



AUDITOR GENERAL

WILLIAM O. MONROE, CPA



SARASOTA COUNTY DISTRICT SCHOOL BOARD OPERATIONAL AUDIT

For the Period July 1, 2005, through June 30, 2006

SUMMARY

This operational audit for the period July 1, 2005, through June 30, 2006, disclosed the following:

Finding No. 1: Self-Insurance - Claims Monitoring

The District did not require the service agent for its workers' compensation self-insurance program to provide, through its independent auditors, a service organization report covering internal controls over the processing of claims payments.

Finding No. 2: Monitoring of Charter Schools

The District did not always ensure that charter schools were in compliance with the contract provisions regarding insurance coverage.

Finding No. 3: Assigning of Cellular Telephones

The District's procedures over cellular telephones needed improvement. The District's procedures did not provide for the specific criteria to be used by cost center heads to justify business need.

Finding No. 4: Architect and Engineer Professional Liability Insurance

The District's procedures did not ensure that its architects and engineers were adequately insured.

Finding No. 5: Fingerprinting Requirements

Improvements were needed in procedures for timely obtaining fingerprints and background checks for contractual personnel who are permitted access to school grounds when students are present or who have direct student contact and for instructional personnel upon recertification.

Finding No. 6: Security Awareness Training

Improvements were needed in the District's security awareness training.

Finding No. 7: Information Technology – Access Controls

Improvements were needed in access controls over the District's information technology resources.

BACKGROUND

The District is part of the State system of public education under the general direction of the Florida Department of Education. Geographic boundaries of the District correspond with those of Sarasota County. The governing body of the District is the Sarasota County District School Board composed of five elected members. The appointed Superintendent of Schools is the executive officer of the School Board. The Board members and the Superintendent who served during the audit period are listed in Appendix A of this report.

During the audit period, the District operated 34 elementary, middle, and high schools; 5 special schools; 6 second chance schools; and an adult vocational technical school; and sponsored 9 charter schools. The District reported 41,898 unweighted full-time equivalent students. In addition to its primary responsibility of providing educational services to students in grades kindergarten through 12, the District provided post-secondary vocational training.

The results of our audit of the District's financial statements and Federal awards will be presented in a separate report.

FINDINGS AND RECOMMENDATIONS

Finding No. 1: Self-Insurance – Claims Monitoring

Pursuant to Section 1011.18(6), Florida Statutes, the District contracted with a service agent to administer its workers' compensation coverage. The service agent was responsible for evaluating and paying claims, filing excess insurance claims with reinsurers, and collecting and remitting excess insurance reimbursements to the District. During the 2005-06 fiscal year, the District remitted \$1,256,484 to the service agent for claims payments.

Our review disclosed that the District had performed a review of claims documentation for workers' compensation coverage for the 2004-05 fiscal year, and plans to perform a review of claims documentation for the 2005-06 fiscal year. However, the District had not obtained a service organization report as described in Statement of Auditing Standards No. 70 (SAS 70). A SAS 70 (service organization) report is a report on the suitability of policies and procedures placed in operation to achieve specified control objectives and tests of operating effectiveness for a service organization. A similar finding was noted in our report No. 2004-201.

Recommendation: The District should require that the service agent provide, through its independent auditors, a service organization report covering internal controls over the processing of claims payments.

Finding No. 2: Monitoring of Charter Schools

During the 2005-2006 fiscal year, the District sponsored nine charter schools (Suncoast School for Innovative Studies, Richard Milburn Academy of Florida, Sarasota Suncoast Academy, Sarasota School of Arts and Sciences, Sarasota Military Academy, Island Village Montessorri School, Island Village Middle School, Island Village Montessorri North, and

Student Leadership Academy of Venice). Pursuant to Section 1002.33(5), Florida Statutes, the District is required to monitor and review the charter school in its progress towards the goals established in its charter and to monitor its revenues and expenditures. As discussed below, District procedures for monitoring and reviewing certain activities of the charter schools needed improvement.

The charter school contracts require the schools to provide proof of insurance for errors and omissions coverage, general liability coverage, and business automobile coverage, and to secure or provide other required insurance, including property coverage and workers' compensation. Also, the contracts require the school to furnish the District fully completed certificates of all required insurance policies one month after the contract is signed or one month prior to school opening, whichever is earlier, and evidence of renewal or replacement no less than 60 days before expiration or termination of the required insurance.

Our initial review of District records indicated that the District had not obtained evidence of all the required insurance coverage for seven of the nine charter schools (Suncoast School for Innovative Studies, Sarasota Suncoast Academy, Sarasota School of Arts and Sciences, Sarasota Military Academy, Island Village Montessorri School, Island Village Middle School, and Island Village Montessorri North). Subsequent to our audit inquiry, the District obtained insurance certificates from these seven charter schools.

Our review of the insurance certificates for these charter schools disclosed the following:

- Documentation of errors and omissions coverage was not provided for six of the charter schools. One charter school (Sarasota School of Arts and Sciences) had provided evidence of errors and omissions coverage, but only for the second half of the school year.
- Documentation of workers' compensation insurance coverage was not provided for one charter school (Suncoast School for Innovative Studies). One charter school (Sarasota School of Arts and Sciences) had provided evidence of workers' compensation

coverage, but only for the second half of the school year.

Although the District did have on file certificates of all the required insurance policies for two charter schools (Richard Milburn Academy of Florida and Student Leadership Academy of Venice) at the time of our request, District records did not evidence the date the certificates of insurance had been furnished to the District for the Richard Milburn Academy of Florida.

Without adequate procedures to monitor the charter schools' insurance coverage, there is an increased risk that such coverage may not exist, subjecting the District to potential losses.

A similar finding was noted in our report No. 2004-201.

Recommendation: The District should ensure that its charter schools are in compliance with the contract provisions regarding insurance coverage.

Finding No. 3: Assigning of Cellular Telephones

District records indicated that 368 cellular telephones (including Blackberry devices) were provided to District employees as of June 18, 2006. Expenditures for cellular telephone usage and equipment charges totaled \$191,142 for the 2005-06 fiscal year.

The District's Department of Telecommunications and Network Systems oversees contracts with vendors for wireless telephone services and has established procedures for wireless telephone usage. District procedures provide that the use of cellular telephones and associated technological services is encouraged when it enables District employees to enhance customer services and further efficient and effective operations. Employees must specify one of two options when requesting a cellular telephone. Option A prohibits personal use and is for those employees authorized to receive a cellular telephone dedicated entirely to accomplishing District-related job requirements without incidental personal usage. Any personal use, other than infrequent use for personal reasons, shall be considered noncompliant with School Board Policy. Option B is for employees authorized

to receive a cellular telephone dedicated primarily for accomplishing District-related job requirements and includes incidental personal usage. Approximately 144 employees who were provided cellular telephones had signed up for option B as of June 2006.

Upon inquiry, we were informed by District personnel that cost center heads were responsible for justifying the business need and only upon their approval is a cellular telephone account established for the employee. We noted, however, that District procedures do not provide for the specific criteria to be used by cost center heads to justify business need. Specific criteria would include, but not be limited to, the need for employees who cannot easily be contacted by a desk telephone to be reached on a regular and frequent basis, or the need for employees to have access to immediate means of communication in order to perform job-related duties. In the absence of specific criteria, the District cannot demonstrate that cellular telephones are only provided to employees who have definite business needs.

Recommendation: The District should revise its procedures to provide for the specific criteria to be used for determining who should receive District-provided cellular telephones.

Finding No. 4: Architect and Engineer Professional Liability Insurance

District procedures did not ensure that its architects and engineers were adequately insured. The District contracts for architectural and engineering services for design and construction administration services for its significant construction projects. Section 4.1(2)(f) of the Florida Department of Education's publication, *State Requirements for Educational Facilities – 1999*, recommends that district school boards either develop board policy to provide insurance for errors and omissions or liability, or require the design professional to carry insurance by including this requirement in the advertisement for request for services. The District, in its standard agreement with the architect and engineers, requires a minimum coverage amount of \$1 million for professional liability

insurance. Our review of 14 architect and engineer contracts in process by the District during the fiscal year July 1, 2005, through June 30, 2006, for contracts ranging from \$1.6 million to \$73 million, disclosed that the District received evidence of required professional liability insurance ranging from \$1 million to \$5 million, with most architects and engineers providing the District-required minimum of \$1 million.

In these circumstances, the insurance coverage in effect for the larger construction projects may not provide the District with adequate protection if, for example, a design or construction flaw were to appear subsequent to contract completion and the responsible architect or engineer carries an insufficient amount of insurance.

Recommendation: The District should review its procedures for requiring the minimum amount of \$1 million of coverage for professional liability insurance on all contracts. Consideration should be given not only to the experience and capabilities of the architect and engineer, but also to the anticipated project cost.

Finding No. 5: Fingerprinting Requirements

The District should improve its procedures for timely obtaining fingerprints and background checks for contractual personnel who are permitted access to school grounds when students are present, or who have direct student contact, or access to, or direct control of school funds. In addition, the District should improve its procedures to timely obtain a complete set of fingerprints and the required background screenings for existing instructional employees who are renewing their teaching certificates. Sections 1012.465 and 1012.56(9), Florida Statutes, require that noninstructional school district employees or contractual personnel, and instructional personnel renewing their teaching certificates, respectively, to undergo a background screening, including a requirement that such staff file a complete set of fingerprints. Contractual personnel include any vendor, individual, or entity under contract with the school board. Further, Section 1012.56(9), Florida

Statutes, provides, in part, that “Every 5 years after obtaining initial certification, each person who is required to be certified under this chapter must meet level 2 screening requirements. . .” In a memorandum dated June 25, 2004, the Florida Department of Education recommended that, due to the large number of affected employees, districts conduct the background screenings for certified instructional employees every five years at the time of renewal of their teaching certificates and that background screenings be obtained for approximately 20 percent of the noninstructional personnel each year over a five-year period in order to have all background screenings for such staff completed by July 1, 2009.

The District had not established an adequate process during the 2005-06 fiscal year for performing the required background screenings for contractual personnel who are permitted access to school grounds when students are present, or who have direct student contact, or access to, or direct control of student funds. District records did not evidence that all contractual personnel meeting the above criteria had been identified by District personnel and the required background screenings performed during the 2005-06 fiscal year. In addition, the District had not established an adequate process during the 2005-06 fiscal year for performing the required background screenings for instructional personnel. The District’s process was to conduct background screenings on instructional personnel hired before July 1, 2004, on a five-year cycle. However, the District’s process results in some instructional personnel not being subject to the background screenings for periods in excess of five years. District records indicate that no background screenings were conducted for 17 out of 32 recertifying instructors selected for testing during the 2005-06 fiscal year. The District’s process for performing background screening on instructional personnel does not comply with the requirement that background screenings be performed every five years after initial certification.

Absent timely background screening checks on contractual personnel, there is the increased risk that

new or existing contractual personnel may have backgrounds that are not suited for direct contact with students. Also, without conducting the required background screening checks on instructional employees at the time of renewal of their teaching certificates, there is the increased risk that instructional staff may have backgrounds that are not suitable for direct contact with students.

Recommendation: The District should enhance its personnel procedures to ensure that required fingerprinting and background checks are performed for new and existing contractual personnel, and recertifying instructional staff, on a timely basis.

Finding No. 6: Security Awareness Training

The District has not developed a written security awareness training program or performed ongoing information technology security awareness training for all who use the District's computer system. Information technology user awareness is an essential component of an effective security program. The purpose of a security awareness program is to inform personnel of the importance of the information they handle, and the legal and business reasons for maintaining its integrity, confidentiality, and availability. Formal employee orientation provides a good opportunity to set forth concepts of information technology security and data handling; however, security awareness programs should be ongoing to remind employees of their part in the total security program.

The District provided security awareness training and awareness information during new user training or during training for new computer applications. Also, Information Services (IS) personnel discussed security awareness issues with school representatives at monthly and bi-monthly school meetings. However, IS personnel had not developed a written security awareness training program or performed ongoing security awareness training to remind all who use the District's computer system of their security responsibilities. Similar findings were noted in our audit report Nos. 01-128 and 2004-201.

Recommendation: The District should develop a written security awareness training program and perform ongoing information technology security awareness training to periodically remind all who use the District's computer system of the security risks and to reinforce adherence to the District's policies and procedures.

Finding No. 7: Information Technology – Access Controls

Access controls provide safeguards to assist in the prevention or detection of deliberate or accidental errors. Errors may be caused by improper use or manipulation of data files, unauthorized or incorrect use of computer programs, or improper use of computer resources. Effective access controls should limit access to systems data files, computer programs, and computer hardware to authorized persons who require such access in the performance of their duties.

Computer access privileges to the Total Education Resource Management System (TERMS) should be limited to active employees who need them to perform their assigned job duties. Computer access privileges for terminated employees should be deleted from TERMS as soon as possible after termination to reduce the possibility of unauthorized changes to or inappropriate access to data files.

We tested the computer access privileges of 15 individuals who terminated employment during the 2005-06 fiscal year. We noted the following:

- Computer access privileges were deleted from TERMS for 11 terminated employees from 12 to 321 days after termination dates.
- Upon request, Information Services department management personnel provided our office with a listing of active computer users with access privileges dated July 19, 2006. This listing disclosed 2 of the 15 terminated employees still had computer access privileges at that date.

Our test of access controls for 15 active employees disclosed that 5 of these employees were assigned access capabilities that were not needed to fulfill their job responsibilities. For example, we noted that two

secretaries had access to general employee information including update capability. The access capabilities not needed by these 5 employees were discussed with management.

Unless access to data files is limited to those persons who require such access in the performance of their duties, there is an increased risk that unauthorized changes to data files could be made and not detected in a timely manner.

Recommendation: The Information Services department management personnel should ensure that computer access privileges for terminated employees are deleted from TERMS as soon as possible to reduce the possibility of unauthorized changes to or inappropriate access to data files. The District should limit access to data files only to those individuals requiring such access in the performance of their duties.

PRIOR AUDIT FINDINGS

Our previous audits have addressed the administration of selected management controls. As part of our current audit, we determined that the District had substantially corrected the deficiencies noted in report No. 2004-201, except as noted in finding Nos. 1, 2, and 6 of this report.

OBJECTIVES, SCOPE, AND METHODOLOGY

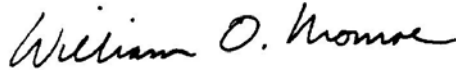
The objectives of this operational audit were to determine whether District management controls promoted and encouraged: 1) compliance with applicable laws, administrative rules, and other guidelines; 2) the economic, effective, and efficient operation of the District; 3) the reliability of records and reports; and 4) the safeguarding of District assets.

Specifically, our review included management controls related to information technology operations and systems; monitoring of charter schools; financial condition; evidence of required insurance for architects; use of 2-mill capital outlay tax moneys; restricted use of workforce development funds; fingerprinting and background screenings; adequacy of self-insurance programs; adequacy of insurance coverage; commission arrangements for insurance brokers/consultants; overtime controls; self-insurance claims monitoring; review of methods for acquiring insurance; assignment of cellular telephones; and follow-up on prior audit findings.

This operational audit was conducted in accordance with applicable Generally Accepted Government Auditing Standards.

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.



William O. Monroe, CPA
Auditor General

MANAGEMENT RESPONSE

In accordance with the provisions of Section 11.45(4)(d), Florida Statutes, a list of audit findings and recommendations was submitted to members of the Sarasota County District School Board and the Superintendent. The Superintendent's written response to the audit findings and recommendations is included in Appendix B of this report.

This audit was conducted by Derick B. Boston, CPA, and supervised by Robert D. Jones, CPA. Please address inquiries regarding this report to David W. Martin, CPA, Audit Manager, via e-mail at davidmartin@aud.state.fl.us or by telephone at (850) 487-9039.

This report and other audit reports prepared by the Auditor General can be obtained on our Web site at www.state.fl.us/audgen; by telephone (850) 487-9024; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

APPENDIX A
SARASOTA COUNTY DISTRICT SCHOOL BOARD

The Board members and the Superintendent of Schools who served during the audit period are listed below:

	<i><u>District No.</u></i>
<i>Dr. Carol Todd, Vice-Chairman to 11-21-05, Chairman from 11-22-05</i>	<i>1</i>
<i>John P. Lewis</i>	<i>2</i>
<i>Frank H. Kovach, Vice-Chairman from 11-22-05</i>	<i>3</i>
<i>Laura Benson</i>	<i>4</i>
<i>Dr. Kathy Kleinlein, Chairman to 11-21-05</i>	<i>5</i>
 <i>Dr. Gary Norris, Superintendent</i>	

THIS PAGE INTENTIONALLY LEFT BLANK.

APPENDIX B
MANAGEMENT RESPONSE



THE SCHOOL BOARD OF SARASOTA COUNTY, FLORIDA

OFFICE OF THE SUPERINTENDENT

1960 LANDINGS BOULEVARD

SARASOTA, FLORIDA 34231-3331

TELEPHONE (941) 927-9000 • FAX (941) 927-2539

September 26, 2006

William O. Monroe, CPA
Auditor General
State of Florida
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, FL 32399-1450

Dear Mr. Monroe:

This letter is in response to your letter of August 28, 2006 that contained the preliminary and tentative audit findings and recommendations regarding the "Operational Audit for the Period July 1, 2005 through June 30, 2006."

Finding No 1: The current contract with the service agent for the worker's compensation self-insurance program expires on June 30, 2008 and the renewal will require that an SAS 70 Audit be a requirement for each fiscal year of the contract. Additional funds will be added to the contract for this additional expense.

Finding No. 2: The creation of Charter Schools has resulted in an increase workload for the district personnel that can only be met by the creation of a new Administrative position for the school district. The position is to be entitled "Supervisor of Charter Schools." Currently, the School Board of Sarasota County has nine Charter Schools. For the entire School Board of Sarasota County and its forty schools, there exists one set of insurance policies for each category of insurance. Charter Schools, on the other hand, require one set of insurance for each school, which is a ten fold increase in insurance documents alone. It will be the responsibility of the Supervisor of Charter Schools to obtain and store a copy of the insurance policies for all Charter Schools. This position will be added in the 2006-07 fiscal year.

Finding No. 3: The Department of Telecommunications had changed its procedures for new cellular accounts effective October 1, 2006 and for existing cellular accounts effective January 1, 2007. The new procedure requires that:

"District cellular / wireless telephone services shall only be provided to employees meeting established criteria justifying the business expense in support of the employee's job function and responsibilities."

The form that is to be required for each cellular / wireless device assigned to an employee will require justification to use the device in lieu of a two-way radio communication device and has to be approved by the Cost Center Head.

An Equal Opportunity / Affirmative Action Agency

APPENDIX B
MANAGEMENT RESPONSE (CONTINUED)

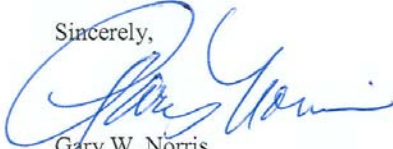
Finding No. 4: The Director of Construction Services is reviewing the adequacy of the "Architect and Engineer Professional Liability Insurance" for the district's major projects in order to ascertain a proper balance between the increased expense of higher liability insurance limits and the potential risk of having inadequate insurance coverage. Insurance costs have to be paid using taxpayer dollars.

Finding No. 5: Fingerprinting of employees and contractors was an unfunded mandate for school districts; therefore, the school district has been attempting compliance within available resources. However, in July, the School Police Department started implementing its own fingerprinting process using newly purchased equipment and additional staff members were added to the Department. The school district will begin fingerprinting its instructional employees upon renewal of their teaching certificate.

Finding No. 6: The Human Resources Department provides training for the classified staff of the school district and will collaborate with the Information Services Department to establish a security awareness training program on an ongoing basis for the existing staff members who have access to the TERMS software system.

Finding No. 7: The Information Services Department is reviewing to see if the employee termination that is effectuated on the TERMS Human Resources software system can place an automated alert on the TERMS user system for removing access to existing programs.

Sincerely,



Gary W. Norris
Superintendent of Schools

GWN:dj

THIS PAGE INTENTIONALLY LEFT BLANK.