REPORT NO. 2013-040
NOVEMBER 2012

MARTIN COUNTY

DISTRICT SCHOOL BOARD

Operational Audit

STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

BOARD MEMBERS AND SUPERINTENDENT

Board members and the Superintendent who served during the 2011-12 fiscal year are listed below:

	District No.
Michael Busha	1
Sue Hershey, Chair	2
Laurie Gaylord, Vice Chair to 11-21-11	3
Maura Barry-Sorenson, Vice Chair from 11-22-11	4
Dr. David L. Anderson	5

Nancy Kline, Superintendent

The audit team leader was Mark D. Kenny, CPA, and the audit was supervised by Tim L. Tucker, 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

SUMMARY

Our operational audit disclosed the following:

PERSONNEL AND PAYROLL

Finding No. 1: The Board had not adopted formal policies and procedures establishing a documented process to identify instructional personnel and school administrators entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4.b., Florida Statutes.

FACILITIES ADMINISTRATION AND MONITORING

Finding No. 2: Controls over facilities construction and maintenance activities could be enhanced.

PROCUREMENT

Finding No. 3: The District's purchasing card procedures could be improved.

ADULT GENERAL EDUCATION

Finding No. 4: The District needed to strengthen its controls to ensure the accurate reporting of instructional contact hours for adult general education classes to the Florida Department of Education.

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 (FDOE). 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 2011-12 fiscal year, the District operated 22 elementary, middle, high, and specialized schools; sponsored one charter school; and reported 17,964 unweighted full-time equivalent students.

The results of our audit of the District's financial statements and Federal awards for the fiscal year ended June 30, 2012, will be presented in a separate report.

FINDINGS AND RECOMMENDATIONS

Personnel and Payroll

Finding No. 1: Compensation and Salary Schedules

Section 1001.42(5)(a), Florida Statutes, 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, subject to the requirements of Chapter 1012, Florida Statutes. Section 1012.22(1)(c)4.b., Florida Statutes, requires the Board to adopt a salary schedule with differentiated pay for instructional personnel and school administrators. The salary schedule was subject to negotiation as provided in Chapter 447, Florida Statutes, and was

required to provide differentiated pay based on District-determined factors, including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties.

The Board policy for professional/technical and supervisory personnel, including school administrators, established various supplements, including those for level of education, years of experience, school demographics in the western zone, and other supplements. However, the Board had not adopted formal policies and procedures establishing the documented process to identify instructional personnel entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4.b., Florida Statutes, nor the documented process to identify school administrators entitled to differentiated pay for three of the required factors (additional responsibilities, critical shortage areas, and level of job performance difficulties). Such policies and procedures could specify the prescribed factors to be used as the basis for determining differentiated pay, the documented process for applying the prescribed factors, and the individuals responsible for making such determinations.

The salary schedule and applicable union contracts used during the 2011-12 fiscal year for instructional personnel and school administrators provided pay levels based on various factors such as job classification, years of experience, level of education, and other factors. However, the District's procedures for documenting compliance with Section 1012.22(1)(c)4.b., Florida Statutes, could be improved, as follows:

- **Instructional Personnel**. The instructional personnel salary schedule and union contract provided salary supplements for additional responsibilities beyond the standard workday, such as supplements for athletic and drama coaches and department chairpersons. District personnel also indicated that union contracts for several years have provided differentiated pay for school demographics, level of job performance difficulties, and critical shortage areas for speech and language pathologists, social workers, and program specialists. However, District records did not evidence the basis upon which these determinations were made or the relevance of such determinations for the 2011-12 fiscal year salaries. For example, documentation for school demographics could include an analysis of how demographics differed among schools and how these differences affected the determination of which employees were entitled to differentiated pay based on this factor. For level of job performance difficulties, documentation could include an analysis of how specific tasks or job classifications have special challenges that warrant differentiated pay based on this factor. For critical shortage areas, documentation could include records evidencing a minimal number of applicants, high personnel turnover rates, and other factors demonstrating the difficulty of hiring and retaining particular personnel.
- **School Administrators**. District personnel indicated that the school administrators' salary schedule included consideration for additional responsibilities, school demographics, and level of job performance difficulties by the differing administrative pay grades for elementary, middle, and high schools based on the type school. The salary schedule also provided supplements and bonus compensation, as determined by the Superintendent, for school administrators in critical need areas, such as an assignment bonus and a recruitment and retention supplement for those assigned to Indiantown or the western zone area. While school administrators were compensated for these critical need (i.e., critical shortage) areas, District records did not evidence the establishment of specific criteria for determining critical shortage areas for these payments or the application of such criteria by the Superintendent.

District personnel indicated that differentiated pay considerations are included in the collective bargaining process with the teacher's union and once that process is completed and funding sources determined, the District will finalize and adopt formal policies and procedures to comply with differentiated pay statutory requirements. District personnel further indicated that a compensation study was considered to assist with the design of the differentiated pay process for school administrators; however, due to budget constraints, the study had not been performed.

Without Board-adopted policies and procedures for identifying the basis for differentiated pay, the District may be limited in its ability to demonstrate that the various differentiated pay factors are consistently considered and applied. Similar findings were noted in our report Nos. 2011-056 and 2012-029.

Recommendation: The Board should adopt formal policies and procedures for ensuring that differentiated pay of instructional personnel and school administrators is appropriately identified on salary schedules, consistent with Section 1012.22(1)(c)4.b., Florida Statutes.

Facilities Administration and Monitoring

Finding No. 2: Facilities Management

The facilities department is responsible for managing construction and renovation projects. During the 2011-12 fiscal year, the facilities department employed 18 full-time employees, including construction and capital energy personnel, and the department's operating cost was $1.8 million. Also, during this fiscal year, the District had expenditures totaling approximately $25 million for construction and renovation projects and, as shown on the District's Five-Year Facilities Work Plan as approved by the Board on September 20, 2011, the District planned to spend an additional $40 million on these projects over the next four fiscal years. At June 30, 2012, the historical cost of the District's educational and ancillary facilities was $480 million and, as shown in the Florida Department of Education's Florida Inventory of School Houses data, District facilities had an average age of 23 years.

The maintenance department is responsible for ensuring facilities are safe and suitable for their intended use. The maintenance department performed heating, ventilating, air-conditioning (HVAC), electrical, plumbing, and other maintenance-related jobs. During the 2011-12 fiscal year, this department employed 52 full-time employees to provide maintenance services to the District's 22 schools and 18 ancillary support sites, and the department's operating cost was $4.2 million.

Given the significant commitment of public funds to construct and maintain educational facilities, it is important that the District establishes procedures to evaluate the effectiveness and efficiency of facility operations at least annually using performance data and established benchmarks. Such procedures could include written policies and procedures documenting processes for evaluating facilities construction methods and maintenance techniques before commitment of significant resources to the most cost effective and efficient method or technique. In addition, performance evaluations could include established goals for facility and maintenance operations, and measurable objectives or benchmarks that are clearly defined, to document the extent to which goals are achieved and accountability for facilities and maintenance department employees. While our review of facilities management procedures indicated that procedures were generally adequate, we noted that the following procedural enhancements could be made:

- **Alternative Construction Methods or Maintenance Techniques**. The District primarily awards construction contracts to construction contractors using guaranteed maximum price construction methods, although it also uses traditional design-build methods. In addition, maintenance-related jobs, such as HVAC replacement and repair, are routinely performed by maintenance personnel based on safety and suitability priorities, although some of these jobs are outsourced to local vendors. District personnel indicated that they had not established written policies and procedures for evaluating the various construction methods or

maintenance-related job techniques and, while they consider alternative methods and techniques, they have not documented an evaluation of the various approaches to determine which would be most cost effective and beneficial. Without Board-approved policies and procedures, and documented evaluations, there is an increased risk that the District may not use the most cost-effective and beneficial construction method or maintenance technique.

- **Accountability**. The District's facilities and maintenance departments have established short-term and long-term goals; however, our review disclosed that these goals did not fully address accountability for these departments. For example, the goals for the facilities planning department included but are not limited to standardized classroom design, improving indoor air quality, conservation, cost containment, and improving energy conservation measures. Examples of maintenance department goals included formalizing preventative maintenance tasks and improving work order response time. However, the goals of these departments did not sufficiently identify efficiency or cost-effectiveness outcomes.

  To adequately establish outcome measures, the departments could set goals such as completing construction or maintenance projects that meet or exceed building code industry standards at the lowest possible cost. Progress in attaining the goals could be measured by developing accountability systems to monitor work orders for return assignments or corrective action because a project did not initially meet building code requirements, and to compare project costs to industry standards for similar work. Additional goals could include setting benchmark time frames for routine projects or jobs and progress toward meeting the goal could be measured by comparing project or job completion times to industry standards for similar work. Establishing goals that focus on accountability and measureable objectives and benchmarks could assist the District in determining whether its facilities planning and maintenance departments are operating effectively and as cost-efficiently as possible.

Recommendation: The District should develop written policies and procedures requiring the periodic evaluation of alternative facilities construction methods and significant maintenance-related job techniques, and document these evaluations. In addition, the District should develop additional goals and objectives for the facilities and maintenance departments to identify efficiency or cost-effectiveness outcomes for department personnel.

Procurement

Finding No. 3: Purchasing Cards

The District provided purchasing cards to authorized employees for the purchase of goods and services, and used three types of purchasing cards by various staff and management to make:

- Small dollar purchases, such as operating supplies, materials, services, and hotel costs for business purposes;
- Small dollar purchases, as mentioned above, and large dollar purchases, pursuant to Board-awarded contracts or bids; purchasing department capital equipment acquisitions with individual costs exceeding $1,000; and certain payments exempt from competitive requirements such as insurance premiums, memberships, exempt professional services, utilities, and phone bills; and
- Purchases from internal funds.

Purchases made with purchasing cards are subject to the same rules and regulations that apply to other District purchases and are subject to requirements set forth in the purchasing card manual. The manual requires administrators to submit requests to the finance department for purchasing cards on an application form evidencing assigned credit limits and administrative approval to issue the cards. In addition, the manual requires documented reviews by administrative and finance department personnel of the propriety and approval of charges prior to payment.

During the 2011-12 fiscal year, the District had 112 purchasing cards assigned to individual employees and departments, used the cards to make purchases totaling $7.9 million, and contracted with a financial institution to provide the purchasing cards and process purchases. Our review disclosed the District's purchasing card controls could be enhanced as follows:

- Twenty-four of 25 purchasing card application forms tested could not be located because, according to District personnel, the forms were misplaced in the warehouse. Without such records, the basis for assigning purchasing cards and approving related credit limits was not readily apparent.
- Seventeen of 25 monthly cardholder statements tested did not evidence finance department review prior to payment. Based on District records and discussions with finance department personnel, as of August 2012, finance department reviews had not been performed since October 2011. Although our tests disclosed administrative approval of the purchasing card charges tested, without appropriate finance department review and approval of purchasing card charges, there is an increased risk that errors or fraud could occur and not be timely detected and corrected.
- Our review of five departmental purchasing cards and related purchases disclosed single transaction and monthly credit limits for three cards that appeared excessive based on actual purchases during the 2011-12 fiscal year, as shown below:

  While District personnel indicated that the single and monthly transaction limits were originally set based on assessments by department administrators and that monthly credit limits were reviewed in January 2012, District records did not evidence the assessments during the 2011-12 fiscal year to ensure limits were consistent with actual card use. Effective controls to monitor the reasonableness of purchasing card credit limits reduce the risk of unauthorized use. Similar findings were noted in our report Nos. 2011-056 and No. 2012-029.

Department	Single Transaction Limit	Actual Highest Single Transaction	Actual as Percent of Limit	Monthly Limit	Actual Highest Monthly Total	Actual as Percent of Limit
Warehouse	(A)	(A)	(A)	$100,000	$ 41,426	41.4%
Finance	$ 90,000	$ 42,659	47.4%	(A)	(A)	(A)
Transportation	15,000	5,387	35.9%	40,000	15,093	37.7%

Note (A) - Single transaction or monthly credit limits were reasonable based on actual transactions.

Recommendation: The District should enhance its purchasing card procedures by documenting the basis for assigning purchasing cards and related credit limits, ensuring finance department review and approval of purchasing card charges prior to payment, and establishing single transaction and monthly credit limits consistent with actual use by cardholders.

Adult General Education

Finding No. 4: Adult General Education Classes

Section 1004.02(3), Florida Statutes, defines adult general education, in part, as comprehensive instructional programs designed to improve the employability of the State's workforce. The District received State funding for adult general education and proviso language in Chapter 2011-69, Laws of Florida, Specific Appropriation 96, required that each school district report enrollment for adult general education programs identified in Section 1004.02, Florida Statutes, in accordance with the FDOE instructional hours reporting procedures.

The FDOE procedures stated that fundable instructional contact hours are those scheduled hours that occur between the date of enrollment in a class and the withdrawal date or end-of-class date, whichever is sooner. Also, a student must have at least 12 hours of instructional activity (including placement or intake) in a program before they can be counted as an enrollment. If a student enrolls, but drops out before the 12-hour threshold, the student's instructional hours should not be counted. The FDOE procedures also provided that school districts develop a procedure for withdrawing students for nonattendance and that the standard for setting the withdrawal date shall be six consecutive absences from a class schedule, with the withdrawal date reported as the day after the last date of attendance.

For the 2011-12 fiscal year, the District reported to the FDOE 182,201 adult general education instructional contact hours for 655 students. To determine the propriety of hours reported, we initially tested 10 students enrolled in 25 adult general education classes for 1,956 hours, and noted 2 students in 6 classes who attended only one day of class, but remained enrolled in the program beyond their attendance dates. District personnel indicated that the attendance clerk did not generate attendance reports to verify the last day that the 2 students were in attendance, but withdrew the students at a later date when teachers submitted withdrawal forms. As a result, the District overreported 182 hours to the FDOE for these 2 students.

We expanded our tests to include all students who only attended one day of class and determined that 15 additional students enrolled in 39 adult general education classes were overreported 2,219 hours for a total of 2,401 hours overreported and District personnel reported corrections to the FDOE for many of the errors identified in our tests. However, our procedures cannot substitute for management's responsibility to properly report adult education instructional contact hours and approximately 740 overreported hours remained uncorrected as of September 2012.

To avoid future reporting errors, District personnel indicated that data entry staff training will include discussions of these deficiencies and the student data base will be reprogrammed. Since future funding may be based, in part, on enrollment data submitted to the FDOE, it is important that such data be submitted correctly.

Recommendation: The District should enhance its controls to ensure accurate reporting of instructional contact hours for the adult general education classes to the FDOE. The District should also contact the FDOE to determine proper resolution of the overreported hours.

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the District had taken corrective actions for findings included in previous audit reports. The following table provides information on recurring audit findings for the Martin County District School Board:

	Operational	
Current Fiscal Year Finding Numbers	**2010-11 Fiscal Year Audit Report and Finding Numbers**	**2009-10 Fiscal Year Audit Report and Finding Numbers**
1	Audit Report No. 2012-029, Finding No. 2	Audit Report No. 2011-056, Finding No. 2
3	Audit Report No. 2012-029, Finding No. 4	Audit Report No. 2011-056, Finding No. 3

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OBJECTIVES, SCOPE, AND METHODOLOGY

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

We conducted this operational audit from April 2012 through September 2012 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 the safeguarding of assets, and identify weaknesses in those controls.
- Determine whether management had taken corrective actions for findings included in our report No. 2012-029.
- 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, deficiencies 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.

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's findings and conclusions; and reporting on the results of the audit as required by governing laws and auditing standards.

The scope and methodology of this operational audit are described in Exhibit A. Our audit included the selection and examination of various records and transactions occurring during the 2011-12 fiscal year. Unless otherwise indicated in this report, these transactions and records 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 agency management, staff, and vendors, and as a consequence, cannot be relied upon to identify all instances of noncompliance, fraud, waste, abuse, or inefficiency.

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.

David W. Martin, CPA
Auditor General

MANAGEMENT'S RESPONSE

Management's response is included as Exhibit B.

EXHIBIT A
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Information Technology (IT) policies and procedures.	Examined the District's written IT policies and procedures to determine whether they addressed certain important IT control functions.
Fraud policy and related procedures.	Examined written policies, procedures, and supporting documentation related to the District's fraud policy and related procedures.
Board meetings.	Read Board minutes and, for selected Board meetings, examined supporting documentation evidencing compliance with Sunshine Law requirements.
Financial condition.	Applied analytical procedures to determine whether the percent of the General Fund total unassigned and assigned fund balances at June 30, 2012, to the fund's revenues was less than the percents specified in Section 1011.051, Florida Statutes. Analytical procedures were also applied to determine the reasonableness and ability of the District to make its future debt service payments.
Restrictions on use of Workforce Development funds.	Applied analytical procedures to determine whether the District used funds for authorized purposes (i.e., not used to support K-12 programs or District K-12 administrative costs).
Earmarked capital project resources.	Applied analytical procedures, tested payments made from nonvoted capital outlay tax levy proceeds and Public Education Capital Outlay (PECO) funds, and examined supporting documentation to determine whether the District complied with requirements related to the use of nonvoted capital outlay proceeds and PECO funds.
Adult general education program enrollment reporting.	Examined supporting documentation on a test basis to determine whether the District reported instructional contact hours in accordance with Florida Department of Education requirements.
Budgetary controls.	Examined supporting documentation to determine whether budgets and amendments to budgets were prepared and adopted in accordance with applicable Florida Statutes and State Board of Education Rules.
Interim financial reports presented to Board.	Examined financial review and analysis presented to the Board to ensure they included comparisons of financial results with budget estimates.
Qualified public depositories.	Determined whether deposits of District moneys were secured in a qualified public depository, unless exempted by law, as required by Section 280.03, Florida Statutes.
Cash collection procedures.	Reviewed collection procedures and tested daily cash collections at selected locations to determine the effectiveness of the District's collection procedures.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Compensation and salary schedules.	Examined supporting documentation to determine whether the Board adopted a salary schedule with differentiated pay for both instructional personnel and school administrators based upon District-determined factors, including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties.
Bonuses.	Determined whether bonuses paid were in compliance with Section 215.425(3), Florida Statutes.
Purchase of software applications.	Determined whether the District evaluated the effectiveness and suitability of the software application prior to purchase and if the purchase was performed through the competitive vendor selection process. Also, determined if the deliverables met the terms and conditions of the contract.
Procurement.	Reviewed District policies and procedures related to the procurement of goods and services to ensure the competitive vendor selection process. Tested disbursements to determine whether purchase orders were issued prior to the District incurring an obligation for the goods or services. Tested significant dollar purchases and examined supporting documentation to determine compliance with bid requirements. Also, performed analytical procedures to determine whether purchases were split to bypass bid requirements.
Insuring buildings.	Determined, on a test basis, whether insurance coverage was updated for major asset acquisitions and disposals occurring in the audit period. Also, review District records and procedures to determine the adequacy of property insurance, considering replacement value of insured property, resources that it can use to cover uninsured losses, and whether there is a plan to expedite replacement or repair of property losses.
Purchasing card transactions.	Tested transactions to determine whether purchasing cards were administered in accordance with District policies and procedures. Also, tested former employees to determine whether purchasing cards were timely canceled upon termination of employment.
Electronic transfers and payments.	Reviewed District policies and procedures relating to electronic funds transfers and vendor payments. Tested supporting documentation to determine if selected electronic funds transfers and payments were properly authorized and supported, and complied with State Board of Education Rule 6A-1.0012, Florida Administrative Code.
School district fees.	Reviewed policies and procedures to determine whether the District assessed fees to parents or students, or required parents or students to contribute supplies, as a condition of the student attending school or taking classes, contrary to the Florida Constitution.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Charter school audit.	Reviewed the audit report for the District sponsored charter school to determine whether the required audit was performed.
Charter school expedited review.	Reviewed District procedures to determine whether they were sufficient and appropriate to determine whether its charter school was required to be subjected to an expedited review pursuant to Section 1002.345, Florida Statutes.
Construction processes.	Examined records and evaluated construction planning processes 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.
Construction contractor selection.	Tested selected construction project records to determine whether contractors were awarded construction projects in accordance with applicable laws and rules.
Identifying and prioritizing facility maintenance needs, including identification and timely resolution of health and safety deficiencies, and tracking maintenance jobs.	Evaluated procedures for identifying facility maintenance needs and establishing resources to address those needs. Compared maintenance plans with needs identified in safety inspection reports, reviewed inspection reports for compliance with Federal and State inspection requirements and timely resolution of deficiencies identified during inspections, and tested the work order system for appropriate tracking of maintenance jobs.
Evaluating maintenance department staffing needs.	Reviewed procedures for evaluating maintenance department staffing needs. Determined whether such procedures included consideration of appropriate factors and performance measures that were supported by factual information.
Consultant contracts.	Tested selected consultant contracts to determine compliance with competitive selection requirements, whether the District contracted with its employees for services provided beyond that provided in the salary contract contrary to Section 112.313, Florida Statutes, and whether the contract clearly specified deliverables, time frames, documentation requirements, and compensation. Also tested selected payments for proper support and compliance with contract terms.

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EXHIBIT B
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

October 31, 2012

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 and tentative Operational audit findings and recommendations from your audit of the District School Board of Martin County for the fiscal year ended June 30, 2012:

FINDINGS AND RECOMMENDATIONS

OPERATIONAL AUDIT FINDING NO. 1: The Board had not adopted formal policies and procedures establishing a documented process to identify instructional personnel and school administrators entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4., Florida Statutes.

Recommendation: The Board should adopt formal policies and procedures for ensuring that differentiated pay of instructional personnel and school-based administrators is appropriately identified on salary schedules, consistent with Section 1012.22(1)(c), Florida Statutes

DISTRICT RESPONSE: The District Acknowledges the Auditor's Florida Statute compliance finding and has prepared the following response:

The District remains in Collective Bargaining for a successor agreement with the Martin County Education Association. Many of the issues associated with Finding No. 1 are subject to resolution of the on-going negotiations. Once the collective bargaining agreement issues are resolved, the District shall proceed to finalize and adopt formal policies and procedures. Preliminary drafts of appropriate policies and procedures are in process pending final decisions regarding the negotiations. Progress has been made to date by collaborating with the MCEA to comply with the Race to the Top Grant requirements including the new Teacher Evaluation System and Florida School Leaders Assessment (FSLA) while simultaneously complying with the new dictates of the Statutes in moving to a Pay for Performance based system.

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

EXHIBIT B (Continued)
MANAGEMENT'S RESPONSE

The District is also engaged in developing and complying with the new dictates of the Statutes in moving to the design of the differentiated pay process system, as required under the statutes, for school-based administrators. To assist with this process, the District is preparing a Request for proposals seeking consultative services to conduct a compensation study as well as to assist the District with the design of the differentiated pay process for the school-based administrators.

OPERATIONAL AUDIT FINDING NO. 2: Controls over facilities construction and maintenance activities could be enhanced.

Recommendation: The District should develop written policies and procedures requiring the periodic evaluation of alternative facilities construction methods and significant maintenance-related job techniques, and document these evaluations. In addition, the District should develop additional goals and objectives for the facilities and maintenance departments to identify efficiency or cost-effectiveness outcomes for department personnel.

DISTRICT RESPONSE: The District Acknowledges the Auditor's Florida Statute compliance finding and has prepared the following response:

The Martin County School District will develop written policies and procedures to require the periodic evaluation of alternative facilities construction methods and maintenance-related job techniques, and formally document these evaluations. The evaluations will address the project requirements, the complexity of both construction and design and the potential costs savings to be developed from each delivery method. The Martin County School District will also develop goals and objectives for the facilities and maintenance departments to identify efficient and cost-effectiveness outcomes. Goals will focus on accountable and measurable objectives and benchmarks that will assist the District in confirming the Facilities, Planning and Maintenance departments are operating effectively and as cost-efficiently as possible.

OPERATIONAL AUDIT FINDING NO. 3: The District's purchasing card procedures could be improved.

Recommendation: The District should enhance its purchasing card procedures by documenting the basis for assigning purchasing cards and related credit limits, ensuring finance department review and approval of purchasing card charges prior to payment, and establishing single transaction and monthly credit limits consistent with actual use by cardholders.

DISTRICT RESPONSE: The District Acknowledges the Auditor's Florida Statute compliance finding and has prepared the following response:

The District has implemented a new P-card system with Wells Fargo and to coincide with the implementation of this new P-card system, Finance authorized the Purchasing Director to suspend P-card usage by zeroing out P-card limits starting on April 30, 2012. Included in this implementation, is a new process within TERMS to code, review, and approve P-card

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EXHIBIT B (Continued)
MANAGEMENT'S RESPONSE

transactions. Once the program is complete, the Purchasing Director with the assistance of Finance will create an updated P-card manual to document the new P-card process and encompass the basis for assigning P-cards, single and monthly credit limits and review and approval of charges prior to payment. The P-card training for the new system was performed district-wide in August 2012.

During fiscal year 2011-12 the Finance Department discontinued the use of the manual paper work packet included in the Finance review because the manual paperwork packet was a duplication of the controls in RESOLVE that provide user review and approval of P-card transactions. Additionally, the Finance Department must reconcile all P-card transactions before the monthly invoice can be paid to Regions Bank. Both of these processes provide for an appropriate review and approval of purchasing cards to ensure that payment errors and fraud do not occur.

The Educational Technology Department has also implemented a document management system that will provide for electronic storage of P-card applications eliminating the need for manual document storage.

OPERATIONAL AUDIT FINDING NO. 4: The District needed to strengthen its controls to ensure the accurate reporting of instructional contact hours for adult general education classes to the Florida Department of Education.

Recommendation: The District should enhance its controls to ensure accurate reporting of instructional contact hours for the adult general education classes to FDOE. The District should also contact FDOE to determine proper resolution of the over-reported hours.

DISTRICT RESPONSE: The District Acknowledges the Auditor's Florida Statute compliance finding and has prepared the following response:

We understand that this is not DOE policy and are taking the following steps to correct:

1. Training for all data entry staff with our Educational Technology department in respect to Pinnacle and TERMS took place on July 23rd, 2012.
2. Management took action with the staff member that did not follow DOE policy.
3. Data Entry Staff is maintaining an attendance database for all students to verify the 12 hour criteria is met. This database is sent monthly to the Adult Education Coordinator.
4. Attendance reports are sent to Data Entry staff at the end of each 9 week period with a list of students that are showing less than 3 days of attendance. Data Entry staff is to verify attendance data and withdraw as needed or update attendance data to ensure accuracy, this information is then sent to the Adult Education Coordinator.

Additionally, the District has been in contact with the Bureau of Budget, Accountability, and Assessment within the Career and Adult Education Division at the Florida Department of Education in order to bring proper resolution of misreported hours. After speaking with the FDOE representative, she indicated that the over-reported hours would have a marginal impact on funding and that the District has not yet received funding for the fiscal year 2011-2012 due to the way funding for district workforce programs is calculated.

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EXHIBIT B (Continued)
MANAGEMENT'S RESPONSE

Due to the use of a rolling average formula to calculate funding for workforce education programs, the district has not yet received funding based on the over-reported hours. When this year is considered in the funding calculation, the FDOE considers the impact will be marginal and corrections to the data have already been made within the data corrections period.

Sincerely yours,

Nancy Kline
Superintendent of Schools

NK:BMT

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