

STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

Report No. 2018-164
March 2018

**HAMILTON COUNTY
DISTRICT SCHOOL BOARD**



Sherrill F. Norman, CPA
Auditor General

Board Members and Superintendent

During the 2016-17 fiscal year, Rex L. Mitchell served as Superintendent of the Hamilton County Schools from 11-22-16, Thomas P. Moffses Jr. served as Superintendent before that date, and the following individuals served as School Board Members:

| | <u>District No.</u> |
|---|---------------------|
| Cheryl McCall | 1 |
| Gary Godwin, Vice Chair from 11-22-16, Chair through 11-21-16 | 2 |
| Saul Speights from 11-22-16 | 3 |
| Jeanie Daniels through 11-21-16 | 3 |
| Johnny Bullard, Chair from 11-22-16, Vice Chair through 11-21-16 | 4 |
| Suzette Wiggins | 5 |

The audit was supervised by Glenda K. Hart, 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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HAMILTON COUNTY DISTRICT SCHOOL BOARD

SUMMARY

This operational audit of the Hamilton County School District (District) focused on selected District processes and administrative activities and included a follow-up on findings noted in our report No. 2016-120. Our operational audit disclosed the following:

Finding 1: District personnel did not compare construction management entity (CME) pay requests for the New K-6 Elementary School Project with the CME guaranteed maximum price contract and subcontractor invoices, bids, and contracts.

Finding 2: District construction administration monitoring procedures for the New K-6 Elementary School Project did not include attendance at the subcontractor bid openings or documented comparisons of the subcontractor bids and contracts to verify that the CME used a competitive selection process to select subcontractors and that the bid award and contract amounts agreed.

Finding 3: The District did not verify that subcontractors were appropriately licensed before they commenced work on the New K-6 Elementary School Project.

Finding 4: The District needs to enhance controls over negotiating, monitoring, and documenting the reasonableness of CME general conditions costs.

Finding 5: Although required by State law and Board policies, the Board did not competitively select the architect for the New K-6 Elementary School Project.

Finding 6: Contrary to State law, the District did not always provide due public notice of Board meetings, maintain Board meeting minutes, or timely obtain Board approval for meeting minutes.

Finding 7: The District needs to strengthen controls to ensure that instructional contact hours for adult general education classes are accurately reported to the Florida Department of Education.

Finding 8: The Board had not established a documented process for identifying the instructional personnel and school administrators entitled to differentiated pay using the factors prescribed in State law nor had the Board adopted salary schedules that specify the differentiated pay based on those factors. A similar finding was noted in our report No. 2016-120.

Finding 9: Improvements are needed in the administration and monitoring of the Districts purchasing card program.

Finding 10: Payments for lobbying and legal services were made without executed contracts or other records to preauthorize the services and related costs.

Finding 11: Some unnecessary information technology (IT) user access privileges existed that increased the risk that unauthorized disclosure of student social security numbers may occur.

Finding 12: District IT security controls related to logging and monitoring of network security events need improvement. A similar finding was noted in our report No. 2016-120.

BACKGROUND

The Hamilton 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 Hamilton County. The governing body of the District is the Hamilton 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 2016-17 fiscal year, the District operated three elementary and one combination middle/high school and reported 1,615 unweighted full-time equivalent students.

This operational audit of the District focused on selected processes and administrative activities and included a follow-up on findings noted in our report No. 2016-120. The results of our audit of the District's financial statements and Federal awards for the fiscal year ended June 30, 2017, will be presented in a separate report.

FINDINGS AND RECOMMENDATIONS

Finding 1: Monitoring Construction Payment Requests

Under the construction management entity (CME) process, contractor profit and overhead are contractually agreed upon, and the CME is responsible for all scheduling and coordination in both the design and construction phases and is generally responsible for the successful, timely, and economical completion of the construction project. The CME may be required to offer a guaranteed maximum price (GMP), which allows for the difference between the actual cost of the project and the GMP amount, or the net cost savings, to be returned to the District. To ensure potential savings in material and labor costs and prevent cost overruns or other impediments to successful completion of GMP contracts, it is important that District personnel verify that CME pay requests agree with supporting documentation such as subcontractor bids, contracts, and invoices.

The District solicited competitive proposals, as required by State law,¹ for CME services related to the New K-6 Elementary School Project and, in July 2016, the Board entered into a GMP contract totaling \$19.7 million with a CME for these services. During the 2016-17 fiscal year, the District made payments to the CME totaling \$11.5 million for the project. To evaluate District monitoring controls over CME pay requests, we inquired of District personnel and examined District records supporting selected expenditures totaling \$11.3 million, including \$9.6 million paid to the CME for subcontractor services, \$1 million in general conditions costs, and \$700,000 for CME overhead and profit.

Our examination of District records disclosed that District personnel reconciled CME pay requests to subcontractor invoices, verified the mathematical accuracy of the requests, and also verified prior payments were properly accumulated. However, District personnel indicated that they did not compare each line in the schedule of values for each CME pay request to the GMP contract nor were the amounts for subcontractor services compared to the subcontractors' bids and contracts. According to District

¹ Section 287.055, Florida Statutes.

personnel, the subcontractor bids and contracts were retained by the CME and the District relied on the CME to reconcile the subcontractor bids and contracts to the CME pay requests associated with subcontractor services. In addition, as discussed in Finding 4, District personnel did not compare general conditions costs billed in the CME pay requests to appropriate supporting documentation.

As part of our audit, we requested, and the District obtained, subcontractor bid and contract documentation from the CME supporting the \$9.6 million paid to the CME for subcontractor services and we determined that the selected CME pay requests were generally consistent with the subcontractor bids and contracts. However, our comparison of the April 30, 2017, CME pay request to the GMP contract disclosed that the amount of overhead and profit billed by the CME and paid by the District exceeded the GMP contract amount by \$5,000. The CME-calculated overhead and profit amount included costs that were specifically excluded according to the GMP contract provisions and the \$5,000 overpayment was made because District personnel did not compare the CME pay requests to the GMP contract provisions.

Our procedures cannot substitute for management's responsibility to implement adequate controls over construction payment requests. Absent documented comparisons of each line in the schedule of values for each CME pay request to supporting documentation, there is an increased risk that the District may overpay for services and not realize maximum cost savings under GMP contracts.

Recommendation: The District should enhance procedures for monitoring CME pay requests to include a documented comparison of the cost items in the CME pay requests to supporting documentation, including, as applicable, GMP contracts and subcontractor bids and contracts, before payment is made to the CME. In addition, the District should contact the CME to recover the \$5,000 overpayment for CME overhead and profit.

Finding 2: Subcontractor Selection

The GMP construction contract for the New K-6 Elementary School Project required the CME to solicit bids and award subcontracts, as necessary. Good business practice dictates that District personnel monitor the subcontractor selection process to ensure services are obtained at the lowest cost consistent with acceptable quality and to realize maximum cost savings under the GMP contract.

According to District personnel, they did not attend the subcontractor bid openings or verify that the bids were awarded to subcontractors based on the lowest cost bid consistent with acceptable quality. Additionally, District personnel indicated that they did not compare subcontractor bid awards per bid tabulation sheets to the CME's subcontractor contracts to ensure that subcontractors were competitively selected and that bid award and contract amounts agreed. Instead, District personnel relied on the CME to ensure that subcontractors were competitively selected.

From the population of 29 subcontractors contracted to provide services totaling \$17.6 million for the New K-6 Elementary School Project, we requested, and District personnel obtained from the CME, contracts for all subcontractors. We compared the bid awards listed on the bid tabulation sheets and the subcontractor contracts and confirmed that the subcontractors were competitively selected and that the bid award and contract amounts agreed. However, our procedures cannot substitute for the District's responsibility to verify that subcontractor contracts are awarded by the CME using a competitive selection process and that the bid award and contract amounts agree.

Recommendation: The District should enhance procedures to require that District personnel attend subcontractor bid openings and to include a documented comparison of subcontractor bid awards to subcontractor contracts to verify that the CME used a competitive selection process to select subcontractors and that the bid award and contract amounts agree.

Finding 3: Subcontractor Licenses

State law² provides that a CME must consist of, or contract with, licensed or registered professionals for the specific fields or areas of construction to be performed. State law³ also establishes certain certification requirements for persons engaged in construction contracting, including licensing requirements for specialty contractors such as electrical, air conditioning, plumbing, and roofing contractors.

For the New K-6 Elementary School Project, the District's CME subcontracted certain construction services requiring licensure under State law to five subcontractors for \$6.3 million; however, District personnel indicated that they did not verify that the subcontractors were licensed and instead relied on the CME to verify this information. As part of our procedures, we requested and were provided documentation to confirm that all five subcontractors were appropriately licensed. However, our procedures do not substitute for management's responsibility to implement adequate internal controls.

Timely documented verifications that subcontractors are appropriately licensed provides the District assurance that the subcontractors who will be working on District facilities meet the qualifications to perform the work for which they are engaged.

Recommendation: The District should enhance procedures to document verification that subcontractors are appropriately licensed before they commence work on District facilities. Such verification should be documented in District records.

Finding 4: General Conditions Costs

GMP contracts typically include provisions for general conditions costs that are not directly associated with a particular activity and may include costs relating to labor supervision, temporary offices and utilities, travel expenses, clean-up, permits, and testing. Established policies and procedures that provide appropriate guidance for effectively negotiating, monitoring, and documenting the reasonableness of general conditions costs are essential to ensure that potential cost savings are realized under GMP contracts.

The GMP contract for the New K-6 Elementary School Project included general conditions costs totaling \$1.1 million and CME pay requests included these costs at a fixed rate over the duration of the project. However, based on our discussion with District personnel, the District had not established policies or procedures for effectively negotiating, monitoring, and documenting the reasonableness of the general conditions costs. Additionally, District records did not document the methodology used and factors considered during the negotiation process to establish the reasonableness of the general conditions costs

² Section 1013.45(1)(c), Florida Statutes.

³ Chapter 489, Florida Statutes.

and detailed documentation, such as CME payroll records or copies of CME-paid invoices, were not obtained by the District to support the propriety of the general conditions costs billed and paid.

Our review of general conditions costs further disclosed that the contract with the CME stated that, once the GMP was approved, detailed accounting of the general conditions costs would no longer be applicable. Consequently, District records were not maintained to support any of the CME general conditions costs. Absent effectively negotiating general conditions costs and monitoring detailed documentation, such as CME payroll records or CME paid invoices, to support the amounts the CME requests from the District, the District may be limited in its ability to determine the propriety of CME pay requests for general conditions costs or to recover any cost savings associated with these costs.

Recommendation: The District should establish policies and procedures for negotiating, monitoring, and documenting the reasonableness of general conditions costs. Such policies and procedures should require documentation of the methodology used and factors considered in negotiating general conditions costs, and the receipt and review of sufficiently detailed documentation supporting the general conditions costs included in CME pay requests.

Finding 5: Architect Selection

State law⁴ prescribes the competitive selection process to be followed for each occasion when professional services, including architectural services, must be purchased for a project in which the basic construction cost is estimated to exceed \$325,000, except in cases of valid public emergencies certified by the agency head. In addition, Board policies⁵ specify the procedures to be followed when contracting with a professional for services, including advertising, rating the applications, and negotiating with the firm rated as most qualified. The competitive selection process reduces the appearance and opportunity for favoritism and inspires public confidence that the architect was selected in a fair, equitable, and economical manner.

As part of our audit, we inquired of District personnel and examined District records supporting the selection of the architect for the New K-6 Elementary School Project with a GMP of \$19.7 million. We found that, on May 11, 2015, the District contracted with an architect and that the estimated architect services for this project totaled \$1.2 million. However, District records did not evidence compliance with the competitive selection process prescribed by State law and Board policies for these services and, although we requested, no explanation was provided for the noncompliance. Absent compliance with the required competitive procurement process, there is an increased risk that the District may not select architects in a fair, equitable, and economical manner or obtain services at the lowest cost consistent with desired quality.

Recommendation: The District should enhance procedures to ensure compliance with the required competitive procurement process for professional services and to demonstrate the District's fair, equitable, and economical selection of the provider of these services at the lowest cost consistent with desired quality.

⁴ Section 287.055(3), (4), and (5), Florida Statutes.

⁵ Board Policy 7.141, Selecting Professional Services.

Finding 6: Board Minutes

State law⁶ requires that reasonable notice of public meetings be given and minutes of public meetings be promptly recorded and open for public inspection. State law⁷ provides that due public notice for regular and special Board meetings consist of publication in a newspaper of general circulation in the County, if available. In addition, State law⁸ requires the Board to keep meeting minutes as necessary to set forth clearly all Board actions and proceedings and to review and to approve such minutes for each Board meeting at the next regular meeting. The minutes are to be kept as a public record in a permanent location.

Our inquiries of District personnel and examination of District records supporting the 2016-17 fiscal year Board meetings disclosed that the District did not always comply with State law requirements governing due public notice of Board meetings, the availability of Board meeting minutes, or the timely approval of Board meeting minutes. Specifically, we noted that:

- According to District personnel, public notice of Board meetings was typically posted on the District Web site. However, contrary to State law, public notice for 10 of the 14 regular and special meetings held during the period July 1, 2016, through May 9, 2017, did not consist of publication in a newspaper of general circulation. In response to our inquiry, District personnel indicated they were not aware that State law required such notice. Without appropriate notice, the public may not be informed of upcoming Board meetings, which may reduce attendance at the meetings.
- As of June 19, 2017, the Board minutes for 1 budget hearing on July 25, 2016; 5 workshops during the period August 22, 2016, through April 24, 2017; 1 special meeting on October 24, 2016; and 1 regular meeting on November 22, 2016; had not been posted to the District Web site and were otherwise unavailable for inspection. In response to our request for these minutes, District personnel indicated that, due to employee workload, the District did not promptly record and submit the minutes for Board approval. To remedy these deficiencies, in June 2017 the District reassigned duties for maintaining the minutes to ensure future minutes are promptly recorded, Board-approved, and made available for public inspection.
- Board minutes for 11 of the 12 regular Board meetings were not approved until 28 to 217 days, or an average of 52 days, after the next regular meeting. In addition, the District did not provide to the Board for approval, the minutes for the July 25, 2016, budget hearing; the 5 Board workshops held August 22, 2016, through April 24, 2017; or the October 24, 2016, special meeting until after our inquiry. Subsequent to our inquiry, District personnel provided evidence that the applicable minutes were prepared and presented to the Board for approval on February 13, 2018. However, due to an oversight, the Board did not approve the minutes of the October 24, 2016, special meeting at the February 13, 2018, meeting. According to District personnel, those minutes would be approved at the March 2018 Board meeting.

Recommendation: The District should implement procedures to ensure public notice for applicable Board meetings is published in a newspaper of general circulation in the County in accordance with State law. In addition, the Board should continue efforts to ensure that minutes for all Board meetings are promptly recorded, Board-approved, and made available for public inspection in accordance with State law.

⁶ Section 286.011(2), Florida Statutes.

⁷ Section 1001.372(2)(c), Florida Statutes.

⁸ Section 1001.42(1), Florida Statutes.

Finding 7: Adult General Education Classes

State law⁹ defines adult general education, in part, as comprehensive instructional programs designed to improve the employability of the State's workforce. The District received State funding for adult general education, and General Appropriations Act¹⁰ proviso language required each district to report enrollment for adult general education programs in accordance with the FDOE instructional hours reporting procedures.¹¹

FDOE procedures state that fundable instructional contact hours are those scheduled hours that occur between the date of enrollment in a class and the withdrawal date or end-of-class date, whichever is sooner. The procedures also require school districts to develop a procedure for withdrawing students for nonattendance and provide that the standard for setting the withdrawal date be six consecutive absences from a class schedule, with the withdrawal date reported as the day after the last date of attendance.

For the Fall 2016 Semester, the District reported 3,695 instructional contact hours for 18 students enrolled in 6 adult general education classes. As part of our audit, we examined District records for 2,999 hours reported for 14 students enrolled in 6 adult general education classes. We found that instructional contact hours were over reported a net total of 264 hours, including 430 over-reported hours (ranging from 4 to 176 hours) for 9 students and 166 under-reported hours (ranging from 2 to 64 hours) for 4 students. In response to our inquiry, District personnel indicated that the errors occurred because of errors in manual calculations of attendance records and personnel turnover.

The full extent of the class hours that may have been misreported for the adult general education students for the 2016-17 fiscal year was not readily available. Since future funding is based, in part, on enrollment data submitted to the FDOE, it is important that the District report accurate data.

Recommendation: The District should strengthen controls to ensure instructional contact hours for adult general education classes are accurately reported to the FDOE. The District should also determine to what extent the adult general education hours were misreported for the 2016-17 fiscal year and contact the FDOE for proper resolution.

Finding 8: Compensation and Salary Schedules

State law¹² requires the Board to designate positions to be filled; prescribe qualifications for those positions; and provide for the appointment, compensation, promotion, suspension, and dismissal of employees. State law¹³ provides that, for instructional personnel and school administrators, the Board must provide differentiated pay based on District-determined factors, including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties.

⁹ Section 1004.02(3), Florida Statutes.

¹⁰ Chapter 2016-66, Laws of Florida, Specific Appropriation 122.

¹¹ FDOE-issued Memorandum No. 06-14, dated May 15, 2006, *Reporting Procedures for Adult General Education Enrollments*.

¹² Section 1001.42(5)(a), Florida Statutes.

¹³ Section 1012.22(1)(c)4.b., Florida Statutes.

While compensation of instructional personnel is typically subject to collective bargaining, the Board had not established a documented process to identify instructional personnel or school administrators entitled to differentiated pay using the factors prescribed in State law. Such a documented process could specify the factors to be used as the basis for determining differentiated pay, the process for applying the factors, and the individuals responsible for making such determinations.

For the 2016-17 fiscal year, the instructional personnel salary schedule provided for additional responsibilities differentiated pay, such as for sponsoring classes, directing bands, and coaching athletics, and the school administrator salary schedule indicated that the Superintendent could place an administrator in any level of classification justified. However, contrary to State law, District records did not evidence instructional personnel differentiated pay based on school demographics, critical shortage areas, and level of job performance difficulties. Additionally, District records did not evidence school administrator differentiated pay based on additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties.

In response to our inquiry, District personnel indicated that the salary schedules did not always provide for differentiated pay because they were still in the process of revising their current salary schedules to comply with statutory requirements. However, without a Board-established documented process for determining which instructional personnel are to receive differentiated pay and Board-adopted salary schedules that identify differentiated pay based on the required differentiated pay factors, the District may be limited in its ability to demonstrate that the various differentiated pay factors are consistently considered and applied. Similar findings were noted in our report Nos. 2016-120 and 2015-140.

Recommendation: The Board should establish a documented process for identifying the instructional personnel and school administrators entitled to differentiated pay using the factors prescribed in State law and adopt salary schedules that specify the differentiated pay based on those factors.

Finding 9: Purchasing Card Policies and Procedures

The District established a Purchasing Card (P-card) program, which gives designated employees delegated authority and flexibility to make minor purchases of small routine materials and supplies. The District *Administrative Procedures for Purchasing and Contracting for Goods and Services* specify that purchases made with P-cards are subject to the same rules and regulations that apply to other District purchases and are also subject to additional P-card requirements established in the *Purchasing Card Program Procedures Manual (Manual)*. The *Manual*:

- Requires the department head to complete a P-card request form and submit the form to the Director of Business Services for review and issuance of the P-card.
- Requires the cardholder to sign a cardholder agreement upon P-card issuance to agree to the conditions for P-card use and to complete a required training session.
- Specifies that, upon separation from employment, the department head is to collect the employee's P-card and destroy it by cutting it in two and delivering the card to the Director of Business Services. The Director of Business Services is required to notify the bank to cancel the card within 24 hours of the cardholder's employment separation date.

Although not required by the *Manual*, good business practice dictates that cardholders accept responsibility for their P-card transactions by documenting verification that the transactions were for District purposes. In addition, it is essential that records document supervisory approval of the transactions to confirm the allowability of P-card purchases. Also, the date that goods and services are received should be documented to help evidence that the purchases were received and available for District use.

P-card expenditures totaled \$468,216 for the period July 1, 2016, through May 5, 2017, and, as of May 10, 2017, 21 District employees had P-cards and an additional 10 P-cards were available on a sign-out basis for authorized travel by District personnel. To determine whether District personnel signed cardholder agreements upon P-card issuance and attended required training, we requested for examination District records supporting P-cards issued to 13 of the 21 employees. However, contrary to the *Manual*, District records did not evidence that 12 of the employees signed cardholder agreements and the 1 signed cardholder agreement was dated 321 days after the P-card issuance date. In addition, District records did not evidence that any of the employees attended required training because, contrary to the *Manual*, District management had not established a P-card training program. Without timely signed agreements and required training, the cardholders may not understand or have incentive to comply with the P-card program requirements.

In addition, we examined District records supporting 30 selected P-card expenditures totaling \$17,742 during the 2016-17 fiscal year. We found that District records did not document cardholder verification for 15 P-card expenditures totaling \$9,103, including 8 P-card expenditures totaling \$7,035 without documented supervisory approval. In addition, the dates that goods or services were received was not documented for 7 P-card expenditures totaling \$7,217. Absent documented cardholder verification, supervisory approval, and the dates good and services are received, there is an increased risk of fraud or errors associated with P-card purchases.

We also examined District records supporting the P-card cancellations for four cardholders who separated from District employment during the 2016-17 fiscal year and found that the P-cards were canceled 6 to 40 or an average of 15 days after the cardholders' employment separation dates. While our examination of District P-card records did not disclose any charges for the four cardholders after their employment separation dates, untimely cancellation of P-card privileges increases the risk that the cards could be misused by former employees or others and may limit the District's ability to satisfactorily resolve disputed charges.

Recommendation: The District should ensure that:

- **Cardholders sign cardholder agreements upon P-card issuance to agree to the conditions for P-card use. The District should also develop appropriate P-card training sessions and require all cardholders to attend and complete the required training.**
- **P-card transactions are supported by documented verifications of P-card charges by cardholders; supervisory review and approval of charges; and the dates that goods and services are received.**
- **P-card privileges are promptly canceled upon a cardholder's separation from District employment.**

Finding 10: Contractual Services

As a matter of good business practice, contractual arrangements should be evidenced by written contracts embodying all provisions and conditions of the procurement of such services. The use of a well-written, complete, and properly executed contract protects the interests of both parties, defines the services to be performed, and provides a basis for payment. In addition, the District is responsible for establishing controls to ensure that payments to contractors are for services performed in accordance with agreed-upon terms.

For the 2016-17 fiscal year, the District paid \$742,232 for various contractual services (excluding construction). Our examination of District records supporting 45 payments for contractual services totaling \$177,299 related to nine contracts disclosed that monitoring of payments for certain professional services could be improved. Specifically, we found that:

- The District paid \$10,208 to a registered lobbying firm; however, although we requested, District records, such as a purchase order, contract, or other documentation, were not provided that defined the services to be performed, established the basis for payment, or evidenced that the agreed-upon terms protected the interests of both parties. In addition, the invoices submitted for payment by the firm did not identify the services provided, the benefit to the District, or the times and dates the services were provided. Without this information, District records do not demonstrate that services were satisfactorily received and there is an increased risk that the Board may over pay for services.
- The District also made payments totaling \$133,521 to the Board attorney for legal services. However, although we requested, District records, such as a purchase order, contract, or other documentation, were not provided that defined the services to be performed, established the basis for payment, or evidenced that the agreed-upon terms protected the interests of both parties. We also noted that payments to the Board attorney have steadily increased over the past 6 years from \$91,434 in the 2012-13 fiscal year to \$133,521 in the 2016-17 fiscal year, or a 46 percent increase. Our examination of District records disclosed that the District had not solicited proposals or negotiated for Board attorney services since October 2007. In response to our inquiries in August 2017, District personnel indicated that there was no current contract for legal services and the District was considering soliciting requests for proposals for legal services in the future.

While the Board attorney submitted detailed invoices documenting hours billed to the District and the invoices were approved for payment by the Superintendent, without a Board-approved contract, the District did not have an instrument to ensure that the legal services provided comported to management's directives and intent or that the amounts billed were reasonable and necessary.

Recommendation: The District should establish policies and procedures to require payments for professional services only be made pursuant to a properly executed contract that defines the services to be performed, establishes the basis for payment, and ensures that the agreed-upon terms protect the interests of both parties. Such policies and procedures should also require, before payment is made, documentation to evidence that services were provided in accordance with management's directives and intent and that the amounts billed are reasonable and necessary expenditures of the District. In addition, the Board should document consideration of a competitive selection process when contracting for legal services or document why not using a competitive selection process is more advantageous to the District.

Finding 11: Information Technology User Access Privileges

The Legislature has recognized in State law¹⁴ 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 access controls restrict employees from accessing information unnecessary for their assigned job duties and provide for periodic reviews of assigned information technology (IT) access privileges to help prevent employees from accessing sensitive personal information inconsistent with their responsibilities.

Pursuant to State law,¹⁵ the District identifies each student using a Florida education identification number obtained from the Florida Department of Education (FDOE). However, student SSNs are maintained within the District management information system (MIS) to, for example, register newly enrolled students and transmit that information to the FDOE through a secure-file procedure. Student SSNs are also maintained so the District can provide student transcripts to colleges, universities, and potential employers based on student-authorized requests. Board policies¹⁶ 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 Florida Statutes, 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 periodic reviews of information technology (IT) user access privileges to student information are performed to help monitor these privileges; however, although we requested, District records were not provided to evidence that such reviews had been performed.

The North East Florida Educational Consortium (NEFEC) provides student records data processing services for the District and maintains student information, including SSNs, in the District MIS. As of June 2017, the MIS contained the SSNs of 23,874 former and 1,627 current District students and 36 District employees had access to student SSNs. As part of our audit, we observed various MIS computer screens and requested District personnel to confirm that the 36 employees needed this access to perform their assigned responsibilities. Our observations and the District's response indicated that 29 of the 36 employees did not need access to student SSNs. These employees were elementary and middle school guidance counselors, school nurses, Federal grant administrators, and other District-level employees, who had assigned responsibilities that required access to student demographic data, but did not require access to student SSNs. In addition, according to District personnel, the MIS did not have a mechanism to differentiate access privileges to current student information from access privileges to former student information and the employees who had access to both did not always have a demonstrated need for such access.

In response to our inquiries, District personnel indicated that their periodic reviews had not previously identified that student SSNs were unnecessarily included with the student demographic data. Subsequent to our inquiry, in October 2017 the District performed and documented a review of IT user

¹⁴ Section 119.071(5)(a), Florida Statutes.

¹⁵ Section 1008.386, Florida Statutes.

¹⁶ Board Policy 5.19, Student Records.

access privileges and removed the unnecessary access to student SSNs for the 29 employees. The existence of unnecessary access privileges increases the risk of unauthorized disclosure of student SSNs and the possibility that sensitive personal information may be used to commit a fraud against District students or others.

Recommendation: The District should continue efforts to ensure that only employees who have a demonstrated need are granted access privileges to student SSNs. Such efforts should include documented, periodic reviews of assigned IT user access privileges to determine whether such privileges are necessary and to ensure the timely removal of any inappropriate or unnecessary access privileges detected. The District should also consult with NEFEC to upgrade the District MIS to differentiate access privileges to current student information from access privileges to former student information.

Finding 12: Logging and Monitoring of Network Security Events

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

Without adequate security controls related to logging and monitoring of network security events, the risk is increased that the confidentiality, integrity, and availability of District data and IT resources may be compromised. Similar findings regarding logging and monitoring were communicated to District management in connection with our report Nos. 2016-120 and 2015-140.

Recommendation: To ensure the continued confidentiality, integrity, and availability of District data and IT resources, the District should improve security controls related to logging and monitoring of security events.

PRIOR AUDIT FOLLOW-UP

Except as noted in Findings 8 and 12 and shown in Table 1, the District had taken corrective actions for applicable findings included in our report No. 2016-120.

**Table 1
Findings Also Noted in Previous Audit Reports**

| Finding | 2015-16 Fiscal Year | 2014-15 Fiscal Year |
|---------|---------------------------------------|---------------------------------------|
| | Audit Report No. 2016-120, Finding | Audit Report No. 2015-140, Finding |
| 8 | 1 | 1 |
| 12 | 3 | 4 |

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 2017 to February 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. 2016-120.
- 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 2016-17 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 the District's 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 resources. We also 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. In addition, we 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. We tested update access privileges to selected critical ERP systems for finance and HR application functions resulting in the review of the appropriateness of access privileges granted for 1,530 accounts.
- Reviewed District procedures to prohibit former employees' access to electronic data files. We also reviewed selected user access privileges for one former employee with access to critical ERP systems for finance and HR applications who separated from District employment during the audit period to determine whether the access privileges had been timely deactivated.
- Evaluated the District's security policies and procedures governing the classification, management, and protection of sensitive and confidential information.
- Determined whether a comprehensive IT disaster recovery plan was in place, designed properly, operating effectively, and had been recently tested.
- 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.
- Determined whether a comprehensive, written IT risk assessment had been developed to document the District's risk management and assessment processes and security controls intended to protect the confidentiality, integrity, and availability of data and IT resources.
- Determined whether an adequate, comprehensive IT security awareness and training program was in place.
- Evaluated Board policies and District procedures and examined supporting documentation to determine whether audit logging and monitoring controls were configured in accordance with IT best practices.
- Reviewed user access for the 36 employees who had access to system applications containing student social security numbers (SSNs) to determine whether District controls appropriately

secured and protected the confidentiality of the SSNs and that access to SSNs was only granted to District personnel as necessary for assigned job responsibilities.

- 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 for evidence of compliance with State law requirements (i.e., proper notice of meetings, meetings readily accessible to the public, and properly maintained meeting minutes).
- Determined if District procedures were in place to ensure school advisory council memberships were representative of the ethnic and racial communities served by the schools; the school advisory councils include a majority of nonemployees; community and business members are represented on each school advisory council; and school advisory council memberships are timely presented to the Board for approval and determination of proper representation.
- Examined District records to determine whether the District had developed an anti-fraud policy to provide guidance to employees for communicating known or suspected fraud to appropriate individuals. Also, we examined District records to determine whether the District had implemented appropriate and sufficient procedures to comply with its anti-fraud policy.
- Analyzed the District's General Fund total unassigned and assigned fund balances at June 30, 2017, to determine whether the total was less than 3 percent of the fund's projected revenues, as specified in Section 1011.051, Florida Statutes. We also performed analytical procedures to determine the ability of the District to make future debt service payments.
- From the population of expenditures totaling \$12.6 million and transfers totaling \$150,000 for the period July 1, 2016, to March 31, 2017, 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 \$10 million and \$150,000, respectively, to determine compliance with the restrictions imposed on the use of these resources.
- Selected 10 expenditures totaling \$12,710 from the population of \$50,222 total workforce education program funds expenditures 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 3,695 contact hours for 18 adult general education instructional students reported for the Fall 2016 Semester, examined District records supporting 2,999 reported contact hours for 14 selected students to determine whether the District reported the instructional contact hours in accordance with Florida Department of Education requirements.
- Examined the District Web site to determine whether the 2016-17 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.
- For the audit period, examined District budgets and budget amendments to determine whether they were prepared and adopted in accordance with State law and State Board of Education (SBE) rules.
- Examined financial reports and analyses presented to the Board during the audit period and determined whether the Board monitored financial results and related budget estimates.
- Examined District records to determine whether required internal funds audits for the 2016-17 and 2 preceding fiscal years were timely performed pursuant to SBE Rule 6A-1.087, Florida Administrative Code, 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.

- From the population of compensation payments totaling \$9 million to 372 employees from July 2016 to March 2017, examined District records supporting compensation payments totaling \$40,806 to 30 selected employees to determine the accuracy of the rate of pay and whether supervisory personnel reviewed and approved employee reports of time worked.
- Examined District records for the audit period to determine whether the Board adopted a salary schedule with differentiated pay for both instructional personnel and school administrators based on District-determined factors, including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties in compliance with Section 1012.22(1)(c)4.b., Florida Statutes.
- Examined District records for the audit period 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 determined 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, for eight applicable personnel included in our compensation testing.
- Examined District records for 30 employees selected from the population of 372 employees and 10 contractors selected from a population of 37 contractors to assess whether personnel and contractors who had direct contact with students during the audit period were subjected to the required fingerprinting and background screenings.
- Examined Board policies, District procedures, and related records for the audit period for school volunteers to determine whether the District searched prospective volunteers' names against the Dru Sjodin National Sexual Offender Public Web site maintained by the United States Department of Justice, as required by Section 943.04351, Florida Statutes, and tested documentation related to 30 of the 187 volunteers for the audit period.
- Examined District records supporting the eligibility of the four District recipients of the Florida Best and Brightest Teacher Scholarship Program awards totaling \$27,268 during the audit period.
- Examined documentation for the only significant construction project (guaranteed maximum price of \$19.7 million) with a construction management entity and associated expenditures totaling \$16.8 million during the period July 1, 2016, through June 22, 2017, to determine compliance with Board policies, District procedures, and provisions of State laws and rules. Specifically, we:
 - Examined District records to determine whether the construction manager was properly selected.
 - Reviewed District procedures for monitoring subcontractor selection and licensure, and examined records to determine whether subcontractors were properly selected and licensed.
 - Examined District records to determine whether the architect was properly selected and adequately insured.
 - Determined whether the District established written policies and procedures addressing negotiation and monitoring of general conditions costs.
 - Examined District records supporting 26 payments totaling \$11.3 million to determine whether District procedures for monitoring payments were adequate and payments were sufficiently supported.
- From the population of purchasing card (P-card) transactions totaling \$468,216 during the period July 1, 2016, through May 5, 2017, examined documentation supporting 30 selected transactions totaling \$17,742 to determine whether P-cards were administered in accordance with Board policies and District procedures. In addition, we determined whether cardholder agreements were promptly signed by 13 cardholders and whether the 13 cardholders attended required training.

We also determined whether the District timely canceled the P-cards for four cardholders who separated from District employment during the audit period.

- Reviewed Board policies and District procedures related to identifying potential conflicts of interest. For the eight District employees required to file statements of financial interests, we reviewed Florida Department of State, Division of Corporation, records; statements of financial interests; and District records to identify any potential relationships with District vendors that represent a conflict of interest.
- Determined whether 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. From the population of non-salary expenditures totaling \$16.8 million during the period July 1, 2016, through March 31, 2017, we examined District records supporting 30 selected payments for general expenditures totaling \$359,662.
- From the population of \$742,232 in contract expenditures (excluding construction construction), during the audit period, examined supporting documentation, including the applicable contract documents, for 45 selected payments totaling \$177,299 related to nine 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 had adequate Virtual Instruction Program (VIP) policies and procedures.
- Evaluated District records for the audit period to determine whether the District provided the required VIP options and properly informed parents and students about students' rights to participate in a VIP and the VIP enrollment periods as required by Section 1002.45(1)(b) and (10), Florida Statutes.
- Examined District accounting records for the audit period to verify that the District refrained from assessing registration or tuition fees for VIP participation as required by Section 1002.45(3)(c) and (d), Florida Statutes.
- Evaluated District records for the audit period to determine whether the VIP curriculum and course content was aligned with Sunshine State Standards and whether the instruction offered was designed to enable students to gain proficiency in each virtually delivered course of study as required by Section 1002.45.3(a) and (b), Florida Statutes.
- Examined student records and evaluated District procedures for the audit period to determine whether the District ensured that VIP students were provided with all necessary instructional materials and, for those eligible students who did not already have such resources in their home, computing resources necessary for program participation as required by Section 1002.45(3)(c) and (d), Florida Statutes.
- Examined District records for the five students enrolled in the District VIP during the audit period to determine whether the students met the statutory eligibility requirements prescribed by Section 1002.45(5), Florida Statutes.
- Examined District records for the five students enrolled in the District VIP during the audit period to determine whether the students met statutory participation requirements, including compulsory

attendance and State assessment testing requirements as required by Section 1002.45(6)(a) and (b), Florida Statutes.

- Evaluated District procedures for verifying that all VIP teachers for the audit period were properly certified and had obtained background screenings in accordance with Section 1012.32, 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.



Sherrill F. Norman, CPA
Auditor General

MANAGEMENT'S RESPONSE



Hamilton County School District

Superintendent of Schools
5683 US Highway 129 South, Suite 1
Jasper, Florida 32052
Phone: 386.792.1228 – Fax: 386.792.3681

School Board Members
Cheryl McCall – District 1
Gary Godwin – District 2
Saul Speights – District 3
Johnny Bullard – District 4
Suzette Wiggins – District 5

Rex L. Mitchell, Superintendent

March 21, 2018

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

Dear Ms. Norman:

Please accept the below as our District's written explanation concerning our preliminary and tentative audit findings and recommendations on the 2016-17 Operational Audit of Hamilton County School Board:

- Finding 1: The District will enhance procedures related to monitoring construction management entity pay requests and provide for a comparison of pay requests to supporting documentation.
- Finding 2: The District will enhance procedures to ensure a District representative attends construction contract subcontractor bid openings and independently confirms the use of a competitive selection process.
- Finding 3: The District will enhance procedures to verify and document the appropriate licensing of subcontractors.
- Finding 4: The District will establish policies and procedures for negotiating, monitoring, and documenting the reasonableness of general condition costs as a prerequisite for future contractual engagement of a construction management entity.
- Finding 5: The District will enhance procedures to ensure compliance with the competitive procurement process for professional services.
- Finding 6: The District has implemented procedures to ensure proper advertisement of Board meetings and to ensure all Board minutes are promptly recorded, Board-approved, and made available for public inspection.
- Finding 7: The District strengthened controls over reporting of instructional contact hours and corrected the problem for the Spring 2017 semester.

"Changing Lives Through Quality Education"
www.hamiltonfl.com



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Rex L. Mitchell, Superintendent

- Finding 8: The Board established and implemented a salary schedule which provides annual salary adjustments based upon performance as determined under Section 1012.34, F.S. District personnel continue to work with the Union to establish additional differentiated pay factors for salary supplements as required.
- Finding 9: Controls over purchasing cards are under review to ensure cardholders are adequately trained, transactions are sufficiently documented, and privileges are timely canceled upon employee termination.
- Finding 10: The District will enhance procedures to ensure payments for professional services are made only pursuant to a properly executed contract and that District personnel compare expenditures to contract terms to protect the interests of all parties.
- Finding 11: The District will periodically review assigned IT user access privileges to determine necessity and need for privilege modification.
- Finding 12: The District continues to refine and improve controls over logging and monitoring of security events.

Please feel free to contact my office with any additional questions you may have.

Sincerely,

Rex L. Mitchell
Superintendent of Schools

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