance with State law, certain construction management entity (CME) services at the District's Health and Wellness Center. A similar finding was noted in our report No. 2014-071.

Finding 2: As similarly noted in our report No. 2014-071, District procedures did not require District personnel to attend subcontractor bid openings or to document comparisons of subcontractor bid awards to the CME subcontractor contracts to verify that subcontractors were competitively selected and that the successful bid and contract amounts agree.

Finding 3: The District needs to adopt a spending plan for workforce education program funds and document the basis upon which program indirect costs are calculated. A similar finding was noted in our report No. 2014-071.

Finding 4: District controls continue to need strengthening to ensure that instructional contact hours for adult general education classes are accurately reported to the Florida Department of Education.

Finding 5: District records did not demonstrate that all charter school property purchased with public funds properly reverted to the District upon the closure of a charter school.

Finding 6: Some inappropriate or unnecessary IT access privileges were granted to District employees and the District did not review the business application access privileges granted to timely detect inappropriate or unnecessary access privileges. Similar findings were noted in previous reports, most recently in our report No. 2014-071.

Finding 7: District security controls related to monitoring of system activity need improvement to ensure the continued confidentiality, integrity, and availability of District data and IT resources.

BACKGROUND

The Osceola 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 Osceola County. The governing body of the District is the Osceola County District School Board (Board), which is composed of five elected members. The appointed Superintendent of Schools is the executive officer of the Board. During the 2015-16 fiscal year, the District operated 50 elementary, middle, high, multi-level adult, and specialized schools; sponsored 17 charter schools; and reported 61,141 unweighted full-time equivalent students.

This operational audit of the District focused on selected processes and administrative activities and included a follow-up on findings noted in our report No. 2014-071. The results of our audit of the District's financial statements and Federal awards for the fiscal year ended June 30, 2016, will be presented in a separate report.

FINDINGS AND RECOMMENDATIONS

Finding 1: Selection of Construction Management Entity

Pursuant to State law,¹ the Board may contract with a construction management entity (CME) for the construction or renovation of facilities. State law² prescribes the competitive selection process to be followed when professional services, including CME services, are to be purchased for a project with basic construction costs estimated to exceed \$325,000. Additionally, State law³ provides that the District may, for a defined period, enter into a continuing contract with a CME for those construction projects in which the estimated construction cost does not exceed \$2 million. State law also specifies that a project may include a grouping of minor or substantially similar construction, rehabilitation, or renovation activities. The District may require a CME to offer a guaranteed maximum price (GMP), which allows for the difference between the actual cost of the project and the GMP amount, or net cost savings, to be returned to the District.

In August 2013, the District solicited a request for qualifications (RFQ) for a “construction manager at risk” to perform minor projects under \$2 million, and the Board approved a list of ten CMEs that responded to the RFQ. During the period July 2015 through June 2016, the Board entered into 13 GMP contracts totaling \$6.1 million with eight CMEs for new construction, remodeling and renovations, repairs, and site improvement projects. Seven of the 13 contracts were continuing contracts.

As part of our audit procedures, we selected the contracts associated with construction services at the Health and Wellness Center to evaluate whether the District CME selection process complied with State law. Our review of District records disclosed that the District entered into continuing contracts with a Board-approved CME for the bid and purchase of a metal building and to perform pre-construction and limited interior buildout services for the Health and Wellness Center. In December 2015, the District issued an Invitation to Bid (ITB) and, following a competitive selection process, contracted with a different CME for \$1.980 million for the Health and Wellness Center revised interior buildout services. The descriptions and amounts of the Health and Welfare Center contracts are shown in Table 1.

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

² Section 287.055, Florida Statutes.

³ Section 255.103(4), Florida Statutes.

**Table 1
Health and Wellness Center Contracts**

Contract	Contract Date	Contract Description	Procurement Method	Contract Amount
1	6/14/2015	Bid and purchase metal building and perform pre-construction services	Continuing Contract	\$ 357,440
2	10/16/2015	Limited interior buildout services	Continuing Contract	1,401,600
3	1/19/2016	Revised interior buildout services	Competitive Selection	1,980,000
Total				<u>\$3,739,040</u>

Our review of District records disclosed that, at the time the second continuing contract was entered into, the District should have been aware that the costs for the contracts related to construction services at the Health and Wellness Center would exceed the \$2 million continuing contract cost threshold and, therefore, the District was required to follow the prescribed CME competitive selection process. In response to our inquiries regarding the Health and Wellness Center contracts, District personnel explained that they initially planned to buildout less than half of the Center and the estimated costs associated with these services were less than \$2 million; however, a change in the interior buildout services increased costs, and an ITB was issued for the Center's revised interior buildout services. District personnel further indicated that the second continuing contract provided that the remaining work for the interior buildout would be competitively bid as soon as final construction documents were finalized.

Notwithstanding the District's response, given that State law specifies that a project may include a grouping of minor or substantially similar construction, rehabilitation, or renovation activities, District records did not clearly support the District's explanation for not complying with the process prescribed by State law for selection of CMEs. Without the competitive selection process, District records did not evidence that the most highly qualified firms were selected for this project at the best price. A similar finding was noted in our report No. 2014-071.

Recommendation: The District should ensure that CMEs are competitively selected using the process prescribed by State law.

Finding 2: Subcontractor Selection

Under the 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. Since the difference between the actual cost of the project and the GMP amount (the net cost savings) is to be returned to the District, a GMP contract requires District personnel to closely monitor subcontractor bid awards and other construction costs.

Our examination of two CME contracts for the Health and Wellness Center interior buildout services (referenced in Table 1 as Contracts 2 and 3) disclosed that the CMEs were required to solicit bids for subcontractor services. Based on discussions with District personnel and review of District records, we determined that District personnel obtained subcontractor bid summaries prepared by the CMEs. However, District personnel indicated that the District had not established procedures to require District personnel to attend the subcontractor bid openings or compare the actual successful subcontractor bids

to the CME subcontractor contracts because the District relied on the CMEs for the subcontractor selection process.

Our examination of the bid summaries disclosed that there were 24 subcontracts for services associated with the two CME contracts. To determine whether the subcontractor bid awards listed on the bid summaries agreed with the CMEs' subcontractor contracts, we requested that District personnel obtain supporting subcontractor bid and contract information from the CMEs for 5 selected subcontractor contracts. These 5 contracts were for various subcontractor services, such as masonry concrete work and door installation services. Our review of the documentation provided disclosed that the bid awards were consistent with the bid summaries and related contracts; however, our procedures cannot substitute for management's responsibility to verify that subcontractor contracts are awarded using a competitive selection process.

Without District procedures requiring verification that CMEs used a competitive process for selecting subcontractors and that bid award and contract amounts agree, there is an increased risk that subcontractor services may not be obtained at the lowest cost consistent with acceptable quality and maximum cost savings under GMP contracts may not be realized. A similar finding was noted in our report No. 2014-071.

Recommendation: The District should establish procedures to verify that CMEs select subcontractors using a competitive process. Such procedures should require District personnel to attend subcontractor bid openings and to document comparisons of the subcontractor bid awards to the subcontractor contracts to verify that the bid awards and contract amounts agree.

Finding 3: Workforce Education Programs

Pursuant to State law,⁴ the District receives funding for a workforce education program. The District uses workforce education program funds and adult education tuition and fees to provide adult education programs at two District locations. During the 2015-16 fiscal year, the District's workforce education program revenues totaled \$7.4 million. These revenues, when combined with unspent workforce education program revenues totaling \$1.5 million from prior fiscal years, provided \$8.9 million in available funds for District workforce education program costs during the 2015-16 fiscal year.

District workforce education program expenditures totaled \$7.5 million for the 2015-16 fiscal year, which was 84 percent of the amount available to be expended, resulting in an unencumbered balance carry forward of \$1.4 million into the 2016-17 fiscal year. Although workforce education program funds are restricted for adult education purposes and are not subject to reversion, carrying forward large balances of program funds into subsequent years does not appear to be consistent with the Legislature's annual funding of the program and the provision of related benefits to students for a particular fiscal year. In response to our inquiry, District personnel indicated a workforce education program spending plan is being developed; however, as of September 2016, the plan was not finalized.

⁴ Section 1011.80, Florida Statutes.

Additionally, for the 2015-16 fiscal year, the District charged the workforce education program indirect costs totaling \$923,958 based on a 15 percent indirect cost rate.⁵ District personnel indicated that the indirect costs represent reimbursement to the District's unrestricted accounts for school and district level indirect costs allocable to the program. However, although we requested, District records could not be provided to document the basis upon which the 15 percent indirect cost rate was calculated. Without such, District records did not document that such costs were reasonable charges to the workforce education program. A similar finding was noted in our report No. 2014-071.

Recommendation: The District should continue efforts to develop a spending plan, and the Board should adopt a spending plan, for workforce education program funds to serve as a guide to ensure that the funds benefit the students and program as intended by the Legislature. In addition, the District should enhance controls to ensure that workforce education program indirect costs are reasonably calculated and documented. Further, the District should provide documentation to the Florida Department of Education regarding the allowability of the \$923,958 in indirect costs or restore this amount to the workforce education program.

Finding 4: Adult General Education Classes

State law⁶ defines adult general education, in part, as comprehensive instructional programs designed to improve the employability of the State's workforce. The District received State funding for adult general education, and General Appropriations Act⁷ proviso language requires each school district to report enrollment for adult general education programs in accordance with the Florida Department of Education (FDOE) instructional hours reporting procedures.⁸

FDOE procedures state that fundable instructional contact hours are those scheduled hours that occur between the date of enrollment in a class and the withdrawal date or end-of-class date, whichever is sooner. The procedures also require school districts to develop a procedure for withdrawing students for nonattendance and provide that the standard for setting the withdrawal date be six consecutive absences from a class schedule, with the withdrawal date reported as the day after the last date of attendance. There is also a minimum enrollment threshold of 12 hours of attendance for each program that must be met before a student can be counted for funding purposes. FDOE technical guidance requires institutions to document student participation in online and open lab environments through documented assignments, tests, or attendance records.

For the Fall 2015 and Spring 2016 semesters, the District reported 453,826 instructional contact hours for 198 adult general education classes provided to 3,179 students. As part of our audit, we examined District records supporting 957 reported hours for 30 students enrolled in 24 adult general education classes for the Fall 2015 semester. We found that:

- Although 5 of the 30 students enrolled they did not, of record, attend certain classes, resulting in 8 over-reported hours. We expanded our examination of District records to quantify contact hours reported for the Fall 2015 and Spring 2016 semesters for students who enrolled but did not, of

⁵ The \$923,958 represents 15 percent of the \$6,159,721 appropriated from State General Fund revenue, which excludes performance funding.

⁶ Section 1004.02(3), Florida Statutes.

⁷ Chapter 2015-232, Laws of Florida, Specific Appropriation 118.

⁸ FDOE Memorandum No. 06-14, dated May 15, 2006, *Reporting Procedures for Adult General Education Enrollments*.

record, attend classes and identified a total of 675 over-reported hours for 231 students enrolled in 122 classes.

- The District did not maintain attendance records for 3 students enrolled in computer labs, resulting in 38 over-reported hours. According to District personnel, the District information system calculated and estimated computer lab class contact hours but was not programmed to account for actual student attendance. The District relied on the system to report contact hours for the 3 students based on estimates that students attended 2 classes per week for 30 minutes each class. However, reporting fundable contact hours based on estimates conflicts with FDOE technical guidance requiring contact hours be based on actual student attendance or related student participation records. Additionally, although we requested, District records could not be provided to assess the full extent of class hours reported based on estimates rather than documented assignments, tests, or attendance records.

In response to our inquiries, District personnel indicated that the reporting errors occurred due to limitations in the software used to record and report contact hours. Since funding is based, in part, on enrollment data reported to the FDOE, it is important that the District report accurate data. Similar findings were noted in our report Nos. 2011-051 and 2014-071.

Recommendation: The District should strengthen controls to ensure that instructional contact hours for adult general education classes are accurately reported to the FDOE. District action to strengthen controls should include appropriate software modifications to accurately record and report contact hours based on actual student attendance. The District should also determine to what extent the adult general education hours were misreported and contact the FDOE for proper resolution.

Finding 5: Charter School Termination

State law⁹ provides that, when a charter school terminates operations, property purchased with public funds must revert to the District. According to District personnel, upon notification of nonrenewal or termination of a charter agreement, District personnel contact the charter school to schedule the date that District personnel will collect the property, textbooks, and other materials from the charter school. On the scheduled date, District personnel collect the charter school items and prepare a property listing of items collected; however, District personnel are not required to document who collects the items or each property item's unique identifier, such as a serial or other property number, or estimated value. Additionally, District personnel are not required to document a reconciliation of the charter school property items physically inventoried to District and charter school property records or the charter school's property values shown in the final audited financial statements.

Our examination of District records disclosed that a District-sponsored charter school closed during the 2014-15 fiscal year and the final audit of the charter school reported \$30,210 in capital assets, net of depreciation. District personnel prepared a listing of assets received from the closed charter school; however, the listing did not identify the person collecting the items or uniquely identify the serial or other property number and estimated value of each property item to establish accountability for the reverted assets. In addition, although we requested, District personnel were unable to provide records documenting that the charter school property items physically inventoried at closure were reconciled to

⁹ Section 1002.33(8)(e), Florida Statutes.

District and charter school property records or the charter school's property values shown in the final audited financial statements.

Absent effective monitoring of charter school closures, there is an increased risk that the District may not rightfully reclaim assets of the terminated charter school and that publicly funded assets may be subject to misuse.

Recommendation: The District should ensure that charter school closures are appropriately monitored and that District records document the monitoring efforts. At a minimum, such records should evidence:

- The identity of who collects the property items from the charter school.
- A unique identifier for each property item and each item's estimated value.
- The performance of a reconciliation of the charter school property items physically inventoried at closure to District and charter school property records and the charter school's property values shown in the final audited financial statements.

Finding 6: Information Technology – Access Privileges

Access controls are intended to protect District data and information technology (IT) resources from unauthorized disclosure, modification, or destruction. Effective access controls include granting employees' access to IT resources based on a demonstrated need to view, change, or delete data and restrict employees from performing incompatible functions or functions outside of their areas of responsibilities. Periodically reviewing assigned IT access privileges helps ensure that employees cannot access or modify IT resources inconsistent with their assigned job duties.

District employees are assigned a user profile(s) for the District's business application, including the finance and human resources (HR) modules. Access capabilities for menus and panels to perform specific finance or HR functions or transactions are defined to each user profile. Our test of selected access privileges to the District's business application disclosed some access privileges that permitted employees the ability to perform incompatible functions or were unnecessary for their assigned job duties. Specifically:

- Our test of the 7 panels (i.e., screens) within the finance module that allowed update access privileges to critical security administration functions resulted in the review of 15 employees' access privileges. Our examination of District records disclosed that 6 Business and Fiscal Services employees could create and modify user profiles for assignment within the finance application. Two of the 6 employees and an additional 2 Business and Fiscal Services employees could assign user profiles to employees. The ability to create or modify user profiles or assign user profiles to employees was unnecessary for these 8 employees' assigned job duties.

Subsequent to our audit inquiry, District management removed the access privileges in August 2016 for 5 of the 8 employees. The menus and panels that allow the ability to create or modify user profiles also allow the access necessary to lock down the system for posting procedures performed by the remaining 3 employees. Because of this system limitation, District management indicated, in response to our audit inquiry, special programming would be required to separate the access privileges for the 3 employees. Similar findings were noted in our report Nos. 2011-051 and 2014-071.

- Our test of the 13 panels within the HR module that allowed update access privileges to critical payroll functions, including compensation and payroll processing, resulted in the review of 20 employees' access privileges. Our examination of District records disclosed that 1 Information Services Department employee could add, update, and approve employee time, contrary to an appropriate separation of duties. In July 2016, subsequent to our audit inquiry, District management changed the employee's access to inquiry only.
- Although a biannual review of user profiles assigned to employees was performed, District management did not review the menus and panels defined to each profile to ensure the access privileges to finance and HR transactions through those profiles remained appropriate. In response to our audit inquiry, District management indicated that a quarterly review procedure would be established to enhance controls over access privileges.

Inappropriate or unnecessary access privileges and the lack of a review of access privileges granted within the business application increases the risk that unauthorized disclosure, modification, or destruction of District data and IT resources may occur.

Recommendation: We recommend that District management continue efforts to periodically review access privileges granted within the business application to ensure that the IT access privileges are necessary and enforce an appropriate separation of duties. Any inappropriate or unnecessary access privileges identified should be timely removed.

Finding 7: Information Technology – Security Controls – Monitoring of System Activity

Security controls are intended to protect the confidentiality, integrity, and availability of District data and IT resources. Our audit procedures disclosed that certain District security controls related to the monitoring of system activity need improvement. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising District data and IT resources. However, we have notified appropriate District management of the specific issues.

Without adequate security controls related to monitoring of system activity, the risk is increased that the confidentiality, integrity, and availability of District data and IT resources may be compromised.

Recommendation: We recommend that District management improve security controls related to the monitoring of system activity to ensure the continued confidentiality, integrity, and availability of District data and IT resources.

PRIOR AUDIT FOLLOW-UP

Except as noted in Findings 1, 2, 3, 4, and 6 and shown in Table 2, the District had taken corrective actions for applicable findings included in our report Nos. 2011-051 and 2014-071.

Table 2
Findings Also Noted in Previous Audit Reports

Finding	Operational Audit Report No. 2014-071 Finding	Operational Audit Report No. 2011-051 Finding
1	5	Not Applicable
2	7	Not Applicable
3	13	Not Applicable
4	14	4
6	22	5

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

The objectives of this operational audit were to:

- Evaluate management's performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse, and in administering assigned responsibilities in accordance with applicable laws, rules, regulations, contracts, grant agreements, and other guidelines.
- Examine internal controls designed and placed in operation to promote and encourage the achievement of management's control objectives in the categories of compliance, economic and efficient operations, reliability of records and reports, and safeguarding of assets, and identify weaknesses in those controls.
- Determine whether management had taken corrective actions for findings included in previous audit reports.
- Identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

This audit was designed to identify, for those programs, activities, or functions included within the scope of the audit, weaknesses in management's internal controls, instances of noncompliance with applicable laws, rules, regulations, contracts, grant agreements, and other guidelines; and instances of inefficient or ineffective operational policies, procedures, or practices. The focus of this audit was to identify

problems so that they may be corrected in such a way as to improve government accountability and efficiency and the stewardship of management. Professional judgment has been used in determining significance and audit risk and in selecting the particular transactions, legal compliance matters, records, and controls considered.

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

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

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

In conducting our audit we:

- Reviewed District procedures for maintaining and reviewing access to information technology (IT) resources. We tested selected access privileges to the District's business application, including the finance and human resources (HR) modules, to determine the appropriateness and necessity based on employee 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 administrator accounts for the network, operating systems, and applications to determine whether these accounts had been appropriately assigned and managed. Specifically we:
 - Tested the 22 panels that allowed update access privileges to selected critical finance module application functions resulting in the review of the appropriateness of access privileges granted to 12 employees.
 - Tested the 13 panels that allowed update access privileges to selected critical HR module application functions resulting in the review of the appropriateness of access privileges granted to 20 employees.
 - Tested the 4 default network administrator system groups that allow complete access to network resources resulting in the review of the appropriateness of administrator access privileges granted to 21 accounts.

- Tested the default server administrator group¹⁰ that allows complete access to the server and all administrative accounts for the operating system supporting the business application's Web portal resulting in the review of the appropriateness of 27 administrative accounts and 1 administrative group.
- Tested the 7 panels related to creating and updating user and application profiles within the finance module resulting in the review of the appropriateness of security administrator access privileges for the finance module application granted to 15 accounts.
- Tested the 4 panels related to adding employees, maintaining security and user identification codes, and fingerprinting within the HR module resulting in the review of the appropriateness of administrator access privileges for the HR module application granted to 18 accounts.
- Tested the 8 operating system special authority access privileges and 3 of the 5 special user classes that may grant operating system special authority access privileges resulting in the review of the appropriateness for 27 accounts.
- Reviewed District documentation to determine whether authentication controls were configured and enforced in accordance with IT best practices.
- Reviewed District procedures and reports related to the capture and review of system activity that were designed to ensure the appropriateness of access to and modification of sensitive or critical resources.
- Reviewed District procedures to prohibit former employees' access to electronic data files. We selected and examined access privileges for 30 of the 1,363 former employees who separated from District employment during the audit period to determine whether their access privileges had been timely deactivated.
- Reviewed the District's 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.
- Determined whether a comprehensive IT disaster recovery plan was in place, designed properly, operating effectively, and had been recently tested.
- Evaluated the District data center's physical access controls to determine whether vulnerabilities existed.
- Evaluated Board, committee, and advisory board 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 effective anti-fraud policy and procedures 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 payments totaling \$284,139 made during the audit period from the District to its direct-support organization, examined District records supporting two selected transactions totaling \$270,000 to determine the legal authority of such transactions.
- Analyzed the District's General Fund total unassigned and assigned fund balances at June 30, 2016, to determine whether the balances were less than 3 percent of the fund's projected revenues, as specified in Section 1011.051, Florida Statutes. We also performed

¹⁰ Groups are used to combine user accounts, automated system services accounts, and, in some cases, other groups into one unit in order to share assigned permissions.

analytical procedures to determine the ability of the District to make its future debt service payments.

- For the two charter schools that were not renewed or were terminated in the 2 preceding fiscal years, 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 or center, 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. For the one school required to be subjected to an expedited review during the audit period, we examined records to determine whether the District timely notified the applicable governing board pursuant to Section 1002.345(1)(b), Florida Statutes, and whether the District, along with the governing board, timely developed and filed a corrective action plan with the Florida Department of Education (FDOE) pursuant to Section 1002.345(1)(c), Florida Statutes.
- Examined the District Web site to determine whether it included the 2015-16 fiscal year proposed, tentative, and official budgets pursuant to Section 1011.035(2), Florida Statutes.
- Examined District records to determine whether the District established an audit committee and followed prescribed procedures to contract for audit services pursuant to Section 218.391, Florida Statutes.
- Examined supporting documentation to determine whether required internal funds audits for the 2015-16 fiscal year and the 2 preceding fiscal years were timely performed pursuant to State Board of Education Rule 6A-1.087, Florida Administrative Code, and whether the audit reports were presented to the Board.
- Reviewed the audit reports for all 17 District-sponsored charter schools to determine whether the required audits were performed for the audit period. We also determined whether the 2015-16 fiscal year audits of the District's direct-support organization and charter schools were performed, as applicable, pursuant to Chapters 10.700 and 10.850, Rules of the Auditor General, and Section 1001.453, Florida Statutes.
- Reviewed District policies and procedures to determine whether controls were in place and operating effectively over electronic funds transfers.
- Evaluated District policies and procedures and related controls for safeguarding and valuing the Transportation Department (TD) parts and Food Service Department (FSD) inventories. Specifically, from the population of recorded TD parts inventory totaling \$423,260 and FSD inventory totaling \$166,361 at June 30, 2016, we examined District records supporting 21 selected TD inventory items totaling \$19,362 and 51 selected FSD inventory items totaling \$8,836 at three schools.
- From the population of \$20.4 million total expenditures and \$26.6 million total transfers made during the audit period from nonvoted capital outlay tax levy proceeds, Public Education Capital Outlay funds, and other restricted capital project funds, examined documentation supporting selected expenditures and transfers totaling \$1.4 million and \$6.1 million, respectively, to determine District compliance with the restrictions imposed on the use of these resources.
- From 68 District construction projects in progress with expenditures totaling \$15.4 million during the audit period, we:
 - Examined District records supporting 5 construction-related payments totaling \$6.3 million to determine, District compliance with policies and procedures, State laws and rules, and contract provisions and 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 2 construction management entity contracts totaling \$3.4 million and related District records to determine whether the District competitively selected the construction managers, architects, and engineers relating to the two contracts, and whether the District monitored the construction managers' competitive selection of subcontractors associated with the two contracts.
- Examined documentation for 2 construction projects totaling \$6.6 million to determine whether architects and engineers engaged during the audit period were properly selected and, where applicable, had evidence of required insurance.
- Examined District records supporting software maintenance service charges totaling \$439,193 to determine whether such payments were properly made pursuant to contract terms.
- Performed analytical procedures to analyze workforce development funds expenditures totaling \$7.5 million 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 115 industry certifications reported for performance funding that were attained by students during the 2014-15 and 2015-16 fiscal years, examined 25 selected certifications to determine whether the District maintained documentation for student attainment of the industry certifications.
- From the population of 453,826 instructional contact hours reported for 198 adult general education classes provided to 3,179 students during the Fall 2015 and Spring 2016 semesters, examined District records supporting 957 reported contact hours for 30 selected students to determine whether the District reported the instructional contact hours in accordance with FDOE requirements.
- Examined District records supporting 30 selected employees from the population of 8,723 employees during the audit period to assess whether personnel who had direct contact with students were subjected to the required fingerprinting and background checks.
- Examined District procedures and records to assess whether contractors and contractor workers who had direct contact with students were subjected to the required fingerprinting and background checks.
- Evaluated severance pay provisions in the former and the current Superintendent contracts to determine whether the severance pay provisions complied with Section 215.425(4), Florida Statutes.
- From the population of 8,723 employees compensated a total of \$282.7 million during the audit period, examined District records supporting compensation payments totaling \$50,906 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 policies, procedures, and related records for school volunteers to determine whether the District searched prospective volunteers' names against the Dru Sjodin National Sexual Offender Public Web site maintained by the United States Department of Justice, as required by Section 943.04351, Florida Statutes.
- From the population of 3,955 instructional personnel and school administrators during the audit period, examined District records for 41 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, and 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 supporting the eligibility of 24 selected recipients of Florida Best and Brightest Teacher Scholarship Program awards totaling \$198,150 from the population of 86 District teachers who received scholarships totaling \$710,039 during the audit period.
- From the population of contractual services expenditures totaling \$55.8 million for the audit period, examined supporting documentation, including contract documents, for 30 selected contractual services payments totaling \$670,381 related to 30 contracts 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.
 - District payments complied with contract provisions.
- From the population of 151,974 non-payroll expenditures totaling \$205.2 million during the audit period, examined documentation related to 30 selected expenditures totaling \$181,719 to determine whether the non-payroll expenditures were reasonable, correctly recorded, adequately documented, for valid District purposes, properly authorized and approved, and in compliance with applicable State laws, rules, contract terms, and Board policies.
- From the population of 119 payments totaling \$23,856 paid to employees for other than travel and payroll payments during the audit period, examined documentation for 7 selected payments totaling \$5,144 to determine whether such payments were reasonable, adequately supported, and for valid District purposes. Also, we examined supporting documentation to determine 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.
- Reviewed District procedures for acquiring health insurance to determine compliance with Section 112.08, Florida Statutes. We also evaluated the procedures for acquiring other types of commercial insurance to determine whether the basis for selecting insurance carriers was documented in District records and conformed to good business practice.
- Reviewed District policies and procedures related to identifying potential conflicts of interest. We examined required statements of financial interest for proper filing pursuant to Section 112.3145, Florida Statutes, for the Chief Financial Officer, Director of Purchasing, and certain other purchasing agents.
- From the population of 252 purchasing card (P-card) transactions totaling \$1.6 million during the audit period, examined documentation supporting 30 selected transactions totaling \$12,245 to determine whether P-cards were administered in accordance with District policies and procedures. We also determined whether the District timely canceled the P-cards for the 19 former employees who had been assigned P-cards and separated from District employment during the audit period.
- Determined whether rebate revenues for the audit period totaling \$31,281 for the P-card program were allocated to the appropriate District funds.
- Examined District records and evaluated construction planning processes to determine whether processes were comprehensive, including consideration of restricted resources and other alternatives for deciding the most economical and effective construction approach, and met District short-term and long-term needs.
- Evaluated District procedures for determining maintenance department staffing needs. We also determined whether such procedures included consideration of appropriate factors and performance measures that were accurately supported.

- Determined whether the District had 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 provider's quality of virtual instruction and data quality.
 - Evaluated the contract and other related records to determine whether the District documented the reasonableness of student-teacher ratios established in the contract.
 - Examined contract fee provisions and reasonableness of such fees.
- Evaluated whether the District controls ensured that, pursuant to Section 1002.45, Florida Statutes, the difference in funds provided for a student participating in the District VIP and the price paid for contracted services procured for the audit period was used for implementation of the District digital classrooms plan pursuant to Section 1011.62, Florida Statutes.
- Evaluated District records for the audit period to determine whether the District provided the required VIP options and properly informed parents and students about students' rights to participate in a VIP and the VIP enrollment periods as required by Section 1002.45(1)(b) and (10), Florida Statutes.
- Examined student records and District procedures for the audit period to determine whether the District ensured that VIP students were provided with all necessary instructional materials, and for those eligible students who did not already have such resources in their home, computing resources necessary for program participation as required by Section 1002.45(3)(c) and (d), Florida Statutes.
- 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.
- From the population of 55 VIP teachers and staff for the audit period, compared the certification coverages listed on the 15 selected teachers' certificates to the required coverages for courses taught as listed on the FDOE's Course Code Directory to determine whether the VIP teachers were properly certified.
- 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

THE SCHOOL DISTRICT OF OSCEOLA COUNTY, FLORIDA

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Phone: 407-870-4600 • Fax: 407-870-4010 • www.osceola.k12.fl.us

SCHOOL BOARD MEMBERS

District 1 – Jay Wheeler
407-973-4141
District 2 – Kelvin Soto – Chair
407-361-2462
District 3 – Tim Weisheyer
407-361-0235
District 4 – Clarence Thacker
407-361-7906
District 5 – Ricky Booth – Vice Chair
407-818-9464



Superintendent of Schools
Dr. Debra P. Pace

December 8, 2016

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

Dear Ms. Norman:

We appreciate the thorough review of the District's operations performed by the Auditor General's staff and the guidance they provided to us throughout the audit process. Following are management's responses to the findings and recommendations relative to our operational audit for the fiscal year ended June 30, 2016.

Finding No. 1: Selection of Construction Management Entity

The District did not competitively select, in accordance with State law, certain construction management entity (CME) services at the District's Health and Wellness Center.

Recommendation: The District should ensure that CMEs are competitively selected using the process prescribed by State law.

Response: District staff is aware of the State law related to continuing contracts with CMEs for construction projects in which the estimated construction cost does not exceed \$2 million. As noted in our response to Audit Report No. 2014-071, the District does not use the continuing service contracts for construction management when a project is determined to have an estimated cost of more than \$1.5 million. Rather, a request for qualifications solicitation must be developed and advertised through the Purchasing Department.

The Health and Wellness Center was a unique project in that the initial cost estimate started out below the \$2 million threshold, but the project scope grew rapidly during a very tight timeframe, causing the overall project cost to exceed \$2 million. In order to move forward with the building, pre-construction and initial interior buildout services in the necessary timeframe, the District proceeded with contracting for this work under the originally planned continuing services contract.

Finding No. 2: Subcontractor Selection

District procedures did not require District personnel to attend subcontractor bid openings or to document comparisons of subcontractor bid awards to the CME subcontractor contracts to verify that subcontractors were competitively selected and that the successful bid and contract amounts agree.

Recommendation: The District should establish procedures to verify that CMEs select subcontractors using a competitive process. Such procedures should require District personnel to attend subcontractor bid openings and to document comparisons of the subcontractor bid awards to the subcontractor contracts to verify that the bid awards and contract amounts agree.

Response: The District will establish procedures that include requiring a District representative to attend subcontract bid openings to verify that subcontractors are competitively selected and that bid awards and contract amounts agree.

Finding No. 3: Workforce Education Programs

The District needs to adopt a spending plan for workforce education program funds and document the basis upon which program indirect costs are calculated.

Recommendation: The District should continue efforts to develop a spending plan, and the Board should adopt a spending plan, for workforce education program funds to serve as a guide to ensure that that funds benefit the students and program as intended by the Legislature. In addition, the District should enhance controls to ensure that workforce education program indirect costs are reasonably calculated and documented. Further, the District should provide documentation to the Florida Department of Education regarding the allowability of the \$923,958 in indirect costs or restore this amount to the workforce education program.

Response: The allocation of carry forward balances is approved as part of the Board-adopted budget at the beginning of each fiscal year. There is no statutory requirement to expend 100 percent of Workforce Development funding in the year it is appropriated, or to adopt a formal plan for the use of unspent funds. However, District staff from the Budget and Career and Technical Education (CTE) departments will work with site Principals to develop a plan that ensures the timely expenditure of carry forward balances to directly benefit workforce education students and programs.

The District will annually recalculate the district-level indirect costs that are allocable to the workforce education programs.

Finding No. 4: Adult General Education Classes

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

Recommendation: The District should strengthen controls to ensure that instructional contact hours for adult general education classes are accurately reported to the FDOE. District action to strengthen controls should include appropriate software modifications to accurately record and report contact hours based on actual student attendance. The District should also determine to what extent the adult general education hours were misreported and contact the FDOE for proper resolution.

Response: We have adjusted the withdrawal procedures and removed students from the Technical Education Center Osceola that were assigned to Adult Basic Education courses as remediation classes for the Test of Adult Basic Education. The withdrawal of no-shows has been modified to delete the schedule record and therefore any instructional hours accrued.

We have instituted a formal verification process to account for actual student attendance and/or related student course work. The Adult Learning Center of Osceola's data entry works with program personnel to verify attendance and calculates actual hours and makes corrections in the District's student information system as appropriate.

Finding No. 5: Charter School Termination

District records did not demonstrate that all charter school property purchased with public funds properly reverted to the District upon the closure of a charter school.

Recommendation: The District should ensure that charter school closures are appropriately monitored and that District records document the monitoring efforts. At a minimum, such records should evidence: the identity of who collects the property items from the charter school; a unique identifier for each property item and each item's estimated value; and the performance of a reconciliation of the charter school property items physically inventoried at closure to District and charter school property records and the charter school's property values shown in the final audited financial statements.

Response: The District will formalize its procedures to ensure all charter school property purchased with public funds is transferred to the District upon closure.

Finding No. 6: Information Technology – Access Privileges

Some inappropriate or unnecessary IT access privileges were granted to District employees and the District did not review the business application access privileges granted to timely detect inappropriate or unnecessary access privileges.

Recommendation: We recommend that District management continue efforts to periodically review access privileges granted within the business application to ensure that the IT access privileges are necessary and enforce an appropriate separation of duties. Any inappropriate or unnecessary access privileges identified should be timely removed.

Response: Due to a system deficiency in the District's accounting system, elevated authority must be manually granted to users of the TERMS PO Print process. The Information Services Department is actively working to programmatically modify the Print PO process to allow user profiles to be defined in TERMS with less authority. In addition, a quarterly review process will be developed to monitor and review the profile creation process.

Finding No. 7: Information Technology – Security Controls – Monitoring of System Activity

District security controls related to monitoring of system activity need improvement to ensure the continued confidentiality, integrity, and availability of District data and IT resources.

Recommendation: We recommend that District management improve security controls related to the monitoring of system activity to ensure the continued confidentiality, integrity, and availability of District data and IT resources.

December 8, 2016

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Response: We have subsequently contracted with a third party vendor to monitor and review system activity.

We would like to thank your audit staff for their assistance and technical advice during the audit and for bringing to light areas upon which the District can improve.

Sincerely,

A handwritten signature in cursive script that reads "Debra P. Pace".

Dr. Debra P. Pace
Superintendent

