

# STATE OF FLORIDA AUDITOR GENERAL

## Operational Audit

Report No. 2018-200  
April 2018

### LAKE COUNTY DISTRICT SCHOOL BOARD



Sherrill F. Norman, CPA  
Auditor General

### **Board Members and Superintendent**

During the 2016-17 fiscal year, Diane S. Kornegay served as Superintendent of the Lake County Schools from 3-11-17, Dr. Susan E. Moxley served as Superintendent before that date, and the following individuals served as School Board Members:

	<u>District No.</u>
Bill Mathias, Chair through 11-21-16	1
Dr. Kristi Burns from 11-22-16	2
Rosanne Brandeberg through 11-21-16	2
Marc Dodd, Chair from 11-22-16	3
Sandy Gamble from 11-22-16	4
Debbie Stivender through 11-21-16	4
Stephanie Luke, Vice Chair	5

The team leader was Patricia A. Tindel, CPA, and the audit was supervised by Brenda C. Racis, CPA. For the information technology portion of this audit, the team leader was Sue Graham CPA, CISA, and the supervisor was Heidi G. Burns, CPA, CISA.

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

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# LAKE COUNTY DISTRICT SCHOOL BOARD

## ***SUMMARY***

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This operational audit of the Lake County School District (District) focused on selected District processes and administrative activities and included a follow-up on findings noted in our report No. 2015-160 and the management letter comment in the 2015-16 fiscal year financial audit report. Our operational audit disclosed the following:

**Finding 1:** District records did not always evidence that impact fee proceeds were used only for authorized purposes, resulting in questioned costs of \$10.3 million.

**Finding 2:** Required background screenings were not always obtained for instructional and noninstructional employees.

**Finding 3:** The District did not always document eligibility for health insurance for certain employee dependents.

**Finding 4:** The Board had not established a target net position balance for monitoring the financial condition of the self-funded employee health insurance plan. In addition, the District did not timely submit statutorily required annual reports to the Office of Insurance Regulation.

**Finding 5:** District financial monitoring procedures over District-sponsored charter schools could be enhanced.

**Finding 6:** Controls over the District's purchasing card program needed improvement.

**Finding 7:** Some unnecessary information technology (IT) user access privileges may have existed that increased the risk that unauthorized disclosure of student social security numbers (SSNs) may occur as the District had not documented that periodic reviews of assigned IT user access privileges to student SSNs were conducted to determine whether such privileges were necessary or that any inappropriate or unnecessary access privileges detected were timely removed.

**Finding 8:** The District did not have a Board-approved data loss prevention program.

## ***BACKGROUND***

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The Lake 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 Lake County. The governing body of the District is the Lake County District School Board (Board), which is composed of five elected members. The appointed Superintendent of Schools is the Executive Officer of the Board. During the 2016-17 fiscal year, the District operated 40 elementary, middle, high, and specialized schools; sponsored 8 charter schools; and reported 41,866 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. 2015-160 and the management letter comment in the 2015-16 fiscal year financial audit report. The results of our audit of the District's financial

statements and Federal awards for the fiscal year ended June 30, 2017, were presented in our report No. 2018-096.

## ***FINDINGS AND RECOMMENDATIONS***

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### **Finding 1: Impact Fees**

Pursuant to a Lake County (County) ordinance,<sup>1</sup> in December 1991, the District and the County entered into an interlocal agreement to establish certain procedures for the transfer and expenditure of impact fee proceeds. The County ordinance and the interlocal agreement provide that proceeds from the educational impact fees are to be earmarked for the acquisition or expansion of school sites or the construction or expansion of school capital improvements within the County and for debt service for bonds or similar debt instruments issued for capital uses authorized under the agreement. However, the funds cannot be used for operations and maintenance.

The County Commission suspended the collection of the impact fees from January 1, 2011, until January 13, 2014, when the impact fees were reinstated at 25 percent of the approved rate at June 7, 2011. On December 2, 2014, the County Commission approved an increase in the educational impact fees to 75 percent of the approved rate at June 7, 2011, effective April 6, 2015.

The District accounts for impact fee activities in the Capital Projects – Impact Fees Fund. For the 2016-17 fiscal year, District impact fee proceeds totaled \$15.7 million and impact fee transfers to other funds and expenditures totaled \$10.3 million and \$87,732, respectively. To determine the propriety of the impact fee uses, we examined District records supporting the impact fee transfers of \$10.3 million to other funds. Our examination disclosed that the transfers did not appear to be for authorized purposes as the \$10.3 million was used to service debt that predated approval of the 2016-17 fiscal year impact fees. Specifically, the transfers were to District debt service funds for payment of the debt service requirements of the Certificate of Participation Series (COPS) 2012B, 2014A, 2015A, 2015B, and 2016A. The proceeds from these COPS proceeds were used to refund COPS 2003A, 2005A, 2005B, 2006A, and 2006B, respectively.

In response to our inquiries, District personnel indicated that they believed the impact fee use was allowable under the interlocal agreement. However, District records did not evidence that use of impact fee proceeds to service debt incurred in previous fiscal years addresses the capital educational needs of future residents of the new residential developments for whom the 2016-17 fiscal year impact fee proceeds were collected. Consequently, the impact fee transfers totaling \$10.3 million represent questioned costs.

**Recommendation: The District should ensure that impact fee proceeds are expended only for authorized purposes. Additionally, the District should either document to the Florida Department of Education the allowability of the impact fee transfers totaling \$10.3 million to the debt service funds, or restore those funds to the 2016-17 fiscal year Capital Projects - Impact Fees Fund.**

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<sup>1</sup> Lake County Ordinance No. 1991-8.

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

*Management states in the written response that the "Lake County Ordinance clearly indicates that impact fees can be used to repay debt that was incurred for the building of schools due to growth." Notwithstanding this response, the point of our finding is that the transfers from the 2016-17 fiscal year impact fees were not rationally linked to the educational infrastructure needs of the residents who paid the impact fees assessed for new residential developments. Accordingly, we continue to question the allowability of the transfers.*

### **Finding 2: Background Screenings**

State law<sup>2</sup> requires that each person hired or contracted to serve in an instructional or noninstructional capacity that requires direct contact with students to undergo a level 2 background screening<sup>3</sup> at least once every 5 years. To promote compliance with the statutory background screening requirements, District procedures require employees who have access to school grounds or school funds to undergo required background screenings.

As of April 12, 2017, the District employed 3,046 instructional and 2,715 noninstructional personnel. To determine whether required background screenings had been performed, we requested for examination District records, as of that date, for 30 selected employees.<sup>4</sup> We found that:

- The most recent background screenings for 12 employees were not received until 21 to 252 days, or an average of 85 days, after the employee's previous 5-year background screening period had elapsed.
- 4 employees had not received a background screening at least once in the past 5 years. Subsequent to our inquiry, the screenings were conducted but ranged from 3 months to 3 years, or an average of 1 year, after the employee's previous 5-year background screening period had elapsed.

Subsequent to our inquiries, District personnel compared District records of background screening dates for all employees to the Florida Department of Law Enforcement (FDLE) database of background screenings and identified 5 other employees who had not been screened within the past 5 years. As of January 2018, 3 of these 5 employees had received the required screenings but not until 327 to 637 days, or an average of 463 days, had elapsed since the employee's previous screening. The other 2 employees were no longer employed by the District. District personnel indicated that the missing background screenings were due to oversights and that additional staff were being assigned these responsibilities. District personnel also indicated that none of the screenings obtained subsequent to our inquiries disclosed any unsuitable backgrounds.

Absent effective controls to ensure that required background screenings are performed, there is an increased risk that employees with unsuitable backgrounds may have direct contact with students or access to school funds.

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<sup>2</sup> Sections 1012.32(2), 1012.465, and 1012.56(10), Florida Statutes.

<sup>3</sup> A level 2 background screening includes fingerprinting for Statewide criminal history records checks through the FDLE and national criminal history records checks through the Federal Bureau of Investigation.

<sup>4</sup> The 30 selected individuals included 21 instructional personnel, 8 noninstructional personnel, and 1 temporary employee.

**Recommendation:** The District should continue efforts to ensure that all required background screenings are timely performed for District employees at least once every 5 years.

### **Finding 3: Health Insurance – Premiums and Participant Eligibility**

For the 2016-17 fiscal year, Board-adopted collective bargaining agreements required the District to provide a comprehensive group health and hospitalization insurance policy for each full-time employee and, pursuant to State law,<sup>5</sup> each eligible retiree. The District provides health insurance through a self-insurance program and, as permitted by State law,<sup>6</sup> contracts with a third-party administrator (TPA) to pay claims and administer the health insurance plan. The TPA requires monthly participation changes, such as employment separations or new hires, be submitted to the TPA so that adjustments to future billings can be made.

In addition to paying the TPA for actual claims, the District made monthly health insurance plan premium contributions of \$328 for each full-time employee and \$173 for each part-time noninstructional employee. The District also paid a monthly administrative fee of \$38 for each participant. In addition, District personnel were responsible for deducting employee contributions for insurance premium costs from employee pay, directly receiving insurance premium collections from retirees, and submitting payments to the TPA.

For the 2016-17 fiscal year, the District contributed a total of \$31 million toward the health insurance plan. As of June 2017, the District's health insurance plan provided benefits to 4,750 employees, 1,878 dependents, 229 retirees, and 9 former employees. The District had established procedures to compare a TPA listing of health insurance participants and related premiums to District records supporting participant eligibility, such as payroll records and insurance premium billings. District procedures also require applicable employees to complete a Verification of Health Insurance Eligibility for Certain Dependent Children Form (eligibility verification form).

The District health insurance plan provides coverage for dependent children (up to age 26) of employees with extended coverage beyond age 26 if certain criteria are met. For an over-aged dependent child (age 26 through 30) to continue health insurance coverage, the child must be unmarried with no dependents, be a resident of Florida or a full- or part-time student, and have no other health insurance. In response to our request, District personnel provided a March 2017 list of employees generated from the District payroll system and listings of March 2017 insurance plan participants from the TPA records. We compared these records and noted extended coverage for 29 dependent children over age 26 as of December 31, 2015. However, although we requested, District records were not provided to evidence that 11 of the 29 dependent children were eligible for extended coverage.

As of March 2017, each of these 11 individuals had participated in the District health insurance plan 1 to 3 years after their last documented eligibility date. Subsequent to our inquiry, eligibility verification forms were received for 4 of these 11 individuals, coverage for 6 dependents who did not provide the forms was removed, and the other dependent was the child of an individual who was no longer employed by the District and no longer a District health insurance participant. District personnel indicated that, going

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<sup>5</sup> Section 112.0801, Florida Statutes.

<sup>6</sup> Section 1011.18(6)(b), Florida Statutes.

forward, over-aged dependent children would be removed from coverage if the eligibility verification forms are not promptly received.

Without adequate procedures for verifying that over-aged dependent children are eligible for extended health insurance coverage, there is an increased risk that the District's self-insurance plan may incur unnecessary claim payments, resulting in increases to future Board contributions for health insurance premiums. A similar finding was noted in our report No. 2015-160.

**Recommendation: The District should enhance procedures to verify and ensure that the children of health insurance plan participants are eligible for plan services.**

#### **Finding 4: Self-Funded Employee Health Insurance Plan**

The District reported the self-funded employee health insurance plan in an internal service fund. According to Florida Office of Insurance Regulation (OIR) correspondence,<sup>7</sup> the OIR considers a self-funded plan with reserves equal to 60 days of anticipated claims as actuarially sound and, if a self-funded plan does not meet this threshold, the OIR may request additional information to determine the actuarial soundness of the plan. State law<sup>8</sup> requires the District to annually submit to the OIR within 90 days after the close of the plan fiscal year a report that includes a statement prepared by an actuary of the plan's actuarial soundness.

As shown in Table 1, the District's self-funded employee health insurance plan experienced operating losses for the 2014-15, 2015-16, and 2016-17 fiscal years and, to cover these losses during the past 2 fiscal years, the District made transfers from other funding sources to the plan. For example, during the 2016-17 fiscal year, the District transferred \$2.1 million from the workers' compensation program and \$500,000 from the General Fund to the plan.

**Table 1**  
**Self-Funded Employee Health Insurance Plan**  
**Fiscal Years Ended June 30, 2015, 2016, and 2017**

<b>Fiscal Year Ended June 30</b>	<b>Net Position Balance</b>	<b>Operating Losses</b>	<b>Transfers Received</b>
2015	\$ -	\$257,000	\$ -
2016	\$ -	\$338,000	\$319,000
2017	\$ -	\$2,600,000	\$2,600,000

In a letter dated July 26, 2017, the OIR requested the District to certify that:

- There were unencumbered general revenues available to make up any shortage in funding.
- Funds would be transferred to the self-funded plan in the event that there is a shortage in funding for the plan.

<sup>7</sup> Rule 69O-149.053, Florida Administrative Code, adopts several forms, such as Form OIR-B2-574, to be used by local governments for self-funded plans. Form OIR-B2-574, *General Information and Surplus Statements for Self-Funded Health Benefit Plans*, indicates that if a plan's surplus is less than 60 days of anticipated claims, the OIR may ask other questions to determine the actuarial soundness of the plan.

<sup>8</sup> Section 112.08(2)(b), Florida Statutes.



In response to the OIR request, District personnel submitted certifications to the OIR stating that, in any given year that the required expenditures of the self-funded employee health insurance plan exceeded available funds, the deficit would be paid from unencumbered General Fund dollars (i.e., General Fund total assigned and unassigned fund balance) and the OIR accepted the plan as actuarially sound. Notwithstanding the District response to OIR, as of December 2017, the Board had not established a target net position funding level to help monitor the plan's financial condition and provide sufficient funding for future obligations of the plan.

While the District transferred \$500,000 from the General Fund to the self-funded employee health insurance plan during the 2016-17 fiscal year, District records indicated that the availability of the General Fund as a future source for plan funding may be questionable. For the past 3 fiscal years, the District's General Fund total assigned and unassigned fund balance declined from \$15.2 million (5.29 percent of the General Fund total revenues for the 2014-15 fiscal year) to \$9.2 million (3.03 percent of the General Fund total revenues for the 2016-17 fiscal year). Consequently, in addition to an established target net position balance or funding level for the plan, it is important that the District identify the future funding sources for subsidizing the plan should the plan not be self-sufficient.

Also, as similarly noted in our report No. 2015-160, the District submitted the OIR-required annual report, including a statement prepared by an actuary of the self-funded employee health insurance plan's actuarial soundness, 155 days late for the plan year ended August 31, 2015, and 229 days late for the plan year ended June 30, 2016. Given the plan operating losses, timely submittal of required annual reports to the OIR is essential for the Board and the OIR to effectively monitor the actuarial soundness of the plan and help ensure the District's ability to meet its self-funded obligations in the future.

**Recommendation: The Board should establish policies identifying a target net position balance or funding level for the self-funded employee health insurance plan and the funding sources to subsidize the plan if the plan is not self-sufficient. In addition, the District should ensure that the required annual report is timely submitted to the OIR.**

#### **Finding 5: Charter Schools – Financial Condition**

During the 2016-17 fiscal year, the District sponsored eight charter schools. State law<sup>9</sup> requires the charter schools to provide the District with monthly financial statement summary sheets (financial reports) and audited financial statements, and the District is responsible for reviewing the financial reports and monitoring the financial condition of each school.

The District received audited financial statements from each of the charter schools for the 2016-17 fiscal year. According to the charter agreements and District policies,<sup>10</sup> each charter school was required to maintain a financial condition ratio (total assigned and unassigned fund balance as a percentage of the school's total General Fund operating revenue) of 4 percent. As shown in Table 2, one charter school experienced a steady financial ratio decline over the past 3 fiscal years.

<sup>9</sup> Sections 218.39(10) and 1002.33(5) and (9), Florida Statutes.

<sup>10</sup> District Policy 7.12, *Business Services*.



**Table 2**  
**Charter School General Fund Financial Activities**  
**For the Fiscal Years Ended June 30, 2015, 2016, and 2017**

	2015	2016	2017
Total Operating Revenue	\$1,860,803	\$1,918,537	\$1,825,252
Total Expenditures	1,925,286	1,961,212	1,993,574
Revenue Less Expenditures	(64,483)	(42,675)	(168,322)
Ending Assigned and Unassigned Fund Balance	64,985	34,280	(5,212)
Assigned and Unassigned Fund Balance as Percentage of Operating Revenues	3.5%	1.8%	(0.286)%

Source: Charter school's audited financial statements.

In addition, the charter school's General Fund budgetary schedule for the 2016-17 fiscal year disclosed each functional expenditure category was over expended and the over expenditures totaled \$326,000. In the charter school's 2016-17 fiscal year audit report, the auditors reported that the school did not meet any of the financial emergency conditions, such as failure to pay loans or other debt payments, salaries owed to employees, or payroll taxes, as described in State law.<sup>11</sup> Notwithstanding, the charter school's budgetary controls did not prevent the school from further financial decline and District records did not evidence any substantive efforts by District personnel to provide assistance or guidance to the charter school to avoid the decline. In response to our inquiry, District personnel indicated that they would inquire of the FDOE and the District's attorney as to the District's responsibilities and action needed.

Absent the District's effective monitoring of charter schools, there is an increased risk that preemptive steps will not be taken to assist in the prevention of declines in a charter school's financial condition.

**Recommendation: The District should develop procedures for monitoring the financial condition of charter schools and be proactive in helping the schools avoid financial difficulties. Such procedures should include assistance in establishing appropriate budgetary controls to ensure expenditures are limited to available resources.**

#### **Finding 6: Purchasing Cards**

The District uses purchasing cards (P-cards) to expedite the purchase of selected goods and services. Purchases made with P-cards are subject to the same rules and regulations that apply to other District purchases and are subject to additional requirements in the *P-Card Manual*.

The *P-Card Manual* requires cardholders to sign invoices to confirm satisfactory receipt for goods or services purchased and department directors to document supervisory review and approval of P-card charges. In addition, the *P-Card Manual* prohibits use of P-cards for certain purchases such as cameras and computer equipment, monitors, printers, and software; Web site development; textbooks, school plaques, awards, and trophies; and food purchases.

<sup>11</sup> Section 218.503(1), Florida Statutes.

District P-card expenditures totaled \$2 million for the period July 2016 through April 2017 and, during that period, 241 P-cards were in use. Our examination of District records supporting 30 selected P-card expenditures totaling \$53,527 disclosed that:

- The cardholder did not sign the invoices for 8 expenditures totaling \$12,600 for textbooks, software, and computer auxiliary components to evidence satisfactory receipt of the goods.
- A department director did not document supervisory review and approval of a \$1,900 P-card expenditure for testing booklets.
- Prohibited purchases were made by 4 of the cardholders who did not sign the invoices for 4 expenditures totaling \$6,847 and by 10 other cardholders for expenditures totaling \$20,943. The prohibited purchases included:
  - 7 expenditures totaling \$19,948 for cameras and computer equipment, monitors, printers, and software.
  - A \$5,500 expenditure for Web site development.
  - 3 expenditures totaling \$1,205 for school plaques, awards, and trophies.
  - A \$925 expenditure for textbooks.
  - 2 expenditures totaling \$212 for food purchases for attendees at a District meeting.

In response to our inquiries, District personnel indicated that, although these expenditures did not comply with the *P-Card Manual*, the expenditures related to allowable purchases.

Adherence to the *P-Card Manual* purchasing restrictions would help ensure that, prior to acceptance of P-card charges, District records evidence satisfactory receipt of goods and appropriate supervisory review and approval of P-card purchases. Enforcement of the *P-Card Manual* requirements would help timely detect unallowable purchases before the P-card charges are accepted and provide assurance that P-cards are used exclusively for authorized District purposes.

**Recommendation: The District should enhance P-card procedures to ensure that satisfactory receipt and independent supervisory review and approval of purchases is documented and maintained, and P-card use is effectively restricted to purposes authorized in the *P-Card Manual*.**

#### **Finding 7: Information Technology User Access Privileges**

The Legislature has recognized in State law<sup>12</sup> 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 such information to ensure its confidential status. Effective controls restrict employees from accessing information unnecessary for their assigned job responsibilities and provide for documented, periodic reviews of information technology (IT) user access privileges to help prevent individuals from accessing sensitive personal information inconsistent with their responsibilities.

Pursuant to State law,<sup>13</sup> the District identified each student using a Florida education identification number obtained from the FDOE. However, student SSNs are maintained within the District student information

<sup>12</sup> Section 119.071(5)(a), Florida Statutes.

<sup>13</sup> Section 1008.386, Florida Statutes.

system (SIS) to, for example, register newly enrolled students and transmit that information to the FDOE through a secure-file procedure. Student SSNs are also maintained to provide student transcripts to colleges, universities, and potential employers based on student-authorized requests. In the 2015 calendar year, the District developed a draft *Student Records Manual*<sup>14</sup> (*Manual*), which allows authorized District school personnel access to student records. However, this *Manual* has not been finalized and approved by the Board.

As of December 2017, the District SIS contained the SSNs of 480,134 former and 48,130 current District students. District Information and Instructional Technology Services Department (IITS) personnel identified 694 employees with access to SIS records that contained student SSNs. However, according to District personnel, efforts had not recently been made to determine whether all 694 employees had a demonstrated need for such access. District personnel indicated that they last reviewed employee access privileges to electronic student records in August 2014 but were planning to annually contact student records owners (principals and department heads) and update employee access privileges to student records that could contain SSNs. Additionally, according to District personnel, the SIS does not have a mechanism to differentiate employee access privileges to current student SSNs from access privileges to former student SSNs.

The existence of unnecessary access privileges and the lack of documented, periodic reviews of IT user access privileges increase 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 ensure that only those employees who have a demonstrated need to access student SSNs have such access. Such efforts should include documented, periodic reviews of assigned IT user access privileges to student SSNs 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 implement a mechanism to differentiate IT user access privileges to current student information from access privileges to former student information.**

#### **Finding 8: Information Technology – Security Controls – Data Loss Prevention**

Effective data loss prevention helps ensure protection from unauthorized disclosure through the establishment of procedures to identify and classify confidential and sensitive data, locate the storage and pathways of confidential and sensitive data, and monitor the use and transmission of confidential and sensitive data.

As similarly communicated to District management in connection with our previous audit reports, most recently in connection with our report No. 2015-160, the District had not implemented a comprehensive data loss prevention program. While the District's IITS had developed a draft data loss prevention plan document, it had not been presented to the Board for approval. Without a comprehensive data loss prevention program, including written policies and procedures regarding the monitoring, transmitting, copying, downloading, and printing of confidential and sensitive data, the risk is increased that confidential and sensitive data in the District's custody may be disclosed to unauthorized persons.

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<sup>14</sup> Student Educational Records Manual, Storage and Security of Records section.

**Recommendation:** The District should develop a comprehensive data loss prevention program including written policies and procedures regarding the monitoring, transmitting, copying, downloading, and printing of confidential and sensitive data, and present it to the Board for approval.

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

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The District had taken corrective actions for applicable findings included in the management letter comment in the 2015-16 fiscal year financial audit report and in our report No. 2015-160, except as noted in Findings 3, 4, and 8 and shown in Table 3.

**Table 3**  
**Findings Also Noted in Previous Audit Reports**

2013-14 Fiscal Year Operational Audit Report	
Finding	No. 2015-160, Finding
3	4
4	5
8	16

## ***OBJECTIVES, SCOPE, AND METHODOLOGY***

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

We conducted this operational audit from February 2017 to January 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. 2015-160 and the management letter comments in the 2015-16 financial audit report.
- Identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

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

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

Our audit included transactions, as well as events and conditions, occurring during the 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 District procedures for maintaining and reviewing user access to information technology (IT) resources 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.
- Evaluated District procedures to prohibit former employees' access to electronic data files. We also reviewed selected access privileges for 30 of the 540 employees who separated from District employment during the audit period to determine whether the access privileges had been timely deactivated.
- 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.
- Evaluated the development of the District's IT data loss prevention program.
- Evaluated District procedures and examined supporting documentation to determine whether audit logging and monitoring controls were configured in accordance with IT best practices.

- Determined the effectiveness of selected IT controls in achieving management's control objectives in the categories of:
  - Compliance with controlling laws, administrative rules, and other guidelines.
  - The confidentiality, integrity, availability, relevance, and reliability of data.
  - The safeguarding of IT resources.
- Obtained an understanding of internal control relating to the IT topics within the scope of this audit and evaluated selected IT general controls over logical access, change management, and configuration management to determine the extent to which the controls achieved management's objectives in the categories of compliance with controlling laws, administrative rules, and other guidelines; the confidentiality, integrity, availability, relevance, and reliability of data; and the safeguarding of IT resources.
- Evaluated Board, committee, and advisory board meeting minutes to determine whether Board approval was obtained for policies and procedures in effect for the audit period and for evidence of compliance with Sunshine Law requirements (i.e., proper notice of meetings, meetings readily accessible to the public, and properly maintained meeting minutes).
- Examined District records to determine whether the District had developed an anti-fraud policy for the audit period 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.
- Evaluated District controls to determine whether the District had granted access to students' social security numbers only to those individuals with a demonstrated need.
- Analyzed the District's budgeted General Fund total unassigned and assigned fund balances at June 30, 2017, to determine whether the total was less than 3 percent and 4 percent of the fund's projected revenues, as specified in Section 1011.051, Florida Statutes, and Board Policy 7.12, respectively. We also performed analytical procedures to determine the ability of the District to make its future debt service payments.
- Evaluated the sufficiency of District procedures to determine whether District charter schools were required to be subjected to an expedited review pursuant to Section 1002.345, Florida Statutes.
- For the two charter schools that were not renewed or were terminated in the 2014-15 fiscal year, evaluated District procedures to determine whether applicable funds and property appropriately reverted to the District and whether the District did not assume the debts of the schools, except as previously agreed upon by the District.
- 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 supporting documentation to determine whether required internal funds audits for the 2014-15 and 2015-16 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.
- Examined financial reports and analyses presented to the Board during the audit period to determine whether the Board monitored financial results and related budget estimates.
- Reviewed the adequacy of the District's procedures regarding the selection process for bank services.
- Reviewed Board policies and District procedures and evaluated controls over the Transportation Department inventory to determine the adequacy of District controls for safeguarding inventory items.

- From the population of expenditures and transfers totaling \$141.2 million for the period July 1, 2014, through May 31, 2017, from non-voted capital outlay tax levy proceeds, Public Education Capital Outlay funds, and other restricted capital project funds, examined documentation supporting selected expenditures and transfers totaling \$2.4 million and \$15.4 million, respectively, to determine compliance with the restrictions imposed on the use of these resources.
- Examined District records and evaluated construction planning processes for the audit period to determine whether processes were comprehensive, including consideration of restricted resources and other alternatives to ensure the most economical and effective approach, and met District short-term and long-term needs.
- Examined copies of the most recent annual fire safety, casualty safety, and sanitation inspection reports noting 16 serious priority deficiencies and determined whether the deficiencies were timely corrected.
- Evaluated District procedures for limiting and monitoring student access to inappropriate Web sites using District-issued take-home electronic devices.
- From the compensation payments totaling \$186.6 million to 7,617 employees for the period July 1, 2016, through May 31, 2017, examined District records supporting compensation payments totaling \$39,375 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 period July 1, 2016, through April 12, 2017, for 30 employees selected from the population of 5,761 employees to assess whether personnel who had direct contact with students were subjected to the required fingerprinting and background checks.
- Reviewed District records regarding the documentation, review, and approval of work attendance for 30 selected instructional, non-instructional, and administrative employees from the population of 7,617 employees from July 1, 2016, through May 31, 2017.
- Examined Board policies, District procedures, and related records for school volunteers. We also tested District records for 30 selected volunteers from the total of 2,700 volunteers for the period July 1, 2016, through April 17, 2017, 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.
- Reviewed District documentation 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.
- Evaluated severance pay provisions in two employee contracts to determine whether the severance pay provisions complied with Section 215.425(4), Florida Statutes.
- Evaluated Board policies and District procedures regarding health benefits for employee dependents. We examined District records supporting the eligibility of 29 non-spouse dependents over the age of 26 at December 31, 2015, selected from the 1,659 non-spouse dependents as of March 15, 2017, to verify the dependents' eligibility for health benefits.
- Examined District records supporting the eligibility of 22 selected District recipients of the Florida Best and Brightest Teacher Scholarship Program awards from the population of 57 District teachers (including conversion charter schools) who received awards totaling \$265,859 during the audit period.
- 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 and carried adequate insurance. From the population of expenditures totaling \$160.7 million for the period July 1, 2016, through May 31, 2017, we examined documentation relating to 30 selected payments for general expenditures totaling \$7.7 million.

- From the population of purchasing card (P-card) transactions totaling \$2 million for the period July 1, 2016, through April 30, 2017, examined documentation supporting 30 selected transactions totaling \$53,527 to determine whether P-cards were administered in accordance with Board policies and District procedures. We also examined the District records for the 19 cardholders who separated from District employment for the period July 1, 2016, through June 2, 2017, to determine whether the District timely canceled the P-Cards.
- We reviewed travel-related expenses for the Superintendent and Board members to determine whether the travel was reasonable, necessary, and in accordance with Section 112.061, Florida Statutes.
- From the population of 3,455 transactions totaling \$46.5 million for the period July 1, 2016, through May 31, 2017, examined supporting documentation, including the contract documents, for 30 selected consultant contract payments totaling \$451,244 to determine whether:
  - The District complied with competitive selection requirements for applicable consultants.
  - 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.
  - The District complied with Section 112.313, Florida Statutes, requiring the District not contract with its employees for services provided beyond those in their salary contract.
- Reviewed District procedures for bidding and purchasing health insurance to determine compliance with Section 112.08, Florida Statutes. We also reviewed for the reasonableness of procedures for acquiring other types of commercial insurance to determine whether the basis for selecting insurance carriers was documented in District records and conformed to good business practices.
- From the population of 53 payments totaling \$8,167 paid to employees for other than travel and payroll for the period July 1, 2016, through May 31, 2017, examined documentation for 12 selected payments totaling \$3,269 to determine whether such payments were reasonable, adequately supported, for valid District purposes, and were not contrary to Section 112.313, Florida Statutes.
- Examined District records supporting all payments and transfers totaling \$268,222 made by the District to or on behalf of its direct-support organization during the audit period to determine the legal authority of such transactions.
- Determined, for the period October 1, 2015, through September 30, 2016, whether rebate revenues totaling \$38,311 for the P-card program and \$35,920 for the e-Payable program were allocated to the appropriate District funds.
- Examined financial records of the District's self-funded employee health insurance plan for the 2014-15, 2015-16, and 2016-17 fiscal years to determine whether the plan was fiscally sound.
- Determined whether the District used supplemental academic instruction and research-based reading instruction allocations to provide, to the applicable schools pursuant to Section 1011.62(9), Florida Statutes, an additional hour of intensive reading instruction to students every day, schoolwide during the audit period.
- Evaluated District procedures for identifying facility maintenance needs, and establishing resources, including department staffing, to address those needs.

- 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.
- Evaluated District procedures to determine whether the District ensured that eligible VIP students, who did not already have such resources in their home, were provided with all necessary computing resources necessary for program participation as required by Section 1002.45(3)(d), Florida Statutes.
- From the population of 1,102 students enrolled in the District VIP during the audit period, examined District records for 30 selected students 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.
- 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***

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



Sherrill F. Norman, CPA  
Auditor General

# MANAGEMENT'S RESPONSE

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201 West Burleigh Boulevard • Tavares • FL 32778-2496  
(352) 253-6500 • Fax: (352) 253-6503 • [www.lake.k12.fl.us](http://www.lake.k12.fl.us)

**Superintendent:**  
Diane S. Kornegay, M.Ed.

**School Board Members:**  
*District 1*  
Bill Mathias  
*District 2*  
Kristi Burns, Ph.D.  
*District 3*  
Marc Dodd  
*District 4*  
Sandy Gamble  
*District 5*  
Stephanie Luke

April 4, 2018

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

Dear Ms. Norman:

First, we would like to thank you and your staff for the professional manner in which the audit was conducted. We look to the audit process as a valuable tool in our continuous improvement of the operations of our school district.

We have reviewed the list of preliminary and tentative audit findings and recommendations related to the operational audit of the District and present our specific responses below:

**Finding 1: District records did not always evidence that impact fee proceeds were used only for authorized purposes, resulting in questioned costs of \$10.3 million.**

We respectfully disagree with the finding. The Lake County Ordinance clearly indicates that impact fees can be used to repay debt that was incurred for the building of schools due to growth. The debt payments in question were only ones that were associated with growth necessitated projects. Please see the attached memo from our Bond Counsel documenting the allowability of impact fee revenues for the payment of debt for growth related projects.

**Finding 2: Required background screenings were not always obtained for instructional and noninstructional employees.**

We concur with the finding. The District has taken immediate action to bring background screenings up-to-date. Additionally, the District has adjusted our procedures to enhance controls to ensure that all required background screenings are timely performed for District employees at least once every 5 years.

**Finding 3: The District did not always document eligibility for health insurance for certain employee dependents.**

We concur with the finding. The District has always required documentation for qualifying events and annually we request the certification form for over aged dependents. We have now adjusted our procedures to assure that coverage is terminated for over-age dependents when the certification forms are not returned.

**Finding 4: The Board had not established a target net position balance for monitoring the financial condition of the self-funded employee health insurance plan. In addition, the District did not timely submit statutorily required annual reports to the Office of Insurance Regulation.**

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*"Equal Opportunity in Education and Employment"*

We concur with the finding. The District is closely monitoring the self-insurance fund and has prepared a projection analysis for the ending fund balance. Additionally, the District has increased the premium rates for the 2017-18 fiscal year in conjunction with the report received from our actuary. The District has since contracted with a new benefits broker. The new contract effective 9/1/18 includes additional services to assist the District with the filing of the reports to the Office of Insurance Regulation, claims evaluation, appropriate funding contribution rates and ending fund balance projections.

**Finding 5: District financial monitoring procedures over District-sponsored charter schools could be enhanced.**

We concur with the finding. The District will continue to review and enhance our procedures to obtain all necessary information from our Charter Schools and is implementing regular meetings with Charter School leadership to review and discuss any concerns.

**Finding 6: Controls over the District's purchasing card program needed improvement.**

We concur with the finding. The District will continue to review and enhance our procedures related to training our staff and obtaining all necessary documentation for the support of p card transactions.

**Finding 7: Some unnecessary information technology (IT) user access privileges may have existed that increased the risk that unauthorized disclosure of student social security numbers (SSNs) may occur as the District had not documented that periodic reviews of assigned IT user access privileges to student SSNs were conducted to determine whether such privileges were necessary or that any inappropriate or unnecessary access privileges detected were timely removed.**

We concur with the finding. The Information and Instructional Technology Services Department agrees with the finding from the Auditor General Office and plan to work on processes and procedures regarding current and former student information.

We appreciate your assistance and review of our systems and look forward to working together in our efforts to continually improve our school district.

Sincerely,



Diane S. Kornegay, M.Ed.  
Superintendent



## Memorandum

To: Karen Briggs  
Steve Johnson

From: Bob Gang

Date: March 13, 2018 (Revised March 30, 2018)

Re: Education Impact Fees

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You have asked whether the School Board of Lake County (the "School Board") can use education impact fees imposed and collected pursuant to Chapter 22 of the Lake County Code of Ordinances to make payments on Certificates of Participation ("COP's") issued under its Master Lease Program to finance new construction or additions to schools designed to increase student capacity to accommodate growth.

### I. Common Law

Common law on impact fees in Florida was first enunciated in the City of Dunedin v. Builders Association of Pinellas County (1976) case, involving imposition of impact fees for extension of water and sewer lines. While approving the ability of the City to collect such fees, the Court invalidated the ordinance because it failed to sufficiently restrict the use of the moneys. The City adopted a new ordinance, and was permitted by the Florida Supreme Court to expend prior impact fee moneys paid under protest on expanding the water and sewer system or to retire bonds issued after correction of the ordinance for the expansion of the system. Dunedin is the source of the "dual rational nexus" test, that is, (i) the impact fee must be reasonably connected to, or have a rational nexus with, the expenditure of the funds and the benefits accruing to new residential (in the case of schools) construction, and (ii) the local government must sufficiently earmark the funds for use in constructing facilities to benefit new users.

The Dunedin test was first applied by the Florida Supreme Court to schools in St. Johns County v. N.E. Florida Builders Association (1991). It approved a methodology based on the average number of public school children living in single family and multi-family units in the county, and found that the first part of the test had been met. However, the Court found that the second part of the test had not been met because the ordinance did not apply in any municipality unless the municipality entered into an interlocal agreement with the County. It also exempted homeowners who warranted that their children would attend private schools but agreed to pay later if their children switched to the public school system. The Supreme Court felt that the latter provision would turn the fee into a user fee which could violate Article IX, section 1 of the Florida Constitution guaranteeing free public schools. The Court also concluded that if the

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impact fee were countywide with no requirement for an interlocal agreement, the Court could conclude that the second prong of the test had been met. And in Collier County v. State (1999), in passing on an assessment, the Supreme Court referred to its St. Johns County decision, citing that even though the impact fee was not required to be imposed in municipalities, there was nothing in the ordinance that restricted use of impact fees only to construct schools that would benefit those outside municipalities who were the ones paying the fee. So the ordinance failed the second prong of the test.

A school impact fee does not have to be county-wide. In Volusia County v. Aberdeen at Ormond Beach LP (2000), the Supreme Court approved a school impact fee ordinance that exempted a land use restricted mobile home park for seniors, finding there was no special benefit to fee payers in such situation. And in AGO 2013-20 the Attorney General advised the School Board and Lake County that school impact fees need not necessarily be imposed county-wide, citing the land use restricted senior citizen community in the Aberdeen case and Collier County v. State (1999), which reaffirmed the principle that fees, unlike taxes, must confer a special benefit on fee payers in a manner not shared by those not paying the fee. Nonetheless, the Supreme Court has indicated that it would approve a County-wide education impact fee that meets both prongs of the rational nexus test, such as the fee in St. Johns County with the user fee exemptions deleted and the requirement for municipal interlocal agreements deleted.

## **II. Chapter 22 Lake County Code of Ordinances**

With certain exceptions, such as for deed restricted active adult communities, Lake County's impact fee ordinance imposes an education system impact fee county-wide, based on a 2015 study by Tindale Oliver. It focuses on the needs of future residential construction, and specifically excludes remedying existing deficiencies. It establishes one trust account for the entire County, to be used to provide growth-necessitated capital improvements to educational plant. It specifically includes debt service on borrowings incurred for growth necessitated capital improvements after October 1, 2003. The Ordinance requires that the impact fee study be reviewed by the County and the School Board every three years, to ensure that the fee does not exceed reasonably anticipated costs associated with growth necessitated capital improvements. There is an interlocal agreement among the County, the School Board and the municipalities to ensure that school concurrency is met. The original school concurrency interlocal agreement was executed in 2003, as amended in December 2007.

The Lake County Educational System Impact Fee Ordinance and the Interlocal Agreement contain numerous safeguards to ensure that both prongs of the Dunedin test are met: that is, (i) the impact fee must be reasonably connected to, or have a rational nexus with, the expenditure of the funds and the benefits accruing to new residential construction, and (ii) the local government must sufficiently earmark the funds for use in constructing facilities to benefit new users. The impact fee study which must be revisited every three years, the County wide trust account, the interlocal concurrency agreement among all governmental entities in educational facility planning and the requirement for expenditure only for growth necessitated educational facilities including debt service on such facilities, evidences compliance with both common and statutory law, and should be upheld by a court.

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### **III. Section 163.31801 Florida Statutes and HB 697**

The final version of this bill, which was not enacted in the 2018 session, among other related items, would have codified the two pronged Dunedin common law test into statutory law for all impact fees including education. Section 163.31801(3), which is part of the Florida Impact Fee Act, as modified by the bill would have added five requirements to existing statutory impact fee law, among which were the following four:

(f) The impact fee must be reasonably connected to, or have a rational nexus with, the need for additional capital facilities and the increased impact generated by the new residential or commercial construction.

(g) The impact fee must be reasonably connected to, or have a rational nexus with, the expenditures of the funds collected and benefits accruing to the new residential or commercial construction.

(h) The local government must specifically earmark funds collected by the impact fee for use in acquiring, constructing, or improving capital facilities to benefit the new users.

(i) The collection or expenditure of the impact fee revenues may not be used, in whole or part, to pay existing debt or be used for previously approved projects unless the expenditure is reasonably connected to, or has a rational nexus with, the increased impact generated by the new residential or commercial construction.

The first three provisions were codifications of Dunedin. The fourth provision recognized that large capital projects cannot be paid for with one year's impact fee collection, but require payment from impact fees collected over a period of years. The only way to provide such facilities is through financing. The amount of debt service to be paid from impact fees must have a rational nexus with the debt service due in that year on the previously approved capital expansion facility.

### **IV. The School Board's Master Lease Program**

Questions have been raised whether the School Board may use educational impact fees to make basic lease payments under its Master Lease Program which are then used to pay principal and interest on Certificates of Participation ("COP's). By law, COP's may have a term as long as 30 years, so theoretically the School Board could finance the construction of an impact fee eligible growth school over 30 years. Lease payments are appropriated annually by the School Board, so it never obligates itself to make payments for more than a year at a time. The Mater Lease provides that lease payments can be made from "the Board's available revenues appropriated for such purpose". Although capital outlay millage is the primary source, any other funds that are legally available may be used, among which have been voter-approved

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infrastructure sales surtax. Impact fees are another one of those sources. The prohibition against debt in HB 697 would not, in my view, present a problem under the School Board's COP financings, so long as the amount of impact fees applied toward lease payments under a particular lease schedule does not exceed the lease payments due in that year on eligible facilities (those that provide new student stations to accommodate growth). Other projects that are ineligible for impact fees can be and have been included in the same COP financing but have been and will continue to be paid from other legally available sources such as capital outlay millage or sales surtax.

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