

**LAKE COUNTY  
DISTRICT SCHOOL BOARD**

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Operational Audit

For the Fiscal Year Ended  
June 30, 2008



## BOARD MEMBERS AND SUPERINTENDENT

District School Board members and the Superintendent who served during the 2007-08 fiscal year are listed below:

|                                   | <i>District</i>   |
|-----------------------------------|-------------------|
|                                   | <u><i>No.</i></u> |
| <i>Larry E. Metz, Chair</i>       | <i>1</i>          |
| <i>Scott Strong</i>               | <i>2</i>          |
| <i>Cindy Barrow</i>               | <i>3</i>          |
| <i>Jimmy Conner</i>               | <i>4</i>          |
| <i>Kyleen Fischer, Vice-Chair</i> | <i>5</i>          |

*Anna P. Cowin, Superintendent*

The audit team leader was Patricia A. Tindel, CPA, and the audit was supervised by Brenda C. Racis, CPA. For the information technology portion of this audit, the audit team leader was Kathy Sellers, CISA, and the supervisor was Nancy Reeder, CPA, CISA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Manager, by e-mail at [gregcenters@aud.state.fl.us](mailto:gregcenters@aud.state.fl.us) or by telephone at (850) 487-9039.

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**LAKE COUNTY**  
District School Board

**SUMMARY**

Our operational audit for the fiscal year ended June 30, 2008, disclosed the following:

- Finding No. 1:** Improvements are needed in the District's preparation of bank reconciliations for its two main operating accounts.
- Finding No. 2:** Enhancements could be made in District procedures to ensure that the investment of certificate of participation proceeds are appropriately secured.
- Finding No. 3:** Controls over the expenditure of capital outlay millage levy and county impact fee proceeds could be improved.
- Finding No. 4:** Improvements could be made in payroll processing controls over time records.
- Finding No. 5:** The District could enhance procedures to ensure compliance with certain facility safety standards.
- Finding No. 6:** Controls over the issuance of student diplomas could be enhanced.
- Finding No. 7:** The District did not conduct a review and evaluation of the collection of social security numbers or provide a written statement to individuals stating the purpose for collection of the numbers, contrary to Section 119.071(5)(a), Florida Statutes (2007).
- Finding No. 8:** Enhancements could be made in procedures for timely obtaining fingerprints and background checks for contractual personnel that have direct contact with students.
- Finding No. 9:** Monitoring controls over cellular telephones use could be improved.
- Finding No. 10:** Improvements are needed in District procedures for monitoring insurance coverage of its charter schools.
- Finding No. 11:** The District's schedule of property casualty insurance coverage was not accurate.
- Finding No. 12:** The District had not developed policies for communicating and reporting known or suspected fraud.
- Finding No. 13:** The District did not document that it had established an information technology (IT) security awareness program, and should take immediate action to properly secure and restrict access to certain personal information.
- Finding No. 14:** Total Educational Resource Management System (TERMS) application security activity, including modifications to user access privileges, was not systematically logged by the District, limiting the District's ability to monitor the appropriateness of security administration actions.
- Finding No. 15:** The District lacked written policies and procedures for certain security monitoring functions.
- Finding No. 16:** The District's IT disaster recovery plan, approved in 2006, had not been tested.

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**BACKGROUND**

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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 Lake County. The governing body of the Lake County District School Board is composed of five elected members. During the audit period, the elected Superintendent of Schools was the executive officer of the School Board.

During the audit period, the District operated 37 elementary, middle, high, and specialized schools; sponsored ten charter schools; and reported 39,678 unweighted full-time equivalent students.

The results of our audit of the District's financial statements and Federal awards for the fiscal year ended June 30, 2008, will be presented in a separate report.

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**FINDINGS AND RECOMMENDATIONS**

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**Finding No. 1: Bank Reconciliations**

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Improvements were needed in the District's preparation of bank reconciliations for its two main operating accounts. Our review of 24 bank reconciliations prepared for these accounts during the 2007-08 fiscal year disclosed the following:

- Sixteen reconciliations were prepared from 68 to 273, or an average of 169, days after the end of the month.
- Twenty reconciliations were not signed or dated by the approver, and three were not signed or dated by the preparer.
- Certain journal entries for these cash accounts were not timely recorded in the general ledger, resulting in reconciling differences between the bank and general ledger cash balances. For example, eight months of interest earnings ranging from approximately \$62,000 to \$137,000 were posted from 68 to 213, or an average of 127, days after the end of the month. In addition, one bank statement included a deposit of impact fees and other moneys on November 5, 2007, of approximately \$6 million, but the deposit was listed as a reconciling item on the November and December 2007 bank reconciliations, and wasn't recorded in the general ledger until January 28, 2008.

District personnel indicated that an inadequate form was previously used to reconcile the cash accounts, and the form was appropriately updated in April 2008. Additionally, the bank reconciliations for the 2007-08 fiscal year were redone, at which time interest earned on these accounts was properly allocated based on the reconciled cash fund balances.

Effective internal control procedures require that bank account reconciliations be performed on a routine basis and reviewed by supervisory personnel. This provides reasonable assurance that cash assets agree with recorded amounts, facilitates the prompt detection and correction of unrecorded or improperly recorded cash transactions or bank errors, and provides for the efficient and economic management of cash resources.

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**Recommendation: The District should ensure that bank reconciliations are properly completed, reviewed and approved in a timely manner, and that journal entries for cash accounts are timely recorded in the accounting records.**

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**Finding No. 2: Investment Collateral**

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Section 218.415(16), Florida Statutes, limits authorized investments to intergovernmental investment pools; registered money market funds; interest-bearing time deposits or savings accounts in qualified public depositories; direct obligations of the United States Treasury; Federal agencies and instrumentalities; certain registered securities provided that the portfolio of such investment company or investment trust is limited to obligations of the United States Government or any agency or instrumentality thereof and to repurchase agreements fully collateralized by such United States Government obligations, and provided that such investment company or investment trust takes delivery of such collateral either directly or through an authorized custodian; and to other investments authorized by law or resolution.

The District's Investment Policy, approved on October 23, 2000, provides that all collateral securities must be held in an account separate and apart from the assets of the financial institution, and that the custodian must provide safekeeping receipts to the District. Further, the stated purpose of the District's policy is to ensure the prudent management of public funds.

District investments totaled approximately \$67 million as of June 30, 2008. Of this amount, investments, totaling approximately \$20 million, were from Certificates of Participation (COPs), Series 2006A and 2006B, proceeds invested pursuant to a master repurchase agreement with an investment provider. Under the COPs financing arrangement, the District established a non-profit corporation to issue the COPs and the rights of the non-profit corporation were assigned to a trustee. The COPs issued by the non-profit corporation are secured by lease payments from the District equal to the required principal and interest payments to be paid to the holders of the COPs. In accordance with the repurchase agreement, a third-party institution, acting as custodian, held a securities account in the name of the trustee for the District.

Although requested, documentation was not provided to evidence that the District received the monthly listing of financial assets for the collateral account from the collateral custodian or trustee, or otherwise regularly monitored the underlying collateral securities. District personnel did provide a confirmation of the daily transaction balances for the month of June 2008; however, this document did not provide any information regarding specific securities held in the account. Although District personnel indicated that the District's financial advisor monitored the collateral account, we were not provided evidence of such monitoring of the collateral securities and noted that the District's contract with the financial advisor did not include this function in the scope of services. When collateral securities are not properly monitored and identified as collateral of District investments, there is an increased risk that District investments are not adequately protected.

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**Recommendation: The District should develop procedures to ensure that investments of COPs proceeds are appropriately secured.**

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**Finding No. 3: Ad Valorem Taxation and Impact Fees**

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Section 1011.71, Florida Statutes, provides for allowable uses of ad valorem taxes (capital outlay millage levy) proceeds and the use of those moneys is dependent upon the statutory language in place during the year in which the moneys were collected and expended, i.e., moneys collected for the 2005-06 fiscal year should be expended based on the provisions of the 2005 Florida Statutes. For example, Section 1011.71(5)(a), Florida Statutes (2005 and 2006), provided that the allowable uses of the capital outlay millage levy proceeds were restricted to items such as construction, renovation, remodeling, maintenance, and repair of the educational plant, and construction materials

directly related to the delivery of student instruction. Section 1011.71(5)(d), Florida Statutes (2005 and 2006), further provided that certain restrictions did not apply if the District certified to the Commissioner of Education that the District's instructional space needs for the next five years could be met from capital outlay sources that the District reasonably expected to receive during the next five years. However, the District had not submitted such certifications for the 2005-06 or 2006-07 fiscal years.

During the 2007-08 fiscal year, the District expended approximately \$964,000 of its 2005-06 fiscal year capital outlay millage levy tax proceeds, and approximately \$34 million of other fiscal year millage levy tax proceeds. Our tests included a review of the propriety of 30 debt payments, totaling \$22 million; nine capital outlay expenditures, totaling \$147,317; and a transfer to the General Fund of \$110,000 from these proceeds. These tests disclosed an expenditure of \$11,920, from the 2005-06 fiscal year tax proceeds for the installation of canopies at the warehouse loading dock and welding shop, and District personnel indicated that the transfer, totaling \$110,000, from the 2006-07 fiscal year proceeds would be used to purchase four hybrid vehicles.

In response to our inquiry, District personnel indicated that the capital outlay millage expenditures for canopies at the warehouse loading dock and welding shop, and the planned purchase of the four vehicles, were allowable to correct deficiencies and noncompliance penalties cited by the Florida Department of Environmental Regulation. While Section 1011.71(2)(g), Florida Statutes (2005 and 2006), allows payment of costs to comply with State environmental regulations governing school facilities, the more restrictive provisions of Section 1011.71(5)(a), Florida Statutes (2005 and 2006), require the District to limit expenditures of capital outlay millage proceeds generated after July 1, 2003, to the types of expenditures expressly authorized in Section 1011.71(5), Florida Statutes (2005 and 2006).

Section 22-23(3), of the Lake County, Florida, Ordinance No. 2004-26, in effect during the audit period, states that impact fee collections are to be used solely for the purpose of providing growth-necessitated capital improvements to educational and ancillary plants of the educational system. During the 2007-08 fiscal year, the District had expenditures, totaling approximately \$4.8 million, from impact fee collections. Our review of 20 of these expenditures disclosed three, totaling \$16,804, for school start-up costs including cleaning supplies, teacher guides, and books which did not appear to be allowable uses of the impact fee funds.

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**Recommendation:** The District should enhance controls to ensure that restricted capital outlay funds are expended only for allowable purposes. Further, the District should restore \$11,920, \$110,000, and \$16,804 to the capital outlay millage 2005-06 fund, capital outlay millage 2006-07 fund, and impact fee proceeds, respectively.

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**Follow-up to Management's Response:**

*Management indicates in their response that they take issue with this finding and states that the provisions of Section 1011.71(5)(a), Florida Statutes, "were repealed in 2003 under Section 18, Chapter 2003-399 and do not apply to the expenditure of capital funds cited". However, Section 18 of Chapter 2003-399 (the implementing act for the 2003-04 General Appropriations Act) only repealed, effective July 1, 2004, amendments to Section 1011.71, Florida Statutes, made by the implementing act. Since the implementing act only amended Section 1011.71(2)(i), Florida Statutes, the provisions of Section 1011.71(5), Florida Statutes, were not affected in any manner by the act. Section 1011.71(5)(a), Florida Statutes, was not repealed until Chapter 2007-194, Laws of Florida, and is effective for the 2005-06 fiscal year tax levy. Accordingly, we remain of the opinion that the questioned costs above be restored to the respective capital outlay millage tax levies.*

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**Finding No. 4: Payroll Processing – Time Records**

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The District did not have written procedures providing a consistent methodology for documenting employee time worked, leave used, and supervisory review and approval. Our review of time records for 25 employees disclosed that eight employees (four teachers, three educational support employees, and one school administrator) had not documented their work attendance. We also noted that records for 12 (nine educational support employees and three teachers) of the remaining 17 employees, did not indicate supervisory review and approval.

Further, District records used to account for time worked varied among schools and departments. Depending upon the school or department, such records included timesheets, time cards, sign in/out sheets, or day timers (used to record leave only). When documentation of work attendance and leave is not consistently maintained and reviewed, there is an increased risk of employees being incorrectly compensated and for employee leave balances to be inaccurate. A similar finding was noted in our report No. 2006-205.

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**Recommendation: The District should establish procedures to provide a consistent methodology for documenting time worked, leave used, and supervisory review and approval.**

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**Finding No. 5: Facility Inspections and Floor Plans**

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Section 1013.12(2), Florida Statutes, requires that the District provide for periodic inspection of each educational and ancillary plant at least once during each fiscal year to determine compliance with sanitation, casualty, safety, and firesafety standards. Also, Section 5(2), *State Requirements for Educational Facilities (SREF) – 1999* (currently Section 5(14), *SREF – 2007*) provided that relocatables used for classrooms be annually inspected for foundations, tie-downs, structural integrity, and accessibility; and requires the District to post the inspection reports in the respective relocatables in order to facilitate corrective action.

Additionally, Section 1013.13(1), Florida Statutes, requires the District to provide a copy of the educational facility floor plans and other relevant documents to law enforcement agencies and fire departments that have jurisdiction over District facilities. This statute further requires that, after the initial submission of these copies, the District must submit to these agencies by October 1 of each year, revised documents of District facilities that were modified during the preceding year.

Our review of District records disclosed that control procedures could be enhanced to ensure the District complies with certain safety standards, as discussed below:

- Many facility deficiencies cited in prior year comprehensive facilities inspection reports were also noted in the 2007-08 fiscal year inspection reports. Our review of the inspection reports for 10 of the 37 schools disclosed approximately 50 firesafety repeat deficiencies that were classified as high priority, and 18 of these had not been corrected as of August 2008. The 18 deficiencies had been cited in previous reports, with one citation dating back to the 1995-96 school year for the lack of a fume removal and exhaust system for a welding shop. Examples of other deficiencies included: storing items in electrical and mechanical rooms, blocking access to emergency exit windows in classrooms, and failing to repair an exit sign. District personnel indicated that the deficiencies were not timely corrected due to the large number needing attention. Failure to provide for timely correction of facility deficiencies results in an increased risk of unsafe conditions.
- The District conducted a comprehensive safety inspection for each relocatable used for student occupancy which indicated that the District complied with applicable firesafety standards. Further, the health and safety officer indicated that he also conducted the additional required inspections for foundations, tie-downs, structural integrity, and accessibility of the relocatables. However, although requested, the District could not provide documentation of the additional required inspections of the relocatables, and our observation of

15 relocatables disclosed that inspection reports were not posted at any of these locations as of June 2008. Without evidence of timely inspections of relocatables, students and staff may be exposed to unsafe conditions and the District may be subject to liability claims for conditions that should have been found and corrected.

- The District completed building modifications during the 2005-06 or 2006-07 fiscal years for Lost Lake Elementary, Triangle Elementary, Tavares Elementary, Pine Ridge Elementary, and Leesburg High schools. However, contrary to Section 1013.13(1), Florida Statutes, the District had not, as of July 2008, submitted facility floor plans to local law enforcement agencies and fire departments for these modifications. This information may be useful to local authorities in the event that emergency hazardous conditions develop at District sites.

Similar findings were noted in our report Nos. 03-185 and 2006-205.

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**Recommendation: The District should enhance procedures to ensure compliance with applicable safety standards. Such procedures should include timely correction of facility deficiencies, documenting the proper inspection of relocatables, timely posting of inspection reports in relocatables, and timely filing of floor plans with appropriate law enforcement agencies and fire departments.**

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### **Finding No. 6: Diplomas**

Improvements could be made in controls over high school diplomas. For the 2007-08 fiscal year, the District's seven high schools had approximately 2,100 graduates who received diplomas. Our review of student graduation and diploma processing at two high schools disclosed the following:

- There were no written agreements with the printing companies specifying the procedures to be followed for diploma orders and the District employees authorized to submit orders. Written agreements may establish District expectations and staff responsible for diploma orders, and reduce potential misunderstandings related to such orders.
- There was an inadequate separation of duties over the ordering and receipt of diplomas. At each school tested, one employee submitted the diploma orders, received the diplomas from the printing company, and retained possession of the diplomas until graduation, at which time the diplomas were given to other school personnel for distribution. In these circumstances, one employee had control over the ordering and receipt of high school diplomas such that errors or irregularities could occur and not be detected in a timely manner.
- The District did not have procedures for documenting an independent review and approval of the list of graduates to ensure that graduates met the eligibility requirements for graduation. At one school tested, personnel indicated that the guidance secretary was responsible for inserting graduates' names on the diplomas based on lists prepared by each guidance counselor. These lists were not subject to an independent review and approval to ensure that recipients met graduation eligibility requirements. At the other school tested, personnel indicated that both the senior counselor and principal reviewed all graduates to ensure eligibility requirements were met; however, documentation of this review was not available.
- Diplomas were not properly controlled or secured, and unused diplomas were not destroyed. One school had ordered diplomas with graduates' names engraved by the printer. Since the order was placed well before final grades and FCAT scores were available, a diploma was ordered for students who were not assured of meeting the graduation eligibility requirements. At graduation, eligible students were awarded diplomas; however, unused diplomas were not destroyed. The other school tested ordered blank diplomas, and inserted graduates' names, as applicable. Neither school secured blank or engraved diplomas in locked drawers. Properly securing these items and having someone independent of the ordering function properly accounting for and controlling these forms would provide further assurance that the documents were limited to authorized purposes.

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**Recommendation: The District should strengthen internal controls over diploma processing to ensure that diplomas are only prepared for and distributed to those who meet the eligibility requirements for graduation.**

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**Finding No. 7: Collection of Social Security Numbers**

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The Legislature has acknowledged in Section 119.071(5)(a), Florida Statutes, the necessity of collecting social security numbers (SSNs) for certain purposes because of their acceptance over time as a unique numeric identifier for identity verification and other legitimate purposes. The Legislature has also recognized that SSNs can be used to acquire sensitive personal information, the release of which could result in fraud against individuals or cause other financial or personal harm. Therefore, public entities are required to provide extra care in maintaining such information to ensure its confidential status.

Effective October 1, 2007, Section 119.071(5)(a), Florida Statutes, as amended by Chapter 2007-251, Laws of Florida, provides that the District may not collect an individual's SSN unless the District has stated in writing the purpose for its collection and unless it is specifically authorized by law to do so or imperative for the performance of the District's duties and responsibilities as prescribed by law. Additionally, this section requires that as the District collects an individual's SSN, it must provide the individual with a copy of the written statement indicating the purpose for collecting the number. Further, this section provides that SSNs collected by the District may not be used by the District for any purpose other than the purpose provided in the written statement. This section also requires that the District review whether its collection of SSNs is in compliance with the above requirements; immediately discontinue the collection of SSNs for purposes that are not in compliance; and certify to the President of the Senate and the Speaker of the House of Representatives its compliance with these requirements no later than January 31, 2008. Further, by that date, the District was also required to file a report with the Executive Office of the Governor, the President of the Senate, and the Speaker of the House of Representatives listing the identity of all commercial entities that have requested SSNs during the preceding calendar year and the specific purposes stated by each commercial entity regarding its need for SSNs. If no disclosure requests were made, the District was required to indicate so.

The District requires applicants for employment to provide their SSN on employment applications; however, a statement, in writing, regarding why the applicant's SSN was requested was not provided to the applicant. While student SSNs were optional for certain forms such as enrollment applications, when SSNs were obtained, a written statement regarding the purpose for its collection was not provided to the parent or legal guardian. Further, contrary to the above law, the District did not certify to the Legislature that it complied with Section 119.071(5)(a), Florida Statutes, or report to the Governor and Legislature the identity of all commercial entities that requested SSNs during the preceding calendar year. Effective controls to properly monitor the need and use of SSNs and ensure compliance with statutory requirements reduce the risk that SSNs may be used for unauthorized purposes.

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**Recommendation:** The District should take appropriate action to ensure compliance with Section 119.071(5)(a), Florida Statutes. Such action should include an evaluation of the reasons the District collects SSNs from individuals. In those instances in which the District determines that collection of the SSNs is not imperative for performance of its duties and responsibilities, the District should discontinue obtaining such numbers.

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**Finding No. 8: Fingerprinting and Background Checks**

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The District should improve its procedures for timely obtaining fingerprints and background checks for contractual personnel that have direct contact with students. Section 1012.465 and 1012.468, Florida Statutes, requires contractual personnel who are permitted access on school grounds when students are present and who are not under the direct supervision of a District employee to undergo a background screening, including fingerprinting.

During the 2007-08 fiscal year, a construction manager and several subcontractors provided services for a District elementary school project on school grounds where students were present. District procedures provide for the fingerprinting and background checks of contractual personnel and, if cleared, the names of the personnel are entered into a vendor tracking system and the personnel are issued a photo ID badge that permits the worker entrance to the work site.

We conducted tests of seven contractual personnel employed by the project's subcontractors to determine if the appropriate background screenings were obtained. Our review of District records indicated that four of the seven personnel had not obtained the required background screenings. We also noted that one contracted employee was entered into the vendor tracking system and had been issued a security badge, although his fingerprints had been smudged and had not been processed; thus, a complete background check had not been performed. District records did not evidence why the required screenings were not obtained. Absent documentation of the required background screenings of contractual personnel who are permitted access to school grounds when students are present and are not under the direct supervision of a District employee, there is an increased risk that such personnel may have backgrounds unsuitable in a school environment.

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**Recommendation:**     **The District should enhance procedures to ensure that the required fingerprint and background screenings for contractual personnel are timely performed and documented in District records.**

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**Finding No. 9: Cellular Telephones**

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District records indicated that 463 cellular telephones were provided to District employees as of April 29, 2008. Expenditures for cellular telephone usage and equipment charges totaled approximately \$232,500 for the 2007-08 fiscal year. School Board Policy 6.32 provides that employee use of District cellular telephones shall be, to the extent possible, limited to business use only, and that the District shall be reimbursed for any personal calls made by the employee. The policy also indicates that procedures for implementing this provision shall be developed; however, according to District personnel, uniform Districtwide procedures have not been developed to monitor cellular telephone use and limit the use to business purposes. Formal procedures would serve to provide guidance to employees on the acceptable use of the cellular telephones and discourage potential abuse.

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**Recommendation:**     **The District should establish and implement procedures to provide guidance to employees assigned cellular telephones and to monitor incidental personal usage and reimbursement.**

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**Finding No. 10: Monitoring of Charter Schools**

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Improvements are needed in District procedures for monitoring and reviewing certain activities of its charter schools. During the 2007-08 fiscal year, the District sponsored 11 charter schools, and the contracts with these schools required them to provide evidence of insurance for general liability, automobile liability, workers' compensation/employers' liability, school leaders' errors and omissions, and property damage insurance. The contracts also require that the District be given no less than 60 days written notice prior to cancellation and that the District be included as an additional insured on the policies.

Our review of District records for the 11 charter schools disclosed the following:

- District records did not evidence all of the required insurance coverage for five charter schools. For example, the District lacked documentation of workers' compensation coverage for four charter schools; professional liability coverage for two charter schools; and property coverage for one charter school. Additionally, District

records did not evidence insurance coverage of one charter school for general liability, automobile liability, property damage, and school leaders' errors and omissions for five months of the 2007-08 fiscal year.

- Although requested, documentation was not provided to evidence that the District was included as an additional insured on two of the charter schools' general liability policies, contrary to the charter school contracts.
- Seven of the charter schools' insurance policies contained cancellation provisions that ranged from 10 to 45 days, contrary to the 60-day cancellation provisions in the charter school contracts.

In the absence of procedures to monitor and verify that the charter schools have the required insurance coverage, the District may be subject to potential liability in the event uninsured claims occur at the charter schools. A similar finding was noted in our report No. 2006-205.

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**Recommendation: The District should develop procedures to ensure that the charter schools provide evidence of all required insurance coverage and requirements.**

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### **Finding No. 11: Property Insurance Coverage**

Enhancements could be made to ensure the adequacy of property casualty insurance coverage. Section 1001.42(9)(d), Florida Statutes (2007), generally required the Board to carry insurance on District-owned school buildings, including contents, boilers, and machinery. Additionally, Section 1001.42(10)(j), Florida Statutes (2007), required the Board to provide adequate protection against any loss or damage to school property. The District purchased property insurance coverage on buildings and contents, relocatables, and covered walkways, totaling approximately \$634 million, through its membership in the Preferred Government Insurance Trust for the 2007-08 plan year. The coverages were based on the total insurable value (TIV) of the District's property as shown on its property schedule, with an aggregate limit of \$100 million. During each plan year, the TIV is subject to change based on property additions or deletions. It is important to maintain accurate values of individual locations to ensure insurance coverage is adequate.

Our review of the District's property schedule for the 2007-08 plan year disclosed the following errors or discrepancies:

- The property schedule, used for insurance purposes, did not always accurately present property values at replacement cost. The District's insurance policy margin clause (recovery limit) for the 2007-08 fiscal year was 110 percent of the insured values; therefore, any substantial losses to under-insured property may not be fully recoverable. For example, we noted that the insured value totaled approximately \$25.2 million for buildings at East Ridge High School, although an appraisal as of July 2008 indicated a replacement cost totaling approximately \$39.8 million for the buildings. In this instance, had the District incurred a loss of the buildings, the District's recovery limit would have been approximately \$12.1 million less than the replacement cost, excluding consideration of applicable insurance deductibles.
- A newly constructed high school classroom addition and a new elementary school were noted as having substantial completion dates of June 2007 and July 2007, respectively; however, these buildings and contents were not added to the coverage agreement by the insurance carrier until December 2007. When added to the agreement, the TIV for the classroom addition and elementary school were listed as \$6,199,335 and \$23,673,185, respectively.
- Skeen Elementary was demolished in the 2004-05 fiscal year; however, the facility was not reported to the insurance carrier upon disposal, and has continued to be carried on the insurance property schedule through the July 1, 2008, renewal. Based on the property schedule, the buildings and contents, relocatables, and covered walkways for the school were listed as \$4,416,323, \$561,420, and \$648,140, respectively.

In these circumstances, there is an increased risk that the District's insurance carrier may deny full reimbursement to the District in the event of a loss occurring at any school site or additions at existing school sites not properly on file

with the agent. Additionally, because annual premiums are based on insured value, the District may have underpaid or overpaid its required property and casualty premiums for the 2007-08 plan year, depending on the extent of the errors in the property schedule. A similar finding was noted in our report No. 2006-205.

The District is in the process of obtaining appraisals for its building values to determine the reasonableness of its insurance coverage.

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**Recommendation:** In light of the District's substantial investment in capital assets, the District should continue its efforts to establish formal Districtwide procedures for determining insurable property values, and should timely and accurately report any major facility additions or deletions to the insurance carrier providing property casualty insurance.

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**Finding No. 12: Policies for Reporting Fraud**

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The District had not developed policies for communicating and reporting known or suspected fraud. Such policies should clearly identify actions constituting fraud, incident reporting procedures, responsibility for fraud investigation, and consequences for fraudulent behavior. District personnel indicated that the District does not have a specific policy but that imbedded in several policies and the union contracts are procedures to communicate and report known or suspected fraud; however, although requested, evidence of these policies were not provided.

Fraud policies are necessary to educate employees about proper conduct, create an environment that deters dishonesty, and maintain internal controls that provide reasonable assurance of achieving management objectives and detecting dishonest acts. In addition, such policies serve to establish the responsibilities for investigating potential incidents of fraud, taking appropriate action, reporting evidence of such action to the appropriate authorities, and to avoid damaging the reputations of persons suspected of fraud but subsequently found innocent. Further, in the absence of such policies, the risk increases that a known or suspected fraud may be identified but not reported to the appropriate authority.

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**Recommendation:** To aid in the detection and prevention of fraud, the District should develop policies for reporting fraud.

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**Finding No. 13: Information Technology - Security Awareness Program and Other Security Controls**

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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 confidentiality, integrity, and availability. Formal employee orientation provides a good opportunity to set forth concepts of information technology (IT) security and data handling; however, security awareness programs should be ongoing to remind employees of their part in the total security program. Although requested, we were not provided with documentation to evidence that the District had established a security awareness program.

Further, as similarly noted in our report Nos. 03-185, 2006-205, and 2006-171, we identified deficiencies in the District's security controls over personal information and managing access to District data and IT resources, the specific details of which are not disclosed in this report to avoid the possibility of compromising District information. However, appropriate District personnel have been notified of the deficiencies.

The absence of an ongoing security awareness training program and adequate security controls could jeopardize the confidentiality, integrity, and availability of system resources through the lack of users' knowledge regarding their responsibilities for the safeguarding of the District's data resources.

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**Recommendation: The District should improve its security controls in the area of managing access privileges, develop a written security awareness training program, and perform ongoing security awareness training to periodically remind all who use personal information and the District's computer system of the security risks and to reinforce adherence to the District's policies and procedures.**

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**Finding No. 14: Information Technology – Logging of Security Activity**

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Effective IT security practices include maintaining an automated log of security activity to determine how, when, and by whom specific actions were taken. Security activity logs provide the capability of selectively identifying unauthorized, unusual, and sensitive access activity, such as attempted unauthorized access and access modifications made by security personnel.

The District used TERMS to manage its financial resources. The TERMS software package ran on an International Business Machines AS/400 midrange computer using an OS/400 operating system. The TERMS package maintained its own security functionality to monitor and control TERMS application users' access. TERMS application security was administered through the TERMS Application Environment, General Administration Function.

As also noted in our report No. 2006-171, the Application Environment did not maintain an automated log of access modifications made by security personnel. In response to audit inquiry, District management indicated that they were continuing to explore the possibility of utilizing the AS/400 journaling function to capture specific logs on certain TERMS database tables, such as the profile and the user ID tables. These logs would indicate new, changed, and removed TERMS user IDs and would function as a compensating control.

Without logs of activity within the security administration function, the District may be unable to determine when or by whom a user's access was modified or deleted. The lack of logging the application security activity could hinder the District's ability to establish accountability for a breach of security, should it occur.

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**Recommendation: The District should continue to explore the possibility of utilizing the AS/400 journaling function to capture changes to access privileges. If this is not deemed feasible, the District should consider purchasing and implementing a security software product to improve the monitoring of the security administration function.**

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**Finding No. 15: Information Technology – Written Policies and Procedures**

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Each IT function needs complete, well-documented policies and procedures to describe the scope of the function and its activities. Sound policies and procedures provide benchmarks against which compliance can be measured and contribute to an effective control environment.

As similarly noted in our report No. 2006-171, although the District had developed IT Standard Operating Procedures, the District lacked written policies and procedures for the following security functions:

- Monitoring the use of AS/400 system utilities and sensitive files.
- Monitoring network security events.

In addition, the District developed policies and procedures for system software changes to the OS/400 operating system. However, these policies and procedures existed only in draft form and had not been officially approved by District management. Without written policies and procedures, the risk is increased that IT controls may not be followed consistently and in a manner pursuant to management's expectations.

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**Recommendation:** The District should establish written policies and procedures to document management's expectations for the performance of the above-listed IT functions. Also, the District should finalize and approve the system software change procedures that currently exist in draft form.

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#### **Finding No. 16: Information Technology – Disaster Recovery Plan**

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Disaster recovery plans are intended to facilitate a timely and orderly resumption of critical operations in the event of a disaster or after interruption in service. Testing disaster recovery plans is essential to determine whether the plan will function as intended in an emergency situation. Disaster recovery test results provide an important measure of the feasibility of the disaster recovery plan.

On January 23, 2006, the District approved a disaster recovery plan and, on August 14, 2006, signed a mutual aid agreement with another school district for reciprocal disaster recovery assistance. However, the District's plan had not been tested. A similar finding was included in our report No. 2006-171. The absence of a tested disaster recovery plan reduces the assurance that the District may fully and timely recover operations in the event of a disaster or other interruption in service.

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**Recommendation:** The District should test its approved IT disaster recovery plan to evaluate the plan's effectiveness.

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

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Except as discussed in the preceding paragraphs, the District had taken corrective actions for findings included in previous audit reports.

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#### **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 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: (1) obtain an understanding and make overall judgments as to whether District internal controls promoted and encouraged compliance with applicable laws, rules, regulations, contracts, and grant agreements; the economic and efficient operation of the District; the reliability of records and reports; and the safeguarding of assets; (2) evaluate management's performance in these areas; and (3) determine whether the District had taken corrective actions for findings included in previous audit reports. Also, pursuant to

Section 11.45(7)(h), Florida Statutes, our audit may identify statutory and fiscal changes to be recommended to the Legislature.

The scope of this operational audit is described in Exhibit A. Our audit included examinations of various records and transactions (as well as events and conditions) occurring during the 2007-08 fiscal year.

Our audit methodology included obtaining an understanding of the internal controls by interviewing District personnel and, as appropriate, performing a walk-through of relevant internal controls through observation and examination of supporting documentation and records. Additional audit procedures applied to determine that internal controls were working as designed, and to determine the District's compliance with the above-noted audit objectives, are described in Exhibit A. Specific information describing the work conducted to address the audit objectives is also included in the individual findings.

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**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.



David W. Martin, CPA  
Auditor General

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**MANAGEMENT'S RESPONSE**

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Management's response is included as Exhibit B.



**EXHIBIT A**  
**AUDIT SCOPE AND METHODOLOGY**

| Scope (Topic)   | Methodology   |
|---|---|
| Social security number requirements of Section 119.071(5)(a), Florida Statutes.   | Interviewed District personnel to determine whether the District had provided individuals with a written statement as to the purpose of collecting social security numbers, certified compliance pursuant to Section 119.071(5)(a)4.b., Florida Statutes, and filed the required report specified by Section 119.071(5)(a)9.a., Florida Statutes, no later than January 31, 2008. |
| Fraud policy and related procedures.  | Examined written policies and procedures, and examined supporting documentation relating to the District's fraud policy and related procedures.   |
| Procedures for monitoring charter schools pursuant to Section 1002.33(5)(b), Florida Statutes.                            | Interviewed District personnel and examined supporting documentation to determine if the District effectively monitored whether charter schools had provided for required insurance.  |
| Sunshine Law requirements for Board meetings (i.e., proper notice of meetings, ready access to public, maintain minutes). | Read Board minutes and, for selected Board meetings, examined supporting documentation to determine whether the District complied with Sunshine Law requirements.   |
| Results of school internal account audits.  | Reviewed school internal account audit reports to determine whether recurring control deficiency or noncompliance issues were noted which may effect school operations.   |
| Security awareness and training program.  | Interviewed District personnel to determine whether the District had established an information technology security awareness and training program to sufficiently monitor the confidentiality of information.  |
| Procedures for adopting and amending the budget.  | Examined supporting documentation to determine whether budgets and related amendments were prepared and adopted in accordance with applicable Florida Statutes and State Board of Education Rules.  |
| Financial condition.  | Applied analytical procedures to determine whether General Fund unreserved fund balance at June 30, 2008, was less than 2.5 percent of General Fund revenues.   |
| Procedures for preparation of bank reconciliations.   | Reviewed documentation of reconciliations prepared for the District's bank accounts to determine accuracy, timeliness, and supervisory approval.  |
| Investment practices.   | Reviewed authorized investments listed in the District's investment policy and District records to determine whether investments were proper.   |
| Restrictions on use of nonvoted capital tax proceeds.   | Selected a sample of payments made from nonvoted capital outlay proceeds and examined supporting documentation to determine whether the District used proceeds properly.  |
| Restrictions on use of impact fee proceeds.   | Selected a sample of payments made from impact fee proceeds and examined supporting documentation to determine whether the District used proceeds properly.   |

**EXHIBIT A (Continued)**  
**AUDIT SCOPE AND METHODOLOGY**

| Scope (Topic)  | Methodology  |
|--|--|
| Architect insurance.   | Reviewed reasonableness of liability insurance carried by architects for projects awarded during the audit period.   |
| Tangible personal property annual inventory procedures.  | Examined supporting documentation to determine whether the District timely conducted a physical inventory of tangible personal property.   |
| Property casualty insurance coverage.  | Interviewed District staff and reviewed District records to determine the adequacy of coverage provided.   |
| Correction of deficiencies noted in safety inspections.  | Reviewed a sample of safety inspection reports and examined supporting documentation to determine current status of any deficiencies identified in the reports and whether the District timely resolved such deficiencies.   |
| Facility safety procedures.  | Interviewed District personnel and examined documentation to determine whether floor plans were timely provided to local law enforcement agencies and fire departments, as required by Section 1013.13, Florida Statutes.  |
| E-rate program.  | Interviewed personnel to determine whether the District timely applied for and received moneys due from the E-rate program.  |
| Food service operations.   | Tested daily collections and meal counts and reviewed records to determine whether the District's controls over collections were sufficient.   |
| Operating fund transfers.  | Examined supporting documentation to determine whether moneys transferred from one fund to another were properly used.   |
| Employee timesheets.   | Examined supporting documentation to determine whether time records were properly reviewed and approved by supervisory personnel.  |
| Employee terminal leave pay.   | Selected a sample of terminal leave payments to determine whether amounts paid were consistent with District policies and Florida Statutes.  |
| Employee compensation payments and payroll taxes.  | Examined documentation supporting payments to sample employees and submission of required payroll taxes.   |
| Procedures for monitoring cellular telephone usage.  | Reviewed District usage of cellular telephones for compliance with District policy.  |
| Requirements for fingerprinting and background checks for personnel that had direct contact with students. | Selected a sample of District and contractual personnel who had direct contact with students and examined supporting documentation to determine whether the District had obtained required fingerprint and background checks for the individuals included in our sample. |
| Procedures for control over diplomas.  | Interviewed school personnel to determine the adequacy of procedures to order and safeguard diplomas.  |

**EXHIBIT A (Continued)**  
**AUDIT SCOPE AND METHODOLOGY**

| Scope (Topic)  | Methodology  |
|--|--|
| Payments to consultants.                             | Examined documentation supporting a sample of consultant payments to determine the propriety of payments.  |
| Information Technology (IT) policies and procedures. | Inspected the District's written IT policies and procedures to determine whether they address certain important IT control functions.  |
| Procedures for granting access to IT resources.      | Reviewed documentation to determine the District's process for requesting, approving, implementing, reviewing, and removing system access to IT resources. Tested selected network, operating system, and database management system accounts for proper security, administration, and assignment of these accounts. Sampled employees who terminated during the audit period and examined supporting documentation evidencing when the District terminated access privileges. |
| Procedures for IT authentication controls.           | Examined supporting documentation to determine whether authentication controls were configured and enforced in accordance with IT best practices.  |
| Procedures for logging.                              | Reviewed supporting documentation to determine the adequacy and appropriateness of the District's implemented logging policies for TERMS and its supporting environment.   |
| Security Administrator duties.                       | Interviewed Security Administrator and observed selected functions to determine whether the District established specific duties and responsibilities for the position.  |
| Disaster recovery plan.                              | Reviewed plan to determine whether it contained step-by-step procedures for recovery, and provided for periodic testing.   |
| Information systems user ID and passwords.           | Reviewed adequacy of policies and procedures on use and safeguarding of user IDs and passwords.  |

**EXHIBIT B  
MANAGEMENT'S RESPONSE**



**An "A" School District**  
**Leading our Children to Success**

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*Superintendent:*  
Susan Moxley, Ed.D.

*School Board Members:*  
*District 1*  
Larry Metz  
*District 2*  
Rosanne Brandeburg  
*District 3*  
Cindy Barrow  
*District 4*  
Debbie Stivender  
*District 5*  
Kyleen Fischer

December 4, 2008

Mr. David W. Martin, CPA  
Florida Auditor General  
C74 Claude Pepper Building  
111 West Madison Street  
Tallahassee, FL 32399-1450

Dear Mr. Martin;

We would like to take the opportunity to thank you and your staff for the assistance that the operational audit of the 2007-08 fiscal year provides to the District. We look to your recommendations as guidance and use them to focus on areas of needed improvement in our policies and procedures. In response to the Preliminary and Tentative Audit Findings, we offer the following:

Recommendation #1:

The District should ensure that bank reconciliations are properly completed, reviewed and approved in a timely manner, and that journal entries for cash accounts are timely recorded in the accounting records.

District Response:

We agree with the finding and implemented corrective action prior to the conclusion of the audit fieldwork.

Recommendation #2:

The District should develop procedures to ensure that investments of COPs proceeds are appropriately secured.

District Response:

While there were no instances of investments noted that were not in compliance with the established Board Policy, we have worked with our financial advisor to implement procedures to provide adequate documentation of the monitoring of investment collateral.

**EXHIBIT B (CONTINUED)**  
**MANAGEMENT'S RESPONSE**

Recommendation #3:

The District should enhance controls to ensure that restricted capital outlay funds are expended only for allowable purposes. Further, the District should restore \$11,920, \$110,000 and \$16,804 to the capital outlay millage 2005-06 fund, capital outlay millage 2006-07 fund, and impact fee proceeds, respectively.

District Response:

We specifically take issue with this finding and believe that the audit tests performed and cited on over \$26.8 million of capital expenditures serve as evidence that sufficient and effective controls are in place to ensure that restricted capital outlay funds are expended only for allowable purposes. The immaterial exceptions cited of approximately 0.52% of the expenditures tested were not errors or failings of our control system. They were specific expenditures made with full authority under Section 1011.71(2)(g), Florida Statutes. The Auditor General questioned these expenditures under the more restrictive provisions of Section 1011.71(5)(a). However, the provisions of Section 1011.71(5)(a), Florida Statutes were repealed in 2003 under Section 18, ch.2003-399 and do not apply to the expenditure of capital funds cited. We do not agree with the Auditor General's opinion that these expenditures do not appear to be allowable and will seek clarification from the Florida Attorney General.

Recommendation #4:

The District should establish procedures to provide a consistent methodology for documenting time worked, leave used, and supervisory review and approval.

District Response:

This is a weakness previously identified by the District for which we commissioned an internal audit to assist in identifying the potential weaknesses and providing guidance in implementing corrective action. The findings and recommendations of that internal audit are under review and will be implemented, where appropriate, to provide the consistent methodology for documentation desired.

Recommendation #5:

The District should enhance procedures to ensure compliance with applicable safety standards. Such procedures should include timely correction of facility deficiencies, documenting the proper inspection of relocatables, timely posting of inspection reports in relocatables, and timely filing of floor plans with appropriate law enforcement agencies and fire departments.

District Response:

We agree with the finding and have implemented procedures to ensure compliance with all applicable safety standards, including the timely correction of facility deficiencies, documenting the proper inspection of relocatables, timely

**EXHIBIT B (CONTINUED)**  
**MANAGEMENT'S RESPONSE**

posting of inspection reports in relocatables, and timely filing of floor plans with appropriate law enforcement agencies and fire departments.

Recommendation #6:

The District should strengthen internal controls over diploma processing to ensure that diplomas are only prepared for and distributed to those who meet the eligibility requirements for graduation.

District Response:

We agree with the finding and will implement procedures to strengthen internal controls over diploma processing to ensure that diplomas are only prepared for and distributed to those who meet the eligibility requirements for graduation.

Recommendation #7:

The District should take appropriate action to ensure compliance with Section 119.071(5)(a), Florida Statutes. Such action should include an evaluation of the reasons the District collects SSNs from individuals. In those instances in which the District determines that collection of the SSNs is not imperative for performance of its duties and responsibilities, the District should discontinue obtaining such numbers.

District Response:

On October 27, 2008, the Board gave tentative approval to Policy 6.88 – Social Security Numbers to ensure compliance with Section 119.071(5)(a), Florida Statutes. Final approval will be requested on December 22, 2008.

Recommendation #8:

The District should enhance procedures to ensure that the required fingerprint and background screenings for contractual personnel are timely performed and documented in District records.

District Response:

We agree with the finding and will implement procedures to ensure that the required fingerprint and background screenings for contractual personnel are timely performed and documented in District records.

Recommendation #9:

The District should establish and implement procedures to provide guidance to employees assigned cellular telephones and to monitor incidental personal usage and reimbursement.

District Response:

On September 22, 2008, The School Board gave final approval to Policy No. 7.64 – Mobile Communication Devices which was developed and implemented to provide guidance to employees related to the assignment and use of all types of mobile communication devices.

**EXHIBIT B (CONTINUED)  
MANAGEMENT'S RESPONSE**

Recommendation #10:

The District should develop procedures to ensure that the charter schools provide evidence of all required insurance coverage and requirements.

District Response:

We agree with the finding and have implemented procedures to monitor insurance coverages for charter schools to provide evidence of all required insurance coverage and requirements.

Recommendation #11:

In light of the District's substantial investment in capital assets, the District should continue its efforts to establish formal District-wide procedures for determining insurable property values, and should timely and accurately report any major facility additions or deletions to the insurance carrier providing property casualty insurance.

District Response:

We agree with this finding and have worked with our Insurance Broker to establish procedures for determining insurable property values, and ensuring the timely and accurately report any major facility additions or deletions to the insurance carrier.

Recommendation #12:

To aid in the detection and prevention of fraud, the District should develop policies for reporting fraud.

District Response:

We agree with the finding and are working with our Audit Committee to assist in the development and implementation of a District-wide Fraud Policy

Recommendation #13:

The District should improve its security controls in the area of managing access privileges, develop a written security awareness training program, and perform ongoing security awareness training to periodically remind all who use personal information and the District's computer system of the security risks and to reinforce adherence to the District's policies and procedures.

District Response:

We are in the process of developing a written security awareness training program which will include ongoing staff training to reinforce adherence to the District's policies and procedures.

Recommendation #14:

The District should continue to explore the possibility of utilizing the AS/400 journaling function to capture changes to access privileges. If this is not deemed feasible, the

**EXHIBIT B (CONTINUED)**  
**MANAGEMENT'S RESPONSE**

District should consider purchasing and implementing a security software product to improve the monitoring of the security administration function.

District Response:

The District will continue to explore the possibility of utilizing the AS/400 journaling function or determine other viable options to capture and review changes to access privileges.

Recommendation #15:

The District should establish written policies and procedures to document management's expectations for the performance of the above-listed IT functions. Also, the District should finalize and approve the system software change procedures that currently exist in draft form.

District Response:

We agree with the finding and are in the process of revising and finalizing the written procedures to document management's expectations for the performance of IT functions, including system software change procedures.

Recommendation #16:

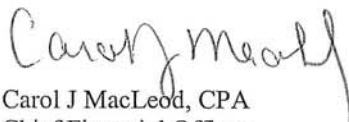
The District should improve its security controls in the area of managing access privileges to provide increased assurance of the continued confidentiality, integrity, and availability of District data and IT resources.

District Response:

IT Security has been the subject of internal audit review and we have identified areas to improve in the area of managing access privileges to provide increased assurance of the continued confidentiality, integrity, and availability of District data and IT resources. We are in the process of reviewing those recommendations and implementing strengthened procedures.

We would like to take the opportunity to recognize Auditor General Staff members, Brenda Racis and Pat Tindel, for the professional manner in which the audit was conducted. We appreciate their dedication and commitment to the review of our systems which assists us in the continual improvement of our school district.

Respectfully submitted,



Carol J MacLeod, CPA  
Chief Financial Officer  
Lake County Schools