

STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

Report No. 2020-010
August 2019

**GULF COUNTY
DISTRICT SCHOOL BOARD**



Sherrill F. Norman, CPA
Auditor General

Board Members and Superintendent

During the 2017-18 fiscal year, Jim Norton served as Superintendent of the Gulf County Schools and the following individuals served as School Board Members:

	<u>District No.</u>
Robert D. Little III	1
Brooke Wooten, Chair from 11-7-17, Vice Chair through 11-6-17	2
Cindy Belin, Vice Chair from 11-7-17	3
Billy C. Quinn Jr., Chair through 11-6-17	4
John W. Wright	5

The team leader was Juan Fernandez, CPA, and the audit was supervised by Shelly G. Curti, 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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GULF COUNTY DISTRICT SCHOOL BOARD

SUMMARY

This operational audit of the Gulf County School District (District) focused on selected District processes and administrative activities and included a follow-up on additional matter findings noted in our report No. 2016-104. Our operational audit disclosed the following:

Finding 1: The District food service program experienced operating losses for the 2012-13 through 2017-18 fiscal years, ranging from \$80,000 to \$153,000 and averaging \$100,000 each year. Although we requested, records were not provided to document District efforts to monitor the food service program with a view toward improving the program's financial condition.

Finding 2: As of June 2019, the District had not followed a competitive selection process for procuring health insurance since August 2013.

Finding 3: District controls over the competitive procurement of custodial services need improvement.

BACKGROUND

The Gulf 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 Gulf County. The governing body of the District is the Gulf County District School Board (Board), which is composed of five elected members. The elected Superintendent of Schools is the Executive Officer of the Board. During the 2017-18 fiscal year, the District operated five elementary, middle, high, and specialized schools; and reported 1,921 unweighted full-time equivalent students.

FINDINGS AND RECOMMENDATIONS

Finding 1: Financial Condition – Food Service Program

The District operates a food service program for each District school and provides meals to participating students and staff. The program, accounted for in the Special Revenue – Food Service Fund (Fund), generates revenue from the sale of food and from Federal grants and State supplements. The program's primary operating expenditures include salaries and benefits and purchased food and supplies.

The financial condition of the program is significantly impacted by the prices charged for meals served along with the costs associated with those meals. To properly monitor the financial condition of the program, it is important for the District to specify the program's target fund balance or funding level. During periods of financial condition decline, the District should document the financial decisions that cause operating losses with a view towards reversing the losses and identify the funding sources to subsidize the program if the program is occasionally not self-sufficient. Our examination of District records disclosed that:

- For the 2012-13 through 2016-17 fiscal years, the program experienced operating losses ranging from \$80,000 to \$107,000 and averaging \$91,000 each year. To subsidize program operations and cover the losses each year, the Board approved unrestricted General Fund transfers to the Fund.
- For the 2017-18 fiscal year, the District's total number of students¹ remained relatively constant. During that period, the total meals served² and revenues³ decreased while expenditures⁴ increased, resulting in an operating loss of \$153,000. As in previous years, the Board subsidized the program and covered the loss by transferring General Fund moneys to the Fund.

Notwithstanding the Board-approved transfers, although we requested, District records were not provided to document efforts to monitor the program with a view toward improving the program's financial condition.

According to District personnel, the Board had not, as of June 2019, established policies or procedures for specifying the program's target fund balance or funding level, documenting the financial decisions that cause operating losses with a view toward reversing the losses, and identifying the funding sources to subsidize the program when the program is not self-sufficient. In response to our inquiry, District personnel indicated that, to improve the program's financial condition, the District may participate in the Federal Community Eligibility Provision⁵ or externally contract with a food service provider and privatize the program.

Continued shortages in the program will require other resources to fund the program and reduce funds available for the District's other educational programs.

Recommendation: Board policies should be established to specify the food service program's target fund balance or funding level, require the financial decisions that cause program operating losses to be documented with a view toward reversing the losses, and identify the funding sources to subsidize the program if the program is occasionally not self-sufficient.

Finding 2: Insurance – Competitive Selection

Pursuant to State law,⁶ before entering into any contract for life, health, accident, hospitalization, legal expense, or annuity insurance, or all or any kinds of such insurance, for District officers and employees, the District must advertise for competitive bids and such contract must be let upon the basis of such bids. The District is authorized to undertake simultaneous negotiations with qualified bidders during the selection process. For health insurance premiums during the 2017-18 fiscal year, the District paid \$1,622,868 and employees paid \$520,967.

According to District records as of June 2019, the District last solicited requests for proposals for health insurance in August 2013, effective for the 2014 calendar year. In response to our inquiry, District personnel indicated the District directly negotiated with the existing provider through their agent of record.

¹ During the 2017-18 fiscal year, the District had approximately 1,900 total full-time equivalent students.

² Total meals served decreased by 16,000 meals (7 percent).

³ Total program revenues decreased by \$21,000 (2 percent).

⁴ Total program expenditures increased by \$52,000 (5 percent).

⁵ The Federal Community Eligibility Provision is a Federally subsidized meal service option that allows high poverty schools and school districts to serve breakfast and lunch at no cost to students without collecting household income applications.

⁶ Section 112.08(2)(a), Florida Statutes.

Although District insurance needs and related costs have varied over the years, District personnel indicated that the existing provider remained the best option due to the lack of availability of local network options from other providers, and each year the Board enters into direct negotiations with the provider.

Notwithstanding the District's response, by periodically seeking competitive bids for insurance and negotiating with qualified bidders, the District could demonstrate compliance with State law and also gain additional assurance that insurance coverage was obtained at the lowest cost consistent with acceptable quality.

Recommendation: As required by State law, the District should use competitive bidding procedures when entering into contracts for health insurance.

Finding 3: Competitive Procurement - Contractual Services

State Board of Education (SBE) rules⁷ require the District to request bids or proposals through the competitive solicitations process from three or more sources for any authorized purchase or contract for services exceeding \$50,000. SBE rules also provide that, in lieu of requesting competitive solicitations from three or more sources, the District may make purchases at or below the specified prices from contracts awarded by another governmental entity, such as another school district, when the proposer awarded the contract by the other governmental entity permits District purchases at the same terms, conditions, and prices (or below such prices) awarded in the contract, and the purchases are to the District's economic advantage. The Board routinely enters into contracts for services, and internal controls have been designed to comply with the SBE rule procurement requirements.

From the population of payments totaling \$891,559 during the period July 2017 through April 2018 related to 70 vendor contracts for services, we requested for examination District records associated with 15 selected payments totaling \$206,106 for 11 contracts to determine whether the District's contracting process complied with the SBE rule requirements and payments were consistent with contract terms and conditions. Included in the 15 selected payments were 3 monthly payments of \$31,791.24 each and totaling \$95,373.72 made based on Board-approved prices for custodial services during the period July 2017 through April 2018.

Our discussions with District personnel and examination of District records related to the custodial services disclosed that, in May 2013, the Board directed the Superintendent to negotiate a custodial services contract based on another school district's bid. In that same month, the Board approved the 2013-14 fiscal year custodial services contract, which provided for a set cost of \$30,709 per month for the 6 facilities receiving services and annual renewals through June 2018. The Board also renewed the contract annually through June 2018 along with price increases, resulting in a monthly cost of \$31,791.24 for custodial services for those facilities, or a total of \$381,494.88 for the 2017-18 fiscal year. However, although we requested, District records were not provided to evidence the other school district's competitive solicitation process.

We requested and obtained records from the other school district that demonstrated that the other school district used a competitive solicitation process to select the vendor that also contracted with the District.

⁷ SBE Rule 6A-1.012, Florida Administrative Code.

However, unlike the District's set monthly cost (originally \$30,709, which increased to \$31,791.24), the contract for the other school district specified costs of \$0.064 to \$0.119 per square foot for that district's 14 facilities receiving services or monthly costs totaling \$54,670. In addition, we noted that the District's contract was not consistent with the other school district's contract as provisions in the two contracts differed. For example, the District's contract included an option to clean certain rooms every other day and the other school district's contract did not have that provision. Although we requested, District personnel could not provide an explanation to reconcile the differences between the two contracts.

It is important when relying on another governmental entity's competitive negotiation and contract awarding process to, prior to executing a contract, obtain and review the necessary documentation to evaluate the reliability of the other entity's process and to confirm that the District's contract will be based on similar or better conditions and terms than included in the other entity's contract. Without such evaluation, the District cannot demonstrate that using another governmental entity's contract was to the economic advantage of the District.

Recommendation: The District should enhance procedures to ensure that District records clearly evidence compliance with SBE rules and demonstrate that purchases were made at the lowest price consistent with desired quality.

PRIOR AUDIT FOLLOW-UP

The District had taken corrective actions for additional matter findings included in our report No. 2016-104.

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 April 2018 to June 2019, 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 additional matter findings included in our report No. 2016-104.
- 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 the policies and procedures addressed certain important IT control functions, such as security, systems development and maintenance, network configuration management, system backups, and disaster recovery.
- 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 system finance and human resources applications to determine the appropriateness and necessity of the access based on employees' job duties and user account functions and whether the access prevented the performance of incompatible duties. We also examined the administrator account access privileges granted and procedures for oversight of administrative

accounts for the network and applications to determine whether these accounts had been appropriately assigned and managed.

- 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 \$556,887 and transfers totaling \$512,873 during the audit period from ad valorem tax levy proceeds, Public Education Capital Outlay funds, and other restricted capital project funds, examined documentation supporting selected expenditures and transfers totaling \$315,901 and \$162,566, respectively, to determine compliance with the restrictions imposed on the use of these resources.
- Reviewed Workforce Development funds expenditures totaling \$193,448 for the audit period 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 1,692 contact hours for 34 adult general education instructional students during the audit period, examined District records supporting 981 reported contact hours for 26 selected students to determine whether the District reported the instructional contact hours in accordance with State Board of Education Rule 6A-10.0381, Florida Administrative Code.
- Evaluated District procedures for protecting the sensitive personal information of students, including social security numbers. Specifically, from the population of 16 individuals who had access to sensitive personal student information, we examined the access privileges of these 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.
- From the population of 4,953 payroll transactions totaling \$9.4 million to 371 employees during the period from July 2017 through April 2018, examined District records supporting compensation payments totaling \$61,457 to 30 selected employees to determine whether their rate of pay was accurate and supervisory personnel reviewed and approved their reports of time worked.
- From the population of 142 instructional personnel and 4 school administrators for the audit period, examined supporting documentation for 26 selected employees to determine whether the District had developed adequate performance assessment procedures for instructional personnel and school administrators based on student performance and other criteria in accordance with Section 1012.34(3), Florida Statutes. We also determined whether a portion of each instructional employee's compensation was based on performance in accordance with Section 1012.22(1)(c)4., Florida Statutes.
- Examined District records for the audit period for 35 employees and 18 contracted personnel selected from the population of 371 employees and 34 contracted personnel 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 performed a level 2 background screening or 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 23 selected District recipients of the Florida Best and Brightest Teacher Scholarship Program awards from the population of 120 District teachers who received scholarship awards totaling \$178,400 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 Florida Department of Education 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.
- 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 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 student, and distributed all remaining funds to all eligible schools in accordance with Federal law and regulation.
- From the population of expenditures totaling \$891,559 during the period July 2017 through April 2018 related to 70 contracts with service providers, selected 15 payments totaling \$206,106 and examined supporting documentation, including the 11 contract documents, 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.
- Evaluated District procedures for bidding and purchasing health insurance to determine compliance with Section 112.08, Florida Statutes.
- Determined whether the District had established and implemented various school safety requirements in accordance with Section 1006.07, Florida Statutes; adopted and implemented school safety policies and procedures; completed an annual self-assessment of safety and security practices; and the Superintendent designated a school safety specialist for the District pursuant to Section 1006.07(6), Florida Statutes.
- Evaluated District procedures for identifying facility maintenance needs and establishing resources to address those needs. We also compared maintenance plans with needs identified in safety inspection reports, reviewed inspection reports for compliance with Federal and State inspection requirements, evaluated District efforts to timely resolve any deficiencies identified during inspections, and tested the work order system for appropriate tracking of maintenance jobs.
- Evaluated District procedures for determining maintenance department staffing needs. We also determined whether such procedures included consideration of appropriate factors and performance measures that were supported by factual information.
- From the population of 1,992 non-payroll expenditures totaling \$9 million for the audit period, examined documentation relating to 34 selected transactions totaling \$77,413 to determine whether the non-payroll expenditures were reasonable, correctly recorded, adequately documented, for valid District purposes, properly authorized and approved, and in compliance with applicable State laws, rules, contract terms, and Board policies.
- Evaluated the adequacy of District Virtual Instruction Program (VIP) policies and procedures.

- Examined District records for the audit period to determine whether the District provided the required number of VIP options and properly informed parents and students about students' rights to participate in a VIP and the VIP enrollment periods as required by Section 1002.45(1)(b) and (10), Florida Statutes.
- 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.

A handwritten signature in blue ink that reads "Sherrill F. Norman". The signature is written in a cursive, flowing style.

Sherrill F. Norman, CPA
Auditor General

MANAGEMENT'S RESPONSE

JIM NORTON
SUPERINTENDENT



150 Middle School Road
Port St. Joe, FL 32456
850-229-8256 • 850-639-2871
Fax: 850-229-6089

July 31, 2019

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

Dear Ms. Norman:

We are in receipt of the preliminary and tentative findings for the operational audit of the Gulf County District School Board. Our responses are below:

Finding 1:

The district's long term goal is for the Food Service Program to be self-sufficient. During the periods of operating losses the district will review the costs versus the income to determine areas of weakness. This will allow the district to make changes when the losses are first detected. The district is also reviewing alternatives to the standard food service model such as privatization or changing to the Federal Community Eligibility Provision.

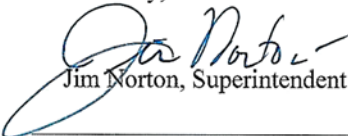
Finding 2:

While the current health insurance provider remains the best choice for the district due to its vast network, during the 2019-20 school year the district will seek competitive bids from all interested providers. Through our agent of record the district will continue the competitive bidding process in all future health insurance procurements.

Finding 3:

In the future the district will seek competitive bids for custodial services instead of the "piggy-back" method based on another district's competitive bid process. We will set specific criteria for consistent pricing among all competitors. If the district finds that another district's bid is available and is lower than received bids, the district will require a side by side comparison to ensure the pricing is fair and consistent with the district's specific bid criteria.

Sincerely,



Jim Norton, Superintendent

www.gulf.k12.fl.us

Danny Little
District 1

Brooke Wooten
District 2

Cindy Belin
District 3

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District 4

John W. Wright
District 5