

STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

Report No. 2016-065
December 2015

**MARTIN COUNTY
DISTRICT SCHOOL BOARD**



Sherrill F. Norman, CPA
Auditor General

Board Members and Superintendent

During the 2014-15 fiscal year, Laurie J. Gaylord served as the Superintendent and the following individuals served as Board members:

| | <u>District No.</u> |
|--|---------------------|
| Michael Busha to 11-17-14, Chair | 1 |
| Christia Li Roberts from 11-18-14 | 1 |
| Marsha Powers, Vice Chair from 11-18-14 | 2 |
| Rebecca Negron | 3 |
| Maura Barry-Sorenson to 11-17-14 | 4 |
| Tina McSoley from 11-18-14 | 4 |
| Michael DiTerlizzi, Vice Chair to 11-17-14, Chair from 11-18-14 | 5 |

The team leader was Ida Marie Westbrook, CPA, and the audit was supervised by Diana G. Garza, CPA.

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

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MARTIN COUNTY DISTRICT SCHOOL BOARD

SUMMARY

This operational audit of the Martin County School District (District) focused on selected District processes and administrative activities and included a follow-up on findings noted in our report No. 2015-071. Our operational audit disclosed the following:

Finding 1: The Board did not always promptly record, approve, and make available for public inspection Board minutes in accordance with State law.

Finding 2: Contrary to State law, the Board-approved 2014-15 fiscal year salary schedule did not provide for differentiated pay of instructional personnel and school administrators based on critical shortage areas and level of job performance difficulties. A similar finding was noted in our report No. 2015-071.

Finding 3: The District did not always document the supervisory review and approval of the time worked by noninstructional contracted personnel.

Finding 4: The District could enhance procedures to better ensure that timely, written notifications are provided to parents about all VIP options offered. A similar finding was noted in our report No. 2015-071.

BACKGROUND

The Martin 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 Martin County. The governing body of the District is the Martin County District School Board (Board), which is composed of five elected members. The elected Superintendent of Schools is the executive officer of the Board. During the 2014-15 fiscal year, the District operated 22 elementary, middle, high, and specialized schools; sponsored 2 charter schools; and reported 18,582 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. 2015-071. The results of our audit of the District's financial statements and Federal awards for the fiscal year ended June 30, 2015, will be presented in a separate report.

FINDINGS AND RECOMMENDATIONS

Finding 1: Board Meetings

The Sunshine Law¹ requires that meetings of any board at which official acts are to be taken are to be public meetings open to the public at all times. The Sunshine Law² further requires the District to promptly

¹ Article I, Section 24, of the State Constitution and Section 286.011, Florida Statutes.

² Section 286.011(2), Florida Statutes.

record the minutes of all Board meetings and make such records open to public inspection. In addition, State law³ requires the Board to keep minutes as necessary to set forth clearly all Board actions and proceedings and to review and approve such minutes for each Board meeting at the next regular meeting. The minutes are to be kept as a public record in a permanent location.

During the 2014-15 fiscal year, the Board did not timely approve the minutes for 7 of the 12 regular Board meetings. The Board approved the minutes for these 7 meetings 9 to 147 days (average of 74 days) after the next regular meeting. Also, the Board did not timely approve the minutes for 21 of the 33 workshop and special meetings held during the 2014-15 fiscal year. The Board approved the minutes for the 21 workshop and special meetings 35 to 252 days (average of 96 days) after the next regular meeting. In response to our inquiry, District personnel indicated that, because of employee turnover, the District did not promptly record and submit the minutes to the Board for approval. To remedy these deficiencies, the District reassigned duties for maintaining the minutes to ensure future minutes are promptly recorded, Board approved, and made available for public inspection. Without timely Board approval of minutes, public access to records of official actions taken at the meetings is limited.

Recommendation: The Board should continue efforts to ensure that meeting minutes are promptly recorded, approved, and made available for public inspection in accordance with State law.

Finding 2: Compensation and Salary Schedules

State law⁴ requires the Board to designate positions to be filled, prescribe qualifications for those positions, and provide for the appointment, compensation, promotion, suspension, and dismissal of employees. State law⁵ provides that, for instructional personnel and school administrators, the Board must provide for differentiated pay based on District-determined factors, including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties. While compensation of instructional personnel is typically subject to collective bargaining, Board policy⁶ provides the framework for compliance with the differentiated pay requirements of State law and requires that the Board-adopted salary schedule provide for differentiated pay based on District-determined factors, such as additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties.

For instructional personnel and school administrators, the 2014-15 fiscal year salary schedule provided for school demographic differentiated pay based on the location of two schools and additional responsibility differentiated pay based on additional duties, such as sponsoring classes, directing bands, and coaching athletics. However, contrary to State law, the schedule did not provide for differentiated pay for instructional personnel and school administrators based on critical shortage areas and level of job performance difficulties. In response to our inquiry, District personnel indicated that the salary schedule did not always provide for differentiated pay due to limited funding. However, without Board-adopted salary schedules that identify differentiated pay based on critical shortage areas and level

³ Section 1001.42(1), Florida Statutes.

⁴ Section 1001.42(5)(a), Florida Statutes.

⁵ Section 1012.22(1)(c)4.b, Florida Statutes.

⁶ Board Policy No. 1410, *Compensation*.

of job performance difficulties, the District may be limited in its ability to demonstrate that the required differentiated pay factors are consistently considered and applied. Similar findings were noted in our report Nos. 2014-062 and 2015-071.

Recommendation: The Board should ensure that differentiated pay for instructional personnel and school administrators is appropriately identified on salary schedules, consistent with State law.

Finding 3: Payroll Processing Procedures

Effective internal controls require supervisory approval of time worked and leave used by employees to ensure that compensation payments are appropriate and leave balances are accurate. The District pays noninstructional contracted employees (e.g. administrative, clerical, and other support employees) on a payroll-by-exception basis whereby the employees are paid a fixed authorized gross amount for each payroll cycle unless the amount is altered. A payroll-by-exception methodology assumes, absent any payroll action to the contrary, that an employee worked or used available accumulated leave for the required number of hours in the pay period.

District procedures require use of an automated time and attendance system whereby employees scan their employee ID badges into the system to record work time and the system produces electronic time sheets. District personnel also enter leave of absence requests either online in the system or through the absence reporting telephone line that automatically records leave on the employee's time sheet. Timekeepers, such as department secretaries, are assigned for each cost center and are responsible for reviewing the completeness of the time sheets and site administrators, such as department coordinators, are responsible for supervisory review and approval of the electronic time sheets. Although District procedures require the Payroll Department to review all time sheets, the Payroll Department processes each payroll regardless of whether the site administrators document approval of the time sheets.

From the population of 1,332 noninstructional contract employees paid \$27.3 million during the period July 1, 2014, through May 31, 2015, we selected and examined documentation supporting salary payments totaling \$18,262 to 12 noninstructional contracted employees to determine whether site administrators reviewed and approved the time sheets supporting the payments. We found that site administrators did not approve the time sheets of 4 employees paid a total of \$8,970.

Without evidence of supervisory review and approval for time worked by noninstructional contracted employees, there is limited assurance that the employee services were provided consistent with Board expectations and the risk that employees may be incorrectly compensated and employee leave balances may not be accurate is increased.

Recommendation: The District should enhance procedures to ensure that, before salary payments are made, site administrators document their review and approval of time worked by noninstructional contracted personnel.

Finding 4: Written Parental Notification

State law⁷ requires each school district to provide information to parents and students about a student's right and choice to participate in a Virtual Instruction Program (VIP). In addition, State law⁸ requires the District to provide parents with timely, written notifications of open enrollment periods for its VIP.

For the 2014-15 school year, District personnel indicated there were several communication methods used to provide information about the District's VIP to parents and students. These communication methods included VIP brochures distributed at school sites and information posted on the District's Web site. While these methods demonstrate District efforts to communicate with parents and students about the VIP, District records did not evidence that the District provided written notifications directly to parents of students regarding the VIP and the VIP open enrollment periods.

District personnel indicated that they believed the above communication methods satisfied State law. However, without direct notifications, timely provided in writing to parents, some parents may not be informed of available VIP options and open enrollment periods, potentially limiting student access to virtual instruction. Such direct notifications could be made in writing by letter or e-mail. A similar finding was noted in our report No. 2015-071.

Recommendation: The District should ensure that parents are timely and directly notified in writing about student opportunities to participate in the District's VIP and open enrollment period dates.

PRIOR AUDIT FOLLOW-UP

The District had taken corrective actions for findings included in previous audit reports, except as noted in Findings 2 and 4 and shown in Table 1.

Table 1
Findings Also Noted in Previous Audit Reports

| Finding | 2013-14 Fiscal Year | 2012-13 Fiscal Year |
|---------|--|--|
| | Operational Audit Report No. 2015-071 | Operational Audit Report No. 2014-062 |
| 2 | Finding 1 | Finding 3 |
| 4 | Finding 5 | Not Applicable |

OBJECTIVES, SCOPE, AND METHODOLOGY

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

⁷ Section 1002.45(10), Florida Statutes.

⁸ Section 1002.45(1)(b), Florida Statutes.

We conducted this operational audit from April 2015 to November 2015 in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. 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 the safeguarding of assets.
- Determine whether management had taken corrective actions for findings included in our report No. 2015-071.
- 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 the selection and examination of records and transactions. 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 District 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's written information technology (IT) policies and procedures to determine whether the policies and procedures addressed certain important IT control functions, such as security, systems development and maintenance, and disaster recovery.
- Evaluated the District's review of employees' access to IT resources. We selected and examined access privileges to the District's finance and human resources applications and the supporting operating system for 24 of the 201 employees who had such access to determine whether the access prevented the performance of incompatible duties.
- Evaluated procedures to prohibit former employees' access to electronic data files. We examined access privileges for the 14 former employees with business service access who separated from District employment during the 2014-15 fiscal year to determine whether the access privileges had been timely deactivated.
- Evaluated the District's written policies, procedures, and programs in effect governing the classification, management, and protection of sensitive and confidential information.
- Determined whether a comprehensive IT disaster recovery plan was in place, designed properly, operating effectively, and had been recently tested.
- Examined selected operating system, database, network, and application security settings to determine whether authentication controls were configured and enforced in accordance with IT best practices.
- Determined whether a written, comprehensive IT risk assessment had been developed to document the District's risk management and assessment processes and security controls intended to protect the confidentiality, integrity, and availability of data and IT resources.
- Determined whether an adequate comprehensive IT security awareness and training program was in place.
- Evaluated IT procedures for requesting, testing, approving, and implementing changes to the District's business system.
- Evaluated procedures and examined supporting documentation to determine whether audit logging and monitoring controls were configured in accordance with IT best practices.
- Evaluated the adequacy of procedures related to security incident response and reporting.
- Reviewed the data center's physical access controls to determine whether vulnerabilities existed.
- Determined whether a fire suppression system had been installed in the data center.
- Examined Board, committee, and advisory board minutes to determine whether Board approval was obtained for policies and procedures in effect during the audit period and for evidence of compliance with Sunshine Law requirements (i.e., proper notice of meetings, ready access of minutes to public, and maintenance of minutes).
- Examined District records to determine whether the District had developed an anti-fraud policy and procedures to provide guidance to employees for communicating known or suspected fraud to appropriate individuals. We also examined District records to determine whether the District had implemented appropriate and sufficient procedures to comply with its anti-fraud policy.
- Applied analytical procedures to determine whether the percent of the General Fund total unassigned and assigned fund balance at June 30, 2015, to the Fund's revenues was less than

the 3 percent specified in Section 1011.051, Florida Statutes. We also performed analytical procedures to determine the reasonableness of, and ability of the District to make, the District's future debt service payments.

- Reviewed the District-sponsored charter school audit report to determine whether the audit was performed pursuant to Chapter 10.850, Rules of the Auditor General.
- Evaluated procedures for District payments, transfers, or loans to its direct-support organization during the 2014-15 fiscal year to determine whether transactions were authorized by Section 1001.453(2), Florida Statutes.
- Examined the District Web site to determine whether it showed the proposed, tentative, and official budgets pursuant to Section 1011.035(2), Florida Statutes.
- From the population of \$11,886,010 total expenditures and \$5,462,968 transfers made for the period July 1, 2014, through April 30, 2015, from nonvoted capital outlay tax levy proceeds, Public Education Capital Outlay funds, and other restricted capital project funds, selected and examined documentation supporting 26 expenditures and 4 transfers totaling \$3,466,605 and \$5,050,184, respectively, to determine whether the funds were expended in compliance with the restrictions imposed on the use of these resources.
- Determined whether the District, prior to the purchase, evaluated the effectiveness and suitability of a software application purchased for \$863,100 and whether the purchase was made through a competitive vendor selection process. We also examined support for both contract payments totaling \$402,375 made during the 2014-15 fiscal year, to determine whether the deliverables met the terms and conditions of the contract.
- Analyzed Workforce Development Funds expenditures totaling \$1,393,465 to determine whether the District used the funds for authorized purposes (i.e., not used to support K-12 programs or District K-12 administrative costs).
- From the population of 945 adult general education students reported for 241,325 instructional contact hours, selected and examined District records related to 30 students with 3,341 reported contact hours to determine whether the District reported the instructional contact hours in accordance with Florida Department of Education requirements.
- Examined District records to determine whether the Board adopted, in compliance with Section 1012.22(1)(c)4.b, Florida Statutes, a salary schedule with differentiated pay for both instructional personnel and school administrators based on District-determined factors, including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties.
- Selected and examined District records for 30 employees from the population of 3,546 employees to assess whether personnel who had direct contact with students were subjected to the required fingerprinting and background checks.
- Reviewed District policies and procedures to ensure health insurance was provided only to eligible employees, retirees, and dependents and that such insurance was timely canceled upon an employee's separation from District employment. We also determined whether the District had procedures for reconciling health insurance costs to employee, retiree, and Board-approved contributions. From the population of 2,179 active employee participants, we selected and examined District records for 30 employee participants (and related dependents) to determine the individuals' eligibility for health insurance.
- From the population of 3,546 employees compensated a total of \$92,479,370, selected and examined District records for 30 employees compensated a total of \$45,743 for selected pay periods to determine the accuracy of the rate of pay and whether supervisory personnel reviewed and approved employee time worked and leave taken.

- From the population of 8 payments totaling \$895 paid to employees during the 2014-15 fiscal year for other than travel reimbursements and payroll payments, selected and examined documentation supporting the 8 payments to determine whether such payments were reasonable, adequately supported, and for valid District purposes, and were not contrary to Section 112.313, Florida Statutes.
- Reviewed District policies and procedures related to identifying potential conflicts of interest. For District employees required to file statements of financial interests, we reviewed Department of State, Division of Corporation, records; statements of financial interests; and District records to identify any potential relationships that represent a conflict of interest with District vendors.
- Reviewed District records to determine whether the District provided the required Virtual Instruction Program (VIP) options and properly informed parents and students about students' rights to participate in a VIP and the VIP enrollment periods as required by Sections 1002.45(1)(b) and 1002.45(10), Florida Statutes.
- Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.
- Prepared and submitted for management response the findings and recommendations that are included in this report and which describe the matters requiring corrective actions. Management's response is included in this report under the heading **MANAGEMENT'S RESPONSE**.

AUTHORITY

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



Sherrill F. Norman, CPA
Auditor General

MANAGEMENT'S RESPONSE



THE SCHOOL BOARD OF MARTIN COUNTY, FLORIDA

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December 15, 2015

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

Dear Ms. Norman:

The purpose of this letter is to respond to the preliminary and tentative audit findings for the School Board of Martin County as a result of the audit for the fiscal year ending June 30, 2015. The following response has been submitted by District staff:

Finding No. 1: Board Meetings

The District concurs with the auditor's position and will ensure that meeting minutes are promptly recorded, approved, and made available for public inspection in accordance with State law.

Finding No. 2: Compensation and Salary Schedules

The District concurs with the auditor's position and when the District meets School Board Policy 6210, maintain an unassigned fund balance in its operating funds equal to five percent (5%) of the annual resources, the District will be in a financial position to implement differentiated pay.

Finding No. 3: Payroll Processing Procedures

The District concurs with the auditor's position and will ensure that, before salary payments are made, site administrators document their review and approval of time worked by noninstructional contracted personnel.

Finding No. 4: Written Parental Notification

The District concurs with the auditor's position and will create a process that will ensure that parents are timely and directly notified in writing about student opportunities to participate in the District's VIP and open enrollment period dates.

In closing, I would like to thank the staff from your office for their cooperation in the conduct of the aforementioned audit. Please feel free to contact my office if you have any questions concerning this matter.

Sincerely,

Laurie J. Gaylord

Laurie J. Gaylord
Superintendent

CC: School Board Members

Laurie J. Gaylord, Superintendent

School Board Members: Michael DiTerlizzi • Tina McSoley • Rebecca Negron • Marsha Powers • Christia Li Roberts
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