

**MARTIN COUNTY
DISTRICT SCHOOL BOARD**

Federal Single Audit Report

For the Fiscal Year Ended
June 30, 2010



BOARD MEMBERS AND SUPERINTENDENT

Board members and the Superintendent who served during the 2009-10 fiscal year are listed below:

	<u>District No.</u>
Lorie Shekailo, Chair	1
Sue Hershey, Vice Chair	2
Laurie Gaylord	3
Maura Barry-Sorenson	4
Dr. David L. Anderson	5

Nancy Kline, Superintendent

The Auditor General conducts 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.

The audit team leader was Stefanie Johnson, CPA, and the audit was supervised by Ida Marie Westbrook, CPA. Please address inquiries regarding this report to Gregory L. Centers, CPA, Audit Manager, by e-mail at gregcenters@aud.state.fl.us or by telephone at (850) 487-9039.

This report and other reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 487-9175; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

MARTIN COUNTY DISTRICT SCHOOL BOARD
FEDERAL SINGLE AUDIT REPORT
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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

The District's basic financial statements, as of and for the fiscal year ended June 30, 2010, were presented fairly, in all material respects, in accordance with prescribed financial reporting standards. Our report on the District's financial statements is included in the [District's Comprehensive Annual Financial Report](#) for the fiscal year ended June 30, 2010.

Summary of Report on Internal Control and Compliance

Our audit did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* issued by the Comptroller General of the United States.

Summary of Reports on Federal Awards

Information on the Schedule of Expenditures of Federal Awards (SEFA) is presented for purposes of additional analysis and is not a required part of the District's basic financial statements. Information on the SEFA is fairly stated, in all material respects, in relation to the District's basic financial statements taken as a whole.

We audited the District's Federal awards for compliance with applicable Federal requirements. The Title I, Part A Cluster; Special Education Cluster; State Fiscal Stabilization Fund Cluster; and Head Start programs were audited as major Federal programs. The results of our audit indicated that the District materially complied with the requirements that were applicable to the major Federal programs tested. However, we did note noncompliance and control deficiency findings as summarized below.

Federal Awards Finding No. 1: Improvements were needed in District procedures for reporting program information and related expenditures on the Schedule of Expenditures of Federal Awards.

Federal Awards Finding No. 2: The District needed to enhance its procedures to ensure that enrollment levels are maintained in accordance with Federal requirements for the Head Start program.

Federal Awards Finding No. 3: Certain salary and benefit costs were inappropriately charged to the Head Start program, resulting in \$6,369.03 of questioned costs.

Audit Objectives and Scope

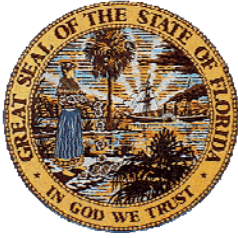
Our audit objectives were to determine whether the Martin County District School Board and its officers with administrative and stewardship responsibilities for District operations had:

- Presented the District's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements or on a major Federal program;
- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements, and those applicable to the District's major Federal programs.

Audit Methodology

The methodology used to develop the findings in this report included the examination of pertinent District records in connection with the application of procedures required by auditing standards generally accepted in the United States of America, applicable standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and Office of Management and Budget *Circular A-133*.

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AUDITOR GENERAL

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The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Martin County District School Board as of and for the fiscal year ended June 30, 2010, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 7, 2010. Our report on the basic financial statements was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the school internal funds and the aggregate discretely presented component units, as described in our report on the Martin County District School Board's financial statements. For the school internal funds and the aggregate discretely presented component units, this report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

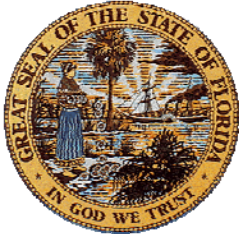
We noted certain matters that we reported to District management in our operational audit report No. 2011-056, dated December 2010.

Pursuant to Section 11.45(4), Florida Statutes, this report is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this report is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



David W. Martin, CPA
December 7, 2010



DAVID W. MARTIN, CPA
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AUDITOR GENERAL STATE OF FLORIDA

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The President of the Senate, the Speaker of the
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Legislative Auditing Committee

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB *CIRCULAR A-133*

Compliance

We have audited the Martin County District School Board's compliance with the types of compliance requirements described in the United States Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major Federal programs for the fiscal year ended June 30, 2010. The District's major Federal programs are identified in the **SUMMARY OF AUDITOR'S RESULTS** section of the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of District management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB *Circular A-133*. Those standards and OMB *Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB *Circular A-133* and which are described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding Nos. 1 through 3.

Internal Control Over Compliance

District management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program to determine auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB *Circular A-133*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report as Federal Awards Finding No. 1 through 3. A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Martin County District School Board as of and for the fiscal year ended June 30, 2010, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 7, 2010. Our report on the basic financial statements was modified to include a reference to other auditors. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is presented for purposes of additional analysis as required by OMB *Circular A-133* and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS** is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Management's response to the findings described in the **SCHEDULE OF FINDINGS AND QUESTIONED COSTS** section of this report is included as Exhibit A. We did not audit management's response and, accordingly, we express no opinion on the response.

Pursuant to Section 11.45(4), Florida Statutes, this report is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this report is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



David W. Martin, CPA
February 7, 2011

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**MARTIN COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2010**

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)	Amount Provided to Subrecipients
United States Department of Agriculture:				
Indirect:				
Child Nutrition Cluster				
Florida Department of Education				
School Breakfast Program	10.553	321	\$ 675,050.00	\$
National School Lunch Program	10.555	300, 350	2,755,967.56	
Summer Food Service Program for Children	10.559	323	63,117.62	
Florida Department of Agriculture and Consumer Services:				
National School Lunch Program	10.555(2)(A)	None	371,420.00	
Total Child Nutrition Cluster			3,865,555.18	
Florida Department of Education				
ARRA - Child Nutrition Discretionary Grants Limited Availability	10.579	371	81,144.31	
Fresh Fruit and Vegetable Program	10.582	None	193,970.00	
Total United States Department of Agriculture			4,140,669.49	
United States Environmental Protection Agency:				
Indirect:				
St. Johns River Water Management District:				
National Estuary Program	66.456	None	26,283.00	
United States Department of Education:				
Direct:				
Safe and Drug-free Schools and Communities - National Programs	84.184	N/A	70,092.20	
Indirect:				
Special Education Cluster:				
Florida Department of Education:				
Special Education - Grants to States	84.027	263	3,749,721.13	
Special Education - Preschool Grants	84.173	267	107,762.62	
ARRA - Special Education - Grants to States, Recovery Act	84.391	263	1,645,465.18	
ARRA - Special Education - Preschool Grants, Recovery Act	84.392	267	23,030.61	
St. Lucie County District School Board:				
Special Education - Grants to States	84.027	None	21,521.00	
Total Special Education Cluster			5,547,500.54	
Title I, Part A Cluster:				
Florida Department of Education:				
Title I Grants to Local Educational Agencies	84.010	212, 222, 223, 226, 228	2,839,120.87	
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	222, 226	846,262.42	
Total Title I, Part A Cluster			3,685,383.29	
Educational Technology State Grants Cluster:				
Florida Department of Education:				
Education Technology State Grants	84.318	121	31,605.81	
ARRA - Education Technology State Grants, Recovery Act	84.386	121	21,908.26	
Total Educational Technology State Grants Cluster			53,514.07	
State Fiscal Stabilization Fund Cluster:				
Florida Department of Education:				
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	591	5,945,712.00	
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	592	729,512.83	4,865.35
Total State Fiscal Stabilization Fund Cluster			6,675,224.83	4,865.35

**MARTIN COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
For the Fiscal Year Ended June 30, 2010**

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass - Through Grantor Number	Amount of Expenditures (1)	Amount Provided to Subrecipients
United States Department of Education (Continued):				
Florida Department of Education:				
Adult Education - Basic Grants to States	84.002	191, 193	\$ 151,420.88	\$
Migrant Education - State Grant Program	84.011	217	140,626.30	
Career and Technical Education - Basic Grants to States	84.048	151, 161	154,678.51	
Safe and Drug-Free Schools and Communities - State Grants	84.186	103	53,511.72	
Even Start - State Educational Agencies	84.213	219	184,013.74	
English Language Acquisition Grants	84.365	102	285,986.32	
Improving Teacher Quality State Grants	84.367	224	645,112.36	
School Improvement Grants	84.377	126	34,459.11	
ARRA - Education of Homeless Children and Youth, Recovery Act	84.387	127	9,023.13	
Total Indirect			<u>17,620,454.80</u>	<u>4,865.35</u>
Total United States Department of Education			<u>17,690,547.00</u>	<u>4,865.35</u>
United States Department of Health and Human Services:				
Direct:				
Head Start Cluster:				
Head Start	93.600 (3)	N/A	1,823,274.50	
ARRA - Head Start	93.708 (3)	N/A	73,431.56	
Total Head Start Cluster			<u>1,896,706.06</u>	
Indirect:				
Florida Developmental Disabilities Council, Inc.:				
Developmental Disabilities Basic Support and Advocacy Grants	93.630	691CD08, 755CD09C	100,000.00	
Florida State University:				
Block Grants for Prevention and Treatment of Substance Abuse	93.959	LD609	27,795.29	
Total Indirect			<u>127,795.29</u>	
Total United States Department of Health and Human Services			<u>2,024,501.35</u>	
United States Department of Homeland Security:				
Indirect:				
Florida Department of Emergency Management:				
Hazard Mitigation Grant	97.039(2)(B)	None	1,000,731.70	
United States Department of Interior - Fish and Wildlife Services:				
Indirect:				
Martin County Board of County Commissioners:				
Payments in Lieu of Local Property Taxes on Exempt Land	None	None	30,502.65	
United States Department of Defense:				
Direct:				
Army Junior Reserve Officers Training Corps	None	N/A	69,585.83	
Air Force Junior Reserve Officers Training Corps	None	N/A	129,886.74	
Total United States Department of Defense			<u>199,472.57</u>	
Total Expenditures of Federal Awards			<u>\$ 25,112,707.76</u>	<u>\$ 4,865.35</u>

- Notes: (1) Basis of Presentation. The Schedule of Expenditures of Federal Awards represents amounts expended from Federal programs during the fiscal year as determined based on the modified accrual basis of accounting. The amounts reported on the Schedule have been reconciled to and are in material agreement with amounts recorded in the District's accounting records from which the basic financial statements have been reported.
- (2) Noncash Assistance.
- (A) Food Donation - Represents the amount of donated food received during the fiscal year. Commodities are valued at fair value as determined at the time of donation.
- (B) Donation of Federal Property - Represents the Federally-paid portion of emergency shelter generator totaling \$1,000,731.70. Installation was complete in 2009-10.
- (3) Head Start. Expenditures include \$767,987.75 for grant number/program year 4CH0466/19; \$1,055,286.75 for grant number/program year 04CH0466/20, and \$73,431.56 for grant number/program year 04SE0466/01.

**MARTIN COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be a material weakness(es)?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be a material weakness(es)?	Yes
Type of report the auditor issued on compliance for major programs:	Unqualified for all major programs
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB <i>Circular A-133</i> ?	Yes
Identification of major programs:	Title I Part A Cluster (CFDA Nos. 84.010 and 84.389 - ARRA), Special Education Cluster (CFDA Nos. 84.027, 84.173, 84.391 - ARRA, and 84.392 - ARRA), State Fiscal Stabilization Fund (CFDA No. 84.394 - ARRA and 84.397 - ARRA), and Head Start (CFDA Nos. 93.600 and 93.708 - ARRA)
Dollar threshold used to distinguish between Type A and Type B programs:	\$753,381
Auditee qualified as low-risk auditee?	Yes

**MARTIN COUNTY
DISTRICT SCHOOL BOARD
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Federal Awards Finding No. 1

Federal Agencies: United States Department of Agriculture, United States Department of Education, United States Department of Health and Human Services, and United States Department of Homeland Security

Pass-Through Entities: Florida Department of Agriculture and Consumer Services, Florida Department of Education Program, and Florida Division of Emergency Management

Program: Child Nutrition Discretionary Grants Limited Availability (CFDA 10.579 - ARRA); Education Technology State Grants, Recovery Act (CFDA 84.386); Title I Grants to Local Educational Agencies, Recovery Act (CFDA 84.389); Special Education – Grants to States, Recovery Act (CFDA 84.391); Special Education – Preschool Grants, Recovery Act (CFDA 84.392); State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act (CFDA 84.394); State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act (CFDA 84.397); ARRA - Head Start (CFDA 93.708); and Hazard Mitigation Grant (CFDA 97.039)

Finding Type: Noncompliance and Significant Deficiency

Questioned Costs: Not Applicable

Reporting – Schedule of Expenditures of Federal Awards. United States Office of Management and Budget *Circular A-133* requires the District to prepare a Schedule of Expenditures of Federal Awards (SEFA) that contains certain information, such as a list of Federal programs by Federal agency, individual Federal programs within a cluster of programs, and the total Federal awards expended for each Federal program. Also, *Circular A-133* requires the District to obtain compliance audits of major Federal awards at least once every three years for awards with expenditures that exceed 3 percent of the total Federal expenditures (\$753,381.23 is 3 percent of the District's 2009-10 fiscal year Federal expenditures). In addition, Title 2, Section 176.210(b), Code of Federal Regulations, as amended in April 2009, requires the District to separately identify the expenditures for Federal awards under the America Recovery and Reinvestment Act (ARRA) on the SEFA.

We noted instances in which the District's SEFA did not contain certain required data, contrary to *Circular A-133*. For example, through our review of District records and inquiries, we determined that:

- The Hazard Mitigation Grant represented a major Federal program with expenditures totaling \$1,000,731.70; however, the District did not report the program and related expenditures on the SEFA.
- The following Federal grant expenditures were included in the respective cluster amounts, but not separately identified as ARRA on the SEFA: ARRA – Title I program (\$846,262.42), ARRA – Special Education: Grants to States (\$1,645,465.18) and Preschool Grants (\$23,031); and ARRA – State Fiscal Stabilization Fund Education: State Grants (\$5,945,712) and Government Services (\$729,512.83).
- ARRA – School Lunch Equipment program and ARRA – Head Start program expenditures totaling \$81,144.31 and \$73,341.56, respectively, were totaled separately on the SEFA, but not identified as ARRA expenditures.
- ARRA – Education Technology program and related expenditures, totaling \$21,908, were not reported on the SEFA.

Without procedures to accurately report Federal programs and related expenditures on the SEFA, the risk increases that major Federal programs may not be audited, contrary to Federal requirements, and costs associated with those programs may be subject to disallowance by the grantors.

Recommendation: The District should enhance procedures to ensure the accuracy of the Schedule of Expenditures of Federal Awards.

District Contact Person: Brian Thabit, Executive Director of Finance

Federal Awards Finding No. 2
Federal Agency: United States Department of Health and Human Services
Award Number: 04CH046617, 04CH046618
Program: Head Start (CFDA No. 93.600)
Finding Type: Noncompliance and Significant Deficiency
Questioned Costs: Not Applicable

Earmarking. Title 45, Code of Federal Regulations, Section 1305.4(b)(1) and (2), provides that at least 90 percent of the Head Start program participants must be low income (i.e., family income below the official Federal poverty guidelines or receives public assistance) and up to 10 percent of the program participants may be from families that are above the income threshold. During the 2009-10 fiscal year, the District was funded for enrollment in the program ranging from 265 to 270 participants, allowing up to 27 students who were above the income threshold, and the District reported program expenditures totaling approximately \$1.9 million.

In August 2009, while reviewing student files and information used for admitting participants into the program, District personnel noted that 40 participants, or 13 more than allowed, were above the income threshold. Head Start personnel performed a subsequent review of family income correspondence, resulting in status changes for some participants and a decrease in the number of participants above the income threshold to 36 participants. Head Start personnel indicated that the overenrollment of these type participants was the result of inaccuracies in the reported income status of some applicants due to input errors by employees during the enrollment process.

In addition, Title 42, Section 9835(d), United States Code (USC), requires a minimum of 10 percent of the Head Start program enrollment to be children with disabilities, unless a waiver is obtained from the Administration for Children and Families (ACF). In February 2010, children with disabilities represented approximately 4 percent of the children participating in the Head Start program, and the Head Start Director requested a waiver to exempt the District from this requirement; however, as of January 2011, ACF had not granted the waiver. The Head Start Director indicated that it has been difficult to meet this requirement as the District also operates a separate Voluntary Pre-K program for children with disabilities, and many of those children attend that program instead of the Head Start program. According to Title 42, Section 9835(d)(4), USC, waivers may be provided not more than 3 years, and to receive such waivers, the District must provide evidence demonstrating that reasonable efforts are being made on an annual basis to comply with the requirements.

Final determination of any actions that may result for the exceptions noted above rests with the United States Department of Health and Human Services.

Recommendation: The District should enhance procedures to ensure that it maintains enrollment levels in accordance with Federal regulations.

District Contact Person: Deana Hughes Newson, Head Start Director

Federal Awards Finding No. 3**Federal Agency: United States Department of Health and Human Services****Award Number: 04CH046617, 04CH046618****Program: Head Start (CFDA No. 93.600)****Finding Type: Noncompliance and Significant Deficiency****Questioned Costs: \$6,369.03**

Allowable Costs/Cost Principles - Compensation of Personnel Services. United States Office of Management and Budget (OMB) *Circular A-87*, Attachment A, Section C.1, provides, in part, that costs must be adequately documented to be allowable under Federal awards. In addition, OMB *Circular A-87* provides that charges to Federal awards for salaries and wages be based on payrolls documented in accordance with generally accepted practices of the governmental unit and approved by a responsible official of the unit. Where employees are expected to work on multiple activities or cost objectives, a distribution of their salaries or wages must be supported by monthly personnel activity reports or equivalent documentation. These reports must reflect an after the-fact distribution of the actual activity of each employee and must be signed by the employee. Where employees are expected to work solely on a single Federal award or cost objective, charges for salaries and wages are to be supported by periodic certifications, prepared at least semiannually, that the employees worked solely on that program for the period of the certification.

The Head Start program grant application provided that the District would allocate instructional personnel salary costs based on the time spent in the individual program or, in the case where children are in one classroom, by the number of children in each program. The District operated a separate Voluntary Pre-K program, a blended program in which Head Start and Voluntary Pre-K/Head Start children are in the same classroom, and the number of children in each program changes as participants enter and leave the programs. In addition, Head Start program personnel kept monthly enrollment records by classroom and monthly time and effort reports for each program employee.

The District incurred salary and benefit charges to the Head Start program of approximately \$1.7 million, and our tests to determine the propriety of these expenditures disclosed the following:

- **Instructional Personnel.** For 15 instructors, we compared salary and benefit cost allocations to class listings that identified participants by program for September 2009 and April 2010. The salary and benefit costs of all 15 instructors were charged 100 percent to the Head Start program; however, 7 of the instructors were in blended programs for September 2009, and 7 were in blended programs for April 2010. Based on the ratio of non-Head Start participants in these blended classrooms, the Head Start program incurred questioned costs totaling \$4,942.83 for the two months.
- **Noninstructional Personnel.** For seven noninstructional personnel, we compared salary and benefit cost allocations to time and effort records, and noted that the allocated salaries and benefits for three of seven noninstructional employees tested did not agree to their monthly time and effort records. As a result, the Head Start program incurred net questioned costs of \$1,426.20.

Although Head Start program personnel kept monthly enrollment records by classroom and monthly time and effort reports for program employees, the District did not use this documentation to adjust the salaries and benefits charged to the Head Start program.

Recommendation: The District should enhance procedures to ensure Head Start program salary and benefit costs are reasonably allocated to the program. Additionally, the District should review the 2009-10 fiscal year records to determine the extent to which salary and benefit costs were not allocated based on monthly enrollment records and the ratio of Head Start participants in the blended classrooms. For amounts that do not represent reasonable charges to the program, including the \$6,369.03 in questioned costs noted above, the District should restore such charges to the Head Start program.

District Contact Person: Deana Hughes Newson, Head Start Director

MANAGEMENT’S RESPONSE

Management’s response is included as Exhibit A.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

*MARTIN COUNTY
DISTRICT SCHOOL BOARD
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2010*

Listed below is the District's summary of the status of prior audit findings on Federal programs:

Audit Report No. and Federal Awards Finding No.	Program/Area	Brief Description	Status	Comments
2010-072		No prior Federal Audit Findings.		

EXHIBIT A
MANAGEMENT'S RESPONSE

Nancy Kline, Superintendent of Schools
THE SCHOOL BOARD OF MARTIN COUNTY, FLORIDA



500 East Ocean Blvd • Stuart, Florida 34994 • Telephone (772) 219-1200 Ext: 30200 • Facsimile: (772) 219-1231

February 7, 2011

Mr. David W. Martin, CPA
Auditor General
111 West Madison Street
Tallahassee, Florida 32399

Dear Mr. Martin:

The following information is submitted in response to your preliminary tentative Federal audit findings and recommendations from your audit of the District School Board of Martin County for the fiscal year ended June 30, 2010:

FINDINGS AND RECOMMENDATIONS

FEDERAL AWARDS FINDING NO. 1: Improvements were needed in District procedures for reporting program information and related expenditures on the Schedule of Expenditures of Federal Awards.

Recommendation: The District should enhance procedures to ensure the accuracy of the Schedule of Expenditures of Federal Awards.

DISTRICT RESPONSE: The District Acknowledges the Auditor's findings and has prepared the following response:

The district has enhanced procedures to ensure that federal awards and expenditures are reported on the Schedule of Expenditures and Federal Awards (SEFA) and that federal program titles for ARRA grants are specifically identified on the SEFA.

Attachment 1 is the District's enhanced SEFA procedure H-010.

FEDERAL AWARDS FINDING NO. 2: The District needed to enhance its procedures to ensure that enrollment levels are maintained in accordance with Federal requirements for the Head Start program.

Recommendation: The District should enhance procedures to ensure that it maintains enrollment levels in accordance with Federal regulations.

DISTRICT RESPONSE: The District Acknowledges the Auditor's findings and has prepared the following response:

The matter of over income students was discovered and addressed in August 2009. The children were already in school and it was too late to correct for the 2009-2010 school year. At least 90 percent of children who are enrolled in each Head Start program must be from low-income families. The Family Service Manager (FSM) working with other Head Start staff developed and implemented the following action plan:

School Board Members: Dr. David L. Anderson • Maura Barry-Sorenson • Michael J. Busha • Laurie Gaylord • Susan J. Hershey
"An Equal Opportunity Agency"

EXHIBIT A
MANAGEMENT'S RESPONSE (CONTINUED)

- a) The Data Processor added another column to the wait list that will identify the over income students. We are able to identify all over-income students as a result. The column/category remains on the wait list even after students are selected. This allows the staff to detect a problem immediately if the status and the income category do not match.
- b) The Data Processor will pull a report on over income students in Galileo immediately after selection to check on all over income students.
- c) The Data Processor and FSM will compare this report to the wait list to check for discrepancies.
- d) The Family Service Workers (FSW) at each site will be given a list of all over income students by the FSM. FSW's will pull all selected student's files that are over income, check for any errors and make sure all over income students are accounted for. FSW's will send this report immediately including any errors to the FSM who will report these findings to the Data Processor for correction in the Galileo System before the final selection of students is completed.

The new process was implemented for Phase I of the selection process for the 2010/2011 school year. Head Start enrollment policies and procedures were updated and approved by both Policy Council and the School Board.

A disability waiver was requested in February 2010 and a response is pending from the Administration for Children and Families (ACF) regarding our request. We continue to implement new strategies to assure the standard is met.

Attachment 2 is the revised Head Start enrollment policies and procedures approved by both Policy Council and the School Board.

FEDERAL AWARDS FINDING NO. 3: Controls to ensure salary and benefit costs are appropriately charged to the Head Start program could be enhanced.

Recommendation: The District should enhance procedures to ensure Head Start program salary and benefit costs are reasonably allocated to the program. Additionally, the District should review the 2009-10 fiscal year records to determine the extent to which salary and benefit costs were not allocated based on monthly enrollment records and the ratio of Head Start participants in the blended classrooms. For amounts that do not represent reasonable charges to the program, including the \$6,363.09 in questioned costs noted above, the District should restore such charges to the Head Start program.

DISTRICT RESPONSE: The District Acknowledges the Auditor's findings and has prepared the following response:

The allocation method used for the 2009-2010 school year for teachers' salaries was to designate one of the 15 Head Start classrooms as HS/VPK and the teacher and assistant were paid 100% from HS/VPK. The District agrees with the revision of the allocation plan and has developed and implemented a revised plan as of July 1, 2010, to ensure Head Start costs are properly allocated to the Head Start program. The District agrees with the \$6,369.03 of questioned costs.

EXHIBIT A
MANAGEMENT'S RESPONSE (CONTINUED)

The Head Start Grant accountant and Director also attended a cost allocation training course in June 2010.

Attachment 3 is the District's revised Pre-School programs cost allocation plan for 2009/10.

Sincerely yours,



Nancy Kline
Superintendent of Schools

NK: BMT
Enc.

EXHIBIT A
MANAGEMENT’S RESPONSE (CONTINUED)

Attachment-Finding No.1

MARTIN COUNTY SCHOOL DISTRICT PROCEDURES MANUAL FINANCE DEPARTMENT		
PROCEDURE NUMBER:		H-010
PROCEDURE TITLE:		GRANTS FINANCIAL MANAGEMENT PROCEDURES
PURPOSE OF PROCEDURE:		PREPARING THE ANNUAL SEFA (SCHEDULE OF FEDERAL AWARDS) SCHEDULE FOR THE CAFR
WHO:	STEP	ACTION:
Grant Accountant	1.	OMB CIRCULAR A-133 requires the District to provide a SEFA schedule (Schedule of Federal Awards) after the end of each fiscal year. (Exhibit A.1)
Grant Accountant	2.	A copy of the previous year’s SEFA schedule should be obtained from the District CAFR. (Exhibit A.2) A complete grant award list should be kept and maintained throughout the fiscal year. (Exhibit A.3) In addition, a copy of all Federal Award notices DOE Form-200 should be kept in a centralized location in preparation to prepare the annual SEFA. (Exhibit A.4) A F510 expenditure report from TERMS should also be printed to encompass all Grant awards. Usually all Funds beginning with 04XX. It is also necessary to print a revenue report from TERMS to capture the Child Nutrition Cluster and any other Awards where expenditures are not tracked separately. These items require the revenue received (reimbursed) to be used for the amount expended on the SEFA.
Grant Accountant	2.	The SEFA schedule reports all Federal Awards by Authority, Project/Program Title, and references the CFDA number (Catalog for Federal Domestic Assistance). CFDA numbers can be searched and verified on https://www.cfda.gov
Grant Accountant	3.	While working on the SEFA, a worksheet should be maintained explaining and listing each project that is encompassed under each CFDA number. (Exhibit A.5) This will provide detail in event of an audit to reconstruct the expenditures reported. Please note: The amount reported on the SEFA is the actual amount expended for the year on the project, NOT the amount of the award.
Grant Accountant	4.	Review all Board Agenda items throughout the fiscal year to print and capture any Federal Awards applied for and or granted to the District. Special attention should be given to items relating to assets granted without monetary exchange. The assets value is also to be included on the SEFA schedule. Pass Thru Funding to sub recipients also needs to be noted on the last column of the SEFA schedule should any occur.
END OF PROCEDURE		

EXHIBIT A
MANAGEMENT’S RESPONSE (CONTINUED)

Attachment - Finding No.2

HEAD START POLICIES AND PROCEDURES
ELIGIBILITY, RECRUITMENT, SELECTION, ENROLLMENT, ATTENDANCE

Policy Number: ERSEA - 2		Page #1 of 2
Revision/Review Date: 9/28/10	Head Start Director Approval Date: 10/22/2010	Notes:
Policy Council Approval Date: 10/22/2010	School Board Approval Date: 01/18/2011	
	Relates to CFR #: 1305.4	

SUBJECT: Age of children and family income eligibility.

POLICY:

- 1.Children selected for this program will be at least three years old on or by September 1 of the school year, they apply. (Children with a diagnosed disability can be served on their third birthday if the Local Education Agency deems Head Start is the best placement based upon the child’s Individual Education Plan.)
- 2.At least 90 percent of the children who are selected in the program are from low-income families according the definition of such in CFR 1305.2 (k).

PROCEDURE:

- 1.In order to apply for the MCSD Head Start Program, the family must submit a Head Start application and attach the following documents:
 - a) Proof of child’s age
 - b) Proof of family’s income
 - c) Proof of residency
 - d) Proof of child’s disability (if applicable)
- 2.Whenever possible, a copy of a certified birth certificate is the preferred proof of the child’s age. However, the following will be accepted as proof of age if this document is unavailable (*ref: FS 1003.1*):
 - a) Baptismal Certificate
 - b) Insurance policy on the child’s life that has been in force for at least 2 years
 - c) Religious record of the child’s birth (i.e. Bible entry) accompanied by an affidavit sworn to by the parent.
 - d) Passport or certificate of arrival in the United States showing the age of the child
 - e) Physician’s statement regarding child’s proof of age accompanied by an affidavit sworn by the parent

Note: A homeless child may be given a temporary exception from this requirement for 30 days.

1/31/2011

EXHIBIT A
MANAGEMENT'S RESPONSE (CONTINUED)

3. The following documents are accepted as proof of income in the order in which they will be requested:

- a) Individual income tax form 1040
- b) W-2 forms
- c) Statement from Social Security Income (SSI) and TANF
- d) Written statement from employers

4. A manager of the Head Start Program will verify and sign all income documents.

5. Standard formulas will be used to calculate a family's income and to verify eligibility to participate in the program. The Federal Poverty Guidelines will be inputted on a grid to help determine income eligibility.

6. Up to ten percent of selected enrollment may be children from families who are over the income guidelines. Consideration for selection for over-income children will be based on at risk factors and not income eligibility. To maintain a record of the accuracy of the percentage of enrollment of over income families, the following process will take place:

- a) After first selection, FCSM will request an over-income report from Data Processor.
- b) FCSM will review the specific columns designed to flag the over-income status of children on the report.
- c) FCSM will distribute the report to the FSW's to verify over-income status using the records on file. (Proof of income, income calculator).

7. FCSM will train all Head Start staff in the application process each February so they will be familiar with the application process.

Time Frame: Ongoing

Person(s) Responsible: FCSM, FSW Staff and Data Entry

1/31/2011

EXHIBIT A
MANAGEMENT’S RESPONSE (CONTINUED)

Attachment-Finding No. 3

Martin County School District
Preschool Programs
Cost Allocation Plan

Purpose:

To fairly and accurately allocate costs associated with Head Start, Head Start/VPK and Voluntary Pre-Kindergarten.

Description:

Head Start is a federally funded comprehensive program for low-income children. These children receive extensive services including medical and dental screenings, plus follow-up care, if needed. They have 6 hours of instruction per day and at least 2 home visits per year. There is an emphasis on parental and family involvement. Voluntary Pre-Kindergarten (VPK) is a state funded program that provides every 4 year old in Florida 540 hours of instruction (3 hours per day) during the school year or 300 hours during the summer as preparation for kindergarten. Some of our Head Start 4 year olds choose to do Head Start and VPK simultaneously and so, we receive state and federal funds for these children. The three types of classrooms that we have are HS, HS/VPK and VPK. There are no classrooms that include VPK students that are not HS students first.

Methods:

1. Classroom Staff and Supplies: The only classrooms where cost allocation is necessary are those that are Head Start with some students being VPK also. Since VPK provides 3 hours of instruction and HS provides 6 hours, we use a weighted average to allocate the costs in a specific classroom. For example, if a classroom is made up of 18 students and 6 of them are HS/VPK students, the calculation would be as follows:

Total students X 6 hours	18 * 6 =108	Charged to HS
HS/VPK students X 3 hours	6 * 3 = <u>18</u>	Charged to HS/VPK
	126	
108/126 = 86% - Head Start allocation		
18/126 = 14% - HS/VPK allocation		

EXHIBIT A
MANAGEMENT’S RESPONSE (CONTINUED)

This allocation will be reviewed on a quarterly basis and any necessary adjustments will be made at that time.

2. Administrative and Supervisory Staff: The allocations between HS and VPK (and, in some cases, ESE) are based on time and effort logs kept by each employee. The time and effort logs will be reviewed on a quarterly basis and any necessary adjustments will be made at that time.

3. Janitorial and General Office Supplies: Site (or main office) supplies are allocated based on the total number of students at the site (or in the entire program). For example, if a site has 3 classrooms:

Classroom #1:	18 Head Start students, of which there are 7 HS/VPK students
Classroom #2	18 Head Start students
Classroom #3	18 VPK students
Head Start	36 36/61 = 59%
HS/VPK	7 7/61 = 11%
VPK	<u>18</u> 18/61 = 30%
	61

Each HS/VPK student is counted twice. When possible, supplies will be charged directly to the program for which they were purchased.

