

STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

Report No. 2019-202
April 2019

**HERNANDO COUNTY
DISTRICT SCHOOL BOARD**



Sherrill F. Norman, CPA
Auditor General

Board Members and Superintendent

During the 2017-18 fiscal year, John C. Stratton served as Interim Superintendent of the Hernando County Schools from 6-26-18, Dr. Lori M. Romano served as Superintendent before that date, and the following individuals served as School Board Members:

	<u>District No.</u>
Mark C. Johnson, Chair from 11-14-17, Vice Chair through 11-13-17	1
Linda K. Prescott, Vice Chair from 11-14-17	2
Beth Narverud, Chair through 11-13-17	3
Gus Guadagnino	4
Susan Duval	5

The audit was supervised by Anna A. McCormick, CPA.

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

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HERNANDO COUNTY DISTRICT SCHOOL BOARD

SUMMARY

This operational audit of the Hernando County School District (District) focused on selected District processes and administrative activities and included a follow-up on findings noted in our report No. 2016-167 and the 2016-17 financial audit report. Our operational audit disclosed the following:

Finding 1: District records did not always evidence that ad valorem tax levy proceeds were used for allowable purposes, resulting in questioned costs totaling \$260,490. A similar finding was noted in our report No. 2016-167.

Finding 2: The District disbursed Florida Best and Brightest Teacher Scholarship Program awards totaling \$26,400 to 25 prekindergarten teachers who did not meet the statutory definition of a “classroom teacher” and, therefore, were ineligible for the awards.

Finding 3: Dependents are enrolled in the District health insurance plan during open enrollment and when new employees are hired without documentation supporting the eligibility of the dependents. In addition, District procedures did not provide for periodic verifications to ensure that dependent participants in the plan continued to be eligible. Also, the District did not always timely remove former employees from plan participation when their eligibility ended due to their separation from District employment. A similar finding was noted in our report No. 2016-167.

Finding 4: District tangible personal property controls continue to need improvement.

Finding 5: Some unnecessary information technology user access privileges existed that increased the risk that unauthorized disclosure of sensitive personal information of students may occur.

BACKGROUND

The Hernando County School District (District) is part of the State system of public education under the general direction of the Florida Department of Education and is governed by State law and State Board of Education rules. Geographic boundaries of the District correspond with those of Hernando County. The governing body of the District is the Hernando County District School Board (Board), which is composed of five elected members. The appointed Superintendent of Schools is the Executive Officer of the Board. During the 2017-18 fiscal year, the District operated 25 elementary, middle, high, and specialized schools; sponsored 3 charter schools; and reported 22,406 unweighted full-time equivalent students.

FINDINGS AND RECOMMENDATIONS

Finding 1: Ad Valorem Taxation

State law¹ allows the District to levy ad valorem taxes for capital outlay purposes with specified millage rates subject to certain precedent conditions. State law² requires the District to advertise, in advance of adoption of a budget authorizing the expenditure of tax levy proceeds, the purposes for which the Board intends to spend the proceeds of each tax levy and to specify in the required notice of tax levy the projects to be funded by the tax assessment. Pursuant to State law,³ allowable uses of ad valorem tax levy proceeds assessed for capital outlay purposes include, among other things, funding new construction and remodeling projects and maintenance, renovation, and repair of existing schools to correct deficiencies. The definition of maintenance and repair in State law⁴ specifically excludes custodial functions (e.g., cleaning services).

The District accounts for the ad valorem tax levy proceeds in the Capital Projects – Local Capital Improvement Fund (LCI Fund). For the 2017-18 fiscal year, District LCI Fund expenditures totaled \$6 million and transfers to other funds totaled \$13.4 million, including LCI Fund transfers to the General Fund totaling \$5.1 million. In response to our request for support for the uses of these transferred funds, District personnel provided reports identifying General Fund expenditures of \$5.7 million that, according to District personnel, represented allowable uses of the ad valorem taxes and therefore were eligible for reimbursement from the LCI Fund.

As part of our audit procedures, we examined District records supporting selected LCI Fund expenditures totaling \$4.5 million and transfers totaling \$3.2 million to determine their propriety. We found that LCI Fund transfers totaling \$855,902 were, according to District personnel, to reimburse the General Fund for 15 percent of the salaries and benefits paid for 186 District custodians at 23 schools and 4 other District sites. Our examination of the District custodian job descriptions disclosed certain duties that were for allowable ad valorem uses such as repair and maintenance activities for resurfacing floors and repairing furniture and equipment. However, the descriptions also contained unallowable ad valorem uses such as cleaning restrooms, staff lounges, classrooms, and various other rooms.

In response to our inquiries, District personnel indicated that the Executive Director of Support Operations, who supervised the custodians, had estimated that 15 percent of the custodians' time and efforts were spent on allowable ad valorem uses but that the District had not established procedures nor were records available to document the basis for such estimates. Personnel activity reports, detailed time sheets, or time and effort studies could serve as a basis for estimating custodian time and efforts. Consequently, we consider the \$855,902 as questioned costs.

Notwithstanding the questioned costs of \$855,902, District records documented additional costs, totaling \$595,412, including the salaries of District plumbers, painters, and other repairmen, for example, that

¹ Section 1011.71, Florida Statutes.

² Section 200.065(10)(a), Florida Statutes.

³ Section 1011.71(2), Florida Statutes.

⁴ Section 1013.01(12), Florida Statutes.

were paid from the portion of the General Fund not funded by the LCI Fund transfers and for which the associated activities represented allowable uses of ad valorem tax levy proceeds. As such, those additional eligible costs reduce the questioned costs to \$260,490.

Without adequate controls to ensure, and records to demonstrate, that ad valorem tax levy proceeds are expended for authorized purposes, the risk is increased that the District will violate the expenditure restrictions governing the use of these proceeds. A similar finding was noted in our report No. 2016-167.

Recommendation: The District should enhance controls to ensure and demonstrate that ad valorem tax levy proceeds are expended only for authorized purposes. Such enhancements should include establishing procedures to prepare and retain personnel activity reports or other records that substantiate the portion of custodian salaries and benefits attributable to functions that are allowable uses of ad valorem tax proceeds. In addition, the District should provide documentation to the Florida Department of Education supporting the allowability of the costs totaling \$260,490 or restore the unsupported amount to the LCI Fund.

Finding 2: Florida Best and Brightest Teacher Scholarship Program

The Florida Legislature established the Florida Best and Brightest Teacher Scholarship Program⁵ to reward classroom teachers⁶ who achieved high academic standards during their own education. Classroom teachers eligible for a \$6,000 scholarship award are those who scored at or above the 80th percentile on a college entrance examination based on the national percentile ranks in effect when the teacher took the assessment and have been evaluated as highly effective pursuant to State law⁷ in the school year immediately preceding the year in which the scholarship will be awarded or, if the teacher is a first-year teacher who has not been evaluated pursuant to State law, must have scored at or above the 80th percentile on a college entrance examination based on the national percentile ranks in effect when the teacher took the assessment. In addition, State law provides for a \$1,200 or \$800 scholarship for a classroom teacher who was evaluated as highly effective or effective, respectively, pursuant to State law in the school year immediately preceding the year in which the scholarship will be awarded.

District personnel are responsible for determining teacher eligibility for the scholarship awards and annually submitting the number of eligible teachers to the Florida Department of Education (FDOE) by December 1st each year. The FDOE then disburses scholarship funds to the District for each eligible classroom teacher to receive a scholarship as provided in State law. Pursuant to State law,⁸ once a classroom teacher is deemed eligible for an award, the teacher shall remain eligible as long as he or she remains employed by the District as a classroom teacher at the time of the award and receives an annual performance evaluation rating of highly effective.

During the 2017-18 fiscal year, the District awarded scholarships totaling \$1.68 million to 1,242 District-employed teachers and scholarships totaling \$48,000 to 15 charter school teachers. To

⁵ Section 1012.731, Florida Statutes.

⁶ Section 1012.01(2), Florida Statutes, defines classroom teachers as K-12 staff members assigned the professional activity of instructing students in courses in classroom situations, including basic instruction, exceptional student education, career education, and adult education, including substitute teachers.

⁷ Section 1012.34, Florida Statutes. Section 1012.34(3)(a), Florida Statutes, requires the evaluation to include consideration of student performance.

⁸ Section 1012.731(3)(b), Florida Statutes.

determine whether the recipients met the eligibility requirements for the scholarships, we requested for examination District records supporting the eligibility of 54 scholarship recipients (50 District-employed teachers and 4 charter school teachers) who were awarded a total of \$117,200. Our examination of District records disclosed that 25 District-employed scholarship recipients, awarded scholarships totaling \$26,400, were in “Pre-K Handicapped” teacher positions that did not meet the statutory definition of a classroom teacher.

According to District personnel, teachers in these positions instruct exceptional student education program (ESE) students only and the District determined these employees were classroom teachers and eligible for the scholarship because Pre-K teachers are in an instructional setting, have performance evaluations, need certification, instruct students who generate full-time equivalent funding, and are paid based on the salary schedule, all of which are criteria that apply to K-12 teachers.

Notwithstanding the District’s response, pursuant to State law,⁹ prekindergarten students include children who are not yet ready for kindergarten and the scholarship is limited to classroom teachers, which State law defines as K-12 staff members. In addition, the term “Prekindergarten Instructor” is defined separately in State law.¹⁰ Absent effective procedures to limit scholarships to statutorily defined classroom teachers, there is an increased risk that scholarships may be awarded to ineligible recipients.

Recommendation: The District should enhance procedures to ensure that scholarships are only awarded to eligible recipients who meet the statutory definition of a classroom teacher. In addition, the District should refund the FDOE for the awards totaling \$26,400 paid to ineligible scholarship recipients and take appropriate actions to recover from those recipients the improper payments.

Finding 3: Health Insurance Plan - Participant Eligibility

Pursuant to the Board-adopted collective bargaining agreements, the District provided a comprehensive group health and hospitalization insurance policy (plan) for full-time employees. For the 2017-18 fiscal year, the District contributed \$551 toward the monthly health insurance premiums for each of the participating employees, with those participating employees paying the premium balance through payroll deductions. Pursuant to State law, eligible retirees were allowed to continue participation in the District’s plan.¹¹ Participating retirees paid the full premium. District personnel were responsible for deducting the insurance premium costs from participating employees’ pay and applicable retirees’ pension payments, collecting insurance premiums directly from other participating retirees, and submitting the premium payments to the health insurance provider.

During the 2017-18 fiscal year, the District contributed \$21 million toward the District’s health insurance plan, while 2,378 employees contributed \$20.2 million and 92 retirees contributed \$611,419 for their respective shares of plan premiums. In addition to participating employees and retirees, 690 employee

⁹ Section 1002.53(2), Florida Statutes, provides that each child who resides in Florida who will have attained the age of 4 years on or before September 1 of the school year is eligible for the Voluntary Prekindergarten Education Program during either that school year or the following school year. The child remains eligible until the child is admitted to kindergarten, or unless he or she will have attained the age of 6 years by February 1 of any school year.

¹⁰ Section 1002.51(6), Florida Statutes, defines prekindergarten instructors to include teachers who provide instruction to students in a prekindergarten program.

¹¹ Section 112.0801, Florida Statutes.

and retiree dependents participated in the plan. Eligible dependents include spouses, qualifying children, and qualifying grandchildren if under the legal custody of the employee.

To ensure that only eligible employees or retirees are allowed to participate in the District health insurance plan at appropriate rates, it is important for the District to periodically reconcile the plan participants and amounts listed on the plan provider billings and related records to District records and promptly remove ineligible individuals from participation. To ensure that only eligible dependents participate in the plan, District procedures to obtain and verify documentation supporting dependent initial and continued eligibility are also necessary.

Employees and retirees are added to and removed from plan participation based on events such as new hires, employment terminations, retirements, and deaths. Plan participation changes caused by such events must be submitted to the provider within 30 days of the effective date of the changes so that future billings can be timely adjusted. To ensure plan participation changes are properly submitted to and timely made by the provider, the District periodically compares plan participants reflected in the provider records to District records.

As to dependents of plan participants, District personnel indicated that for qualifying life events such as marriages, births, or adoption of dependents, applicable support for the events must be provided to the District Human Resources Department to enroll the dependents into the District health insurance plan. Applicable support for those events typically includes marriage and birth certificates and records of adoption. However, during open enrollment or when an individual is hired, the District did not require employees to provide applicable documentation to support dependent enrollments into the plan. In addition, the District had not established procedures to conduct and document periodic verifications to otherwise ensure that dependents of health insurance plan participants continue to be eligible for plan services after their initial enrollment.

As part of our audit, in October 2018 we requested for examination District records to:

- Support District verifications of the eligibility of 30 selected dependents, including 22 children and 8 spouses, enrolled in the District health insurance plan. However, records evidencing District actions to verify either the initial or current eligibility for 29 of the 30 dependents were not provided.
- Compare to health insurance provider records for the 2,378 District employees who participated in the insurance plan. The results of our comparison confirmed District procedures that identified 13 former employees who received plan benefits, subsequently became ineligible for those benefits when they separated from District employment, and were removed from plan participation as a result. However, we also found that the District did not timely remove those 13 individuals from plan participation as their plan participation continued from 2 months to over 2 years after their eligibility ended due to their separation from District employment. In addition, 8 of the 13 individuals received health insurance services after they were no longer eligible for those services. In response to our inquiries, District personnel indicated that they were unsure why the 13 individuals were not timely removed from plan participation.

Absent documented dependent eligibility verifications and prompt removal of plan participants when they are no longer eligible, there is an increased risk that individuals receiving insurance benefits may not be eligible for those benefits, increasing health insurance premium costs paid by the District, District employees, and the District's participating retirees. A similar finding was noted in our report No. 2016-167.

Recommendation: The District should require and ensure verification of documentation to support the eligibility of all dependents enrolled into the District health insurance plan, including those enrolled during open enrollment and by new hires. The District should also establish documented, periodic verification procedures to ensure that dependent participants in the plan continue to be eligible. In addition, when District procedures identify ineligible plan participants, the District should promptly notify the provider to remove the individuals from plan participation.

Finding 4: Tangible Personal Property

State law¹² and Florida Department of Financial Services (FDfs) rules¹³ require the District to maintain adequate records of tangible personal property (TPP) (i.e., furniture, fixtures, and equipment and motor vehicles) in its custody and that a complete physical inventory be taken annually, the results of the physical inventory be compared to the property records, and any differences be researched and resolved. All TPP items found during the inventory must be included in the property records, and items not located must be promptly reported to the property custodian to cause a thorough investigation to be made. If the investigation determines that the item was stolen, the District is required to file a report with the appropriate law enforcement agency describing the missing item and the circumstances surrounding its disappearance.

Board policies¹⁴ require that a complete physical inventory of all District-owned TPP be conducted annually and the results compared to the property records. Discrepancies are to be traced and reconciled and any losses must be reported to the Risk Management Department and the appropriate law enforcement agency.

During the period July 2017 through October 2018, District personnel performed physical inventory counts at 9 of the District's 33 cost centers but had not conducted the counts at the other 24 cost centers, which included 19 school and 5 administrative sites. The acquisition costs for the TPP assigned to these 24 cost centers totaled \$39.8 million.

In response to our inquiries, District personnel indicated that a timely and complete physical inventory had not been performed because, for example, the Property Department only had one staff member who is responsible for the inventory as well as other assigned duties and the impact of Hurricane Irma during the prior fiscal year.

Given the District's significant investment in TPP, it is important that TPP be effectively safeguarded and managed. Absent the conduct of appropriate annual physical inventory procedures, the District cannot demonstrate compliance with State law and FDfs rules and there is an increased risk that any loss or theft of District property will not be timely detected, reported to the appropriate parties, and reflected in District accounting records. Similar findings were noted in our report No. 2016-167 and the District's 2015-16 and 2016-17 fiscal year financial audit reports.

Recommendation: The District should ensure that an annual physical inventory of TPP is timely performed and any differences are thoroughly investigated. After thorough investigation, District

¹² Chapter 274, Florida Statutes.

¹³ Dfs Rule 69I-73, Florida Administrative Code.

¹⁴ Board Policy 7450 – *Property Inventory*.

personnel should timely report any items not located to the Risk Management Department for appropriate disposition and, as applicable, to the appropriate law enforcement agency.

Finding 5: Information Technology User Access Privileges

The Legislature has recognized in State law¹⁵ that social security numbers (SSNs) can be used to acquire sensitive personal information, the release of which could result in fraud against individuals or cause other financial or personal harm. Therefore, public entities are required to provide extra care in maintaining the confidential status of such information. Effective controls restrict individuals from accessing information unnecessary for their assigned job responsibilities and provide for documented, periodic evaluations of IT user access privileges to help prevent individuals from accessing sensitive personal information inconsistent with their responsibilities.

Pursuant to State law,¹⁶ the District identified each student using a Florida education identification number assigned by the FDOE. However, student SSNs are included in the student records maintained within the District student information system (SIS). Student SSNs are maintained in the District SIS to, for example, register newly enrolled students and transmit that information to the FDOE through a secure-file procedure and to provide student transcripts to colleges, universities, and potential employers based on student-authorized requests. Board policies¹⁷ allow designated District school personnel access to student records to perform administrative, supervisory, or instructional responsibilities that serve a legitimate educational purpose in accordance with applicable requirements in State law, State Board of Education rules, and Federal laws, and District employees are required to certify that they will comply with these requirements. District personnel indicated that each location supervisor is responsible for requesting the appropriate SIS access for their staff, and the Help Desk Trainer reviews the request and grants access in the SIS.

As of August 2018, the District SIS contained the sensitive personal information of 107,625 former students and 22,366 current students and 1,728 District employees had IT user access privileges to this information. As part of our audit, we examined District records supporting these access privileges for 30 selected employees who had access to both current and former student information. We found that 25 employees, including a teacher, a counselor, a secretary, and a social worker, did not have a demonstrated need for continuous access to that information.

In response to our inquiry, District personnel indicated that their documented annual periodic evaluations of IT user access included a review of privileges to the sensitive personal information of students to help monitor these privileges. According to District personnel, due to limitations in the District SIS, student SSNs are identified on individual screens and cannot be masked or displayed separately from other student information. As a result, some employees who need access to student information will also have access to view SSNs, even if such access is not needed to perform their job. However, the District is in the process of implementing a new SIS that is expected to be fully implemented in August 2019 to address this problem.

¹⁵ Section 119.071(5)(a), Florida Statutes.

¹⁶ Section 1008.386, Florida Statutes.

¹⁷ Board Policy 8330 – *Student Records*.

District personnel indicated that once an employee is granted IT user access privileges to a student's sensitive personal information, the employee continues to have such access even though the student transfers to another school, moves from the District, or graduates. In addition, District personnel indicated that the District SIS did not include a mechanism to differentiate IT user access privileges to current student information from access privileges to former student information, although employees may need access to only current student information.

The existence of unnecessary IT user access privileges increases the risk of unauthorized disclosure of sensitive personal information and the possibility that such information may be used to commit a fraud against District students or others.

Recommendation: To ensure access to sensitive personal information of students is properly safeguarded, the District should:

- Continue efforts to upgrade the District SIS to include a mechanism to differentiate IT user access privileges to current student information from access privileges to former student information. The SIS should also be upgraded to mask student SSNs from employees who do not need access to student SSNs to perform their jobs.
- Enhance documented periodic evaluations of IT user access privileges to determine whether such privileges are necessary and timely remove any inappropriate or unnecessary access privileges detected. If an individual only requires occasional access to sensitive personal student information, the privileges should be granted only for the time needed.

PRIOR AUDIT FOLLOW-UP

The District had taken corrective actions for findings included in our report No. 2016-167 and the 2016-17 fiscal year financial audit reports, except as noted in Findings 1, 3, and 4 and shown in Table 1.

Table 1
Findings Also Noted in Previous Audit Reports

Finding	2016-17 Fiscal Year	2015-16 Fiscal Year	2014-15 Fiscal Year
	CPA Firm Financial Audit Report, Finding	CPA Firm Financial Audit Report, Finding	Operational Audit Report No. 2016-167, Finding
1	Not Applicable	Not Applicable	4
3	Not Applicable	Not Applicable	9
4	2017-1	2016-1	11

OBJECTIVES, SCOPE, AND METHODOLOGY

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

We conducted this operational audit from May 2018 to October 2018 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions

based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of this operational audit were to:

- Evaluate management's performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse, and in administering assigned responsibilities in accordance with applicable laws, rules, regulations, contracts, grant agreements, and other guidelines.
- Examine internal controls designed and placed in operation to promote and encourage the achievement of management's control objectives in the categories of compliance, economic and efficient operations, reliability of records and reports, and safeguarding of assets, and identify weaknesses in those controls.
- Determine whether management had taken corrective actions for findings included in our report No. 2016-167 and the 2016-17 fiscal year financial audit report.
- Identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

This audit was designed to identify, for those programs, activities, or functions included within the scope of the audit, weaknesses in management's internal controls, instances of noncompliance with applicable laws, rules, regulations, contracts, grant agreements, and other guidelines; and instances of inefficient or ineffective operational policies, procedures, or practices. The focus of this audit was to identify problems so that they may be corrected in such a way as to improve government accountability and efficiency and the stewardship of management. Professional judgment has been used in determining significance and audit risk and in selecting the particular transactions, legal compliance matters, records, and controls considered.

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

Our audit included transactions, as well as events and conditions, occurring during the 2017-18 fiscal year audit period, and selected District actions taken prior and subsequent thereto. Unless otherwise indicated in this report, these records and transactions were not selected with the intent of statistically projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

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

In conducting our audit, we:

- Reviewed District information technology (IT) policies and procedures to determine whether certain important IT control functions, such as security, systems development and maintenance, network configuration management, system backups, and disaster recovery, were addressed.
- Evaluated District procedures for maintaining and reviewing employee access to IT data and resources. We examined selected access privileges to the District's enterprise resource planning (ERP) system finance and human resources (HR) applications to determine the appropriateness and necessity of the access based on employees' job duties and user account functions and whether the access prevented the performance of incompatible duties. Specifically, we examined update access privileges to selected ERP systems for finance and HR application functions resulting in the review of the appropriateness of access privileges granted for 30 of approximately 1,900 user accounts.
- Examined selected operating system, database, network, and application security settings to determine whether authentication controls were configured and enforced in accordance with IT best practices.
- Interviewed District personnel and reviewed supporting documentation to evaluate whether the District effectively monitored charter schools.
- Examined Board, committee, and advisory board meeting minutes to determine whether Board approval was obtained for policies and procedures in effect during the audit period and District records for evidence of compliance with Sunshine Law requirements (i.e., proper notice of meetings, meetings readily accessible to the public, and properly maintained meeting minutes).
- Analyzed the District's General Fund total unassigned and assigned fund balances at June 30, 2018, to determine whether the total was less than 3 percent of the Fund's revenues, as specified in Section 1011.051, Florida Statutes. We also performed analytical procedures to evaluate the District's ability to make future debt service payments.
- From the population of expenditures totaling \$16.6 million and transfers totaling \$13.4 million during the audit period from nonvoted capital outlay tax levy proceeds, Public Education Capital Outlay funds, and other restricted capital project funds, examined documentation supporting selected expenditures and transfers totaling \$7.6 million and \$3.2 million, respectively, to determine compliance with the restrictions imposed on the use of these resources.
- From the population of \$712,678 total workforce education program expenditures for the audit period, selected six expenditures totaling \$165,858 and examined supporting documentation to determine whether the District used the funds for authorized purposes (i.e., not used to support K-12 programs or District K-12 administrative costs).
- From the population of 61,275 contact hours for 485 adult general education instructional students during the audit period, examined District records supporting 1,839 reported contact hours for 30 selected students to determine whether the District reported the instructional contact hours in accordance with State Board of Education (SBE) Rule 6A-10.0381, Florida Administrative Code (FAC).
- Evaluated District procedures for protecting the sensitive personal information of students including student social security numbers. Specifically, from the population of 1,728 individuals who had access to sensitive personal student information, we examined the access privileges of 30 selected employees to evaluate the appropriateness and necessity of the access privileges based on the employee's assigned job responsibilities.
- Examined the District Web site to determine whether the 2017-18 fiscal year proposed, tentative, and official budgets were prominently posted pursuant to Section 1011.035(2), Florida Statutes.

- Examined District records for the audit period to determine whether District procedures for preparing the budget were sufficient to ensure that all potential expenditures were budgeted.
- Examined financial reports and analyses presented to the Board during the audit period to determine whether the Board monitored financial results and related budget estimates.
- Examined District records to determine whether required internal funds audits for the 2017-18 and 2 preceding fiscal years were timely performed pursuant to SBE Rule 6A-1.087, FAC, and Chapter 8 – School Internal Funds, *Financial and Program Cost Accounting and Reporting for Florida Schools* (Red Book), and whether the audit reports were presented to the Board.
- Examined District records supporting the \$8,500 payment, made during the audit period by the District to its direct-support organization, to determine the legal authority for the transaction.
- Reviewed Board policies and District procedures and evaluated controls over the Transportation Department inventory to determine the adequacy of District controls for safeguarding inventory items.
- Reviewed rules and procedures related to performing annual inventory counts of tangible personal property (TPP) items. We examined documentation supporting the District’s annual physical inventory of TPP to determine whether the inventory had been properly conducted, the results of the inventory had been reconciled to the property records, and the District had adequately followed-up on any missing property.
- From the compensation payments totaling \$111.4 million to 3,330 employees during the audit period, examined District records supporting compensation payments totaling \$48,134 to 30 selected employees to determine whether the rate of pay was accurate and supervisory personnel reviewed and approved reports of time worked.
- Examined Board policies and District procedures to determine whether the District had developed adequate performance assessment procedures for instructional personnel and school administrators based on student performance and other criteria in accordance with Section 1012.34(3), Florida Statutes, and whether a portion of each selected instructional employee’s compensation was based on performance in accordance with Section 1012.22(1)(c)4., Florida Statutes.
- Examined District records for 20 employees and 10 contractors selected from the population of 3,306 employees and 310 contractors for the audit period to assess whether individuals who had direct contact with students were subjected to the required fingerprinting and background screening.
- Examined Board policies, District procedures, and related records for volunteers for the audit period to determine whether the District searched prospective volunteers’ names against the Dru Sjodin National Sexual Offender Public Web site maintained by the United States Department of Justice, as required by Section 943.04351, Florida Statutes.
- Examined District records supporting the eligibility of:
 - 50 selected recipients of Florida Best and Brightest Teacher Scholarship Program awards from the population of 1,242 District-employed teachers who received scholarships awards totaling \$1.7 million during the audit period.
 - 4 selected recipients of the awards from the population of 15 charter school teachers who received scholarships awards totaling \$48,000 during the audit period.
- Evaluated District procedures to implement the Florida Best and Brightest Principal Scholarship Program pursuant to Section 1012.732, Florida Statutes. We also examined District records to determine whether the District submitted to the FDOE accurate information about the number of classroom teachers and the list of principals, as required by Section 1012.731(4), Florida Statutes, and whether the District timely awarded the correct amount to each eligible principal.

- From the population of 122 District bus drivers during the audit period, examined District records for 24 selected bus drivers to determine whether the District documented verifications of appropriate commercial licensure, background screening, driver history records, in-service training, and medical examiners certificates, as applicable.
- Evaluated Board policies and District procedures to ensure health insurance was provided only to eligible employees, retirees, and dependents and that, upon an employee's separation from District employment, insurance benefits were timely canceled as appropriate based on Board policies. We also determined whether the District had procedures for reconciling health insurance costs to employee, retiree, and Board-approved contributions.
- Examined documentation for the 18 payments totaling \$3,144 paid to employees for other than travel and payroll payments during the audit period to determine whether such payments were reasonable, adequately supported, for valid District purposes, and were not contrary to Section 112.313, Florida Statutes.
- Reviewed District procedures for bidding and purchasing health insurance to determine compliance with Section 112.08, Florida Statutes. We also reviewed procedures for the reasonableness of procedures for acquiring other types of commercial insurance to determine whether the basis for selecting insurance carriers was documented in District records and conformed to good business practice.
- From the population of payments totaling \$1.1 million during the audit period for new software applications, examined documentation supporting one selected payment totaling \$586,556 to determine whether the District evaluated the effectiveness and suitability of the software applications prior to purchase, the purchases were made through the competitive vendor selection process, and deliverables met the contract terms and conditions.
- From the population of purchasing card (P-card) transactions totaling \$377,084 during the period July 1, 2017, through May 23, 2018, examined documentation supporting 40 selected transactions totaling \$129,067 to determine whether P-cards were administered in accordance with Board policies and District procedures. We also determined whether the District timely canceled the P-cards for five cardholders who separated from District employment during the audit period.
- Evaluated District procedures for properly selecting architects engaged for construction projects that exceeded \$2 million.
- Evaluated District procedures for allocating Title I funds to ensure compliance with Section 1011.69(5), Florida Statutes. We examined District records to determine whether the District identified eligible schools, including charter schools, limited Title I allocations to eligible schools based on the threshold established by the District for the 2016-17 school year or the Statewide percentage of economically disadvantaged students and distributed all remaining funds to all eligible schools in accordance with Federal law and regulation.
- Examined District records and evaluated District procedures to determine whether the District distributed the correct amount of local capital improvement funds to its eligible charter schools by February 1, 2018, pursuant to Section 1013.62(3), Florida Statutes.
- Examined District records and evaluated District construction planning processes for the audit period to determine whether processes were comprehensive, included consideration of restricted resources and other alternatives to ensure the most economical and effective approach, and met District short-term and long-term needs.
- Evaluated District procedures for identifying facility maintenance needs and establishing resources to address those needs.
- Determined whether non-compensation expenditures were reasonable, correctly recorded, adequately documented, for a valid District purpose, properly authorized and approved, and in

compliance with applicable State laws, rules, contract terms and Board policies; and applicable vendors were properly selected. Specifically, from the population of non-compensation expenditures totaling \$21.7 million for the period July 2017 through February 2018, we examined documentation relating to 30 selected payments for general expenditures totaling \$85,273.

- From the population of Superintendent and Board Member travel expenses totaling \$10,107 during the audit period, examined documentation supporting six selected payments totaling \$7,343 to determine if expenses were supported and in compliance with Section 112.061, Florida Statutes.
- From the population of 183 consultants with expenditures totaling \$4.5 million during the period July 2017 through February 2018, examined supporting documentation, including the contract documents, for 30 selected payments totaling \$396,632 related to 27 contracts to determine whether:
 - The District complied with competitive selection requirements.
 - The contracts clearly specified deliverables, time frames, documentation requirements, and compensation.
 - District records documented satisfactory receipt of deliverables before payments were made.
 - The payments complied with contract provisions.
- Determined whether the District used supplemental academic instruction and research-based reading instruction allocations to provide, to the applicable schools, pursuant to Section 1011.62(9), Florida Statutes, an additional hour of intensive reading instruction to students every day, schoolwide during the audit period.
- Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.
- Prepared and submitted for management response the findings and recommendations that are included in this report and which describe the matters requiring corrective actions. Management's response is included in this report under the heading **MANAGEMENT'S RESPONSE**.

AUTHORITY

Pursuant to the provisions of Section 11.45, Florida Statutes, I have directed that this report be prepared to present the results of our operational audit.



Sherrill F. Norman, CPA
Auditor General

MANAGEMENT'S RESPONSE

The School District of Hernando County, Florida
Office of the Superintendent
919 N. Broad Street
Brooksville, FL 34601
Phone: (352) 797-7000
Fax: (352) 797-7010



Superintendent: *John Stratton*
Board Chairperson: *Susan Duval*
Vice Chairperson: *Linda K. Prescott*
Board Members:
Gus Guadagnino
Kay Hatch
Jimmy Lodato

March 27, 2019

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

Re: Hernando County District School Board Preliminary and Tentative Audit Findings
for the Fiscal Year Ended June 30, 2018

Dear Mrs. Norman,

Pursuant to the list of Preliminary and Tentative Audit Findings and Recommendations for the Hernando County District School Board for the Fiscal Year ended June 30, 2018, please accept the following written response as requested.

Finding No. 1: Ad Valorem Taxation: The District recognized our error by not retaining personnel activity reports or other records to substantiate the portion of custodian salaries and benefits attributable to functions allowable as uses of ad valorem tax proceeds and has restored the unsupported amount of \$260,490 to the Local Capital Improvement Funds.

Finding No. 2: Florida Best and Brightest Teacher Scholarship Program: The District does not agree with the finding that Pre-K Disability teachers are not qualified to receive the Best and Brightest Bonus. We included Pre-K Disability teachers as they are funded through the Exceptional Student Education Program under the FEFP Program as required by the Individuals with Disabilities Education Act, (IDEA). This is why we considered them eligible for the Best and Brightest Scholarship Program. We will seek

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clarification from the Florida Department of Education as to whether payments to these individuals were appropriate and additionally, their guidance on the appropriate actions to be taken going forward.

Finding No. 3: Health Insurance Plan – Participant Eligibility: The District is creating new procedures to appropriately identify eligible dependent status during initial enrollment once the employee is hired and during open enrollment. These procedures will require the employee to provide documentation to support the dependent's eligibility status. In addition, the procedures will include an audit of existing dependents to verify their eligibility status on a monthly basis to ensure the timely removal of participants once their employment has ended.

Finding No. 4: Tangible Personal Property: District staff have adopted new policies which address the items in the auditor's recommendations regarding property. We also recognize the concerns regarding the completion of an annual inventory. The District has purchased new fixed asset inventory software to work with our new provider, Skyward. The District will train staff as to the proper usage of this software and the overall handling of fixed assets.

Finding No. 5: Information Technology User Access Privileges: The District has undertaken to transition to a new SIS/ERP system to replace the aging and obsolete TERMS system currently in use. The new system chosen after an exhaustive RPI and RFP process was Skyward. The Skyward SIS and ERP system has built in safeguards to prevent the dissemination of sensitive information such as social security numbers for both current and former students and employees.

By default social security numbers for employees and students are masked and are not visible in the system, nor can they be added to a report unless the user is authorized and has sufficient security to see same. Only confidential employees can see social security numbers for employees and only for those in their cost center. If an employee retires, terminates employment or is otherwise inactive their social security number cannot be seen. If an employee moves to another cost center the former cost center confidential employee can no longer see any information on that employee including the social security number, only the confidential employee at the current cost center is able to see this information.

By default student social security numbers and FERPA information is treated as confidential and employees can neither see the number which is masked nor can they add social security numbers to any reports. Further each school/cost center can only see their current students and when a student leaves a cost center/school either by graduating, transfer or any other means, their records are no longer visible in that cost center. Access to social security numbers by default is limited to only those employees with a stated actual need and is only granted by giving an employee the security access to see same which is tightly regulated.

The ERP side of the skyward system is already implemented as of the date of this response and the District anticipates, barring any unforeseen complications, the SIS student side will be implemented and functional by August 2019.

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In addition to our regular yearly audit of user access privileges for all sites and cost centers, the District is currently reviewing all security levels and procedures for the implementation of the Skyward SIS/ERP system. During this review the District will undertake to review all user privileges and ensure they are appropriate and provide for adequate protection of information. Additionally due to the much more restrictive nature, and the better security safeguards, of the Skyward system, social security numbers, confidential and FERPA information will be protected from view or reporting except for a very specific class of District level employees which will be audited on an ongoing basis to prevent unnecessary access. The default setting of the Skyward system further prevents access to former or transferred employees and students at cost centers and schools providing another safeguard.

We would like to extend our appreciation to your staff for their assistance throughout the audit process. If you should have any questions, please contact Joyce McIntyre, Director of Finance and Purchasing, at (352) 797-7004.

Sincerely,



John Stratton
Superintendent

cc: School Board Members
Heather Martin, Deputy Superintendent
Lisa Becker, Executive Director of Business Services

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