REPORT NO. 2015-051
NOVEMBER 2014

MARION 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 2013-14 fiscal year are listed below:

	District No.
Nancy Stacy	1
Carol Ely	2
Bobby L. James, Vice Chair to 11-18-13, Chair from 11-19-13	3
Angie Boynton, Vice Chair from 11-19-13	4
Ronald B. Crawford, Chair to 11-18-13	5

George D. Tomyn, Superintendent

The audit team leader was Micah E. Rodgers, CPA, and the audit was supervised by Philip B. Ciano, CPA. For the information technology portion of this audit, the audit team leader was Bill Allbritton, CISA, and the supervisor was Heidi G. Burns, CPA, CISA. Please address inquiries regarding this report to Douglas R. Conner, CPA, Audit Manager, by e-mail at dougconner@aud.state.fl.us or by telephone at (850) 412-2730.

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) 412-2722; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

MARION COUNTY

District School Board

EXECUTIVE SUMMARY

Our operational audit disclosed the following:

PERSONNEL AND PAYROLL

Finding No. 1: The Board had not established a documented process to identify instructional personnel entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4.b., Florida Statutes.

Finding No. 2: Procedural enhancements were needed to ensure documented supervisory review and approval of noninstructional contracted personnel work time.

PROCUREMENT

Finding No. 3: The District needed to strengthen its procedures to provide for routine review of required statements of financial interests for consideration in making procurement decisions.

VIRTUAL INSTRUCTION PROGRAM

Finding No. 4: Controls over virtual instruction program (VIP) operations and related activities could be enhanced by developing and maintaining comprehensive, written VIP policies and procedures.

Finding No. 5: VIP provider contracts did not include certain provisions required by State law.

Finding No. 6: Procedural enhancements were needed to ensure that the required number of VIP options is offered.

Finding No. 7: District records did not evidence that timely, written notifications were provided to parents about student opportunities to participate in the District's VIP and open enrollment period dates.

Finding No. 8: District records did not evidence that VIP provider instructors were appropriately certified or that provider employees were subject to required background screenings.

Finding No. 9: The District had not established adequate procedures to ensure that VIP students and their parents are notified of the availability of computing resources and that qualified VIP students are provided these resources.

INFORMATION TECHNOLOGY

Finding No. 10: The District had not developed a comprehensive, written information technology (IT) risk assessment.

Finding No. 11: Some inappropriate IT access privileges existed.

Finding No. 12: District IT security controls related to user authentication and data loss prevention needed improvement.

BACKGROUND

The Marion 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 Marion County. The governing body of the District is the Marion 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 2013-14 fiscal year, the District operated 49 elementary, middle, high, and specialized schools; sponsored 3 charter schools; and reported 41,407 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, 2014, 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, provides that, for instructional personnel, the Board must provide differentiated pay based on District-determined factors including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties.

While compensation of instructional personnel is typically subject to collective bargaining, the Board had not established a documented process to identify instructional personnel entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4.b., Florida Statutes. Such a documented process could specify the factors to be used as the basis for determining differentiated pay, the process for applying the factors, and the individuals responsible for making such determinations.

The salary schedule and union contract provided for certain types of differentiated pay; however, without a Board-established documented process for identifying which instructional personnel are to receive differentiated pay, the District may be limited in its ability to demonstrate that the various differentiated pay factors are consistently considered and applied. District personnel indicated that the District is currently in collective bargaining negotiations to revise the salary schedule and union contract to appropriately address the differentiated pay provisions of Section 1012.22(1)(c)4.b., Florida Statutes. A similar finding was noted in our report No. 2012-116.

Recommendation: The Board should establish a documented process for identifying instructional personnel entitled to differentiated pay using the factors prescribed in Section 1012.22(1)(c)4.b., Florida Statutes.

Finding No. 2: Payroll Processing - Time Records

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. During the 2013-14 fiscal year, the District reported salary costs of $19.8 million for noninstructional contracted personnel, such as administrative, secretarial, and technical and salaried support employees, and $58 million for hourly personnel. The District paid noninstructional contracted personnel on a payroll by exception basis in which employees receive their regular pay each period unless they use more leave than accumulated, resulting in a reduction to their salary, and hourly employees were paid based on documented work time.

Prior to January 2013, the District maintained supervisor-approved time sheets to support the time worked and related salary costs for noninstructional contracted and hourly personnel. In January 2013, the District continued to use supervisor-approved time sheets to support the time worked and costs for hourly personnel, but began using new accounting software for noninstructional contracted personnel that only evidenced payroll exceptions, such as leave taken, and did not disclose time worked by these employees. District personnel indicated that the payroll department had not established a consistent basis to account for noninstructional contracted personnel work time but that certain informal procedures were in place in each department to monitor this time, such as employee sign-in/sign-out calendars or logs. However, District records did not evidence supervisory review and approval of noninstructional contracted personnel work time.

Although our audit tests did not disclose any instances of incorrect salary payments, our procedures cannot substitute for management's responsibility to implement adequate controls. When work attendance is not timely verified of record, the risk increases that employees may be incorrectly compensated and employee leave balances may be inaccurate.

Recommendation: The District should establish procedures to ensure documented supervisory review and approval of noninstructional contracted personnel work time.

Procurement

Finding No. 3: Purchasing Procedures

Board-adopted policies prohibit conflicts of interest and the District had certain procedures to reduce the risk of contractual relationships that cause conflicts of interest. For example, District personnel indicated that the internal auditor provides training to school bookkeepers regarding what would constitute a conflict of interest; maintains a list of employee-owned or close family member businesses, developed from informal discussions with school bookkeepers; and communicates with the Purchasing Department to identify potential conflicts of interest. The Superintendent, Board members, Executive Director of Business Services, and Purchasing Specialist were required to file a statement of financial interests pursuant to Section 112.3145, Florida Statutes. District procedures could be enhanced by requiring Purchasing Department personnel to review and consider required statements of financial interests.

Subsequent to our inquiry in October 2014, Purchasing Department personnel reviewed the most recent required statements of financial interests of the Superintendent, Board members, Executive Director of Business Services, and Purchasing Specialist and noted no apparent conflicts of interest. Providing for routine review and consideration of required statements of financial interest by the Purchasing Department would enhance the District's procurement practices and reduce the risk of questioned procurement transactions or contractual obligations.

Recommendation: The District should continue its efforts to provide for routine review of required statements of financial interests by its Purchasing Department for consideration in making procurement decisions.

Virtual Instruction Program

Finding No. 4: Virtual Instruction Program Policies and Procedures

Pursuant to Section 1001.41(3), Florida Statutes, school districts are responsible for prescribing and adopting standards and policies to provide each student the opportunity to receive a complete education. Education methods to implement such standards and policies may include the delivery of learning courses through traditional school settings, blended courses consisting of both traditional classroom and online instructional techniques, participation in a virtual instruction program (VIP), or other methods. Section 1002.45, Florida Statutes, establishes VIP requirements and requires school districts to include mandatory provisions in VIP provider contracts; make available optional types of virtual instruction; provide timely written parental notification of VIP options; ensure the eligibility of students participating in VIPs; and provide computer equipment, Internet access, and instructional materials to eligible students.

The District offered students in grades K-5 full-time participation through the Florida Virtual School (FLVS) pursuant to a program participation agreement, and full-time and part-time participation through Marion e-Learning, operated by the District through the FLVS. The District offered students in grades 6-12 full-time and part-time participation through the FLVS and through Marion Virtual School, which is franchised by the District through the FLVS. In addition, the District contracted with two other providers who provided students specialized instructional courses. During the 2013-14 fiscal year, the District enrolled 4,495 and 56 VIP part-time and full-time students, respectively.

District records (e.g., pupil progression plans, franchise agreements, and staff and student handbooks) identified certain instruction methods, the basis for eligibility in instructional programs, and enrollment and withdrawal information. However, the District did not have comprehensive, written VIP policies and procedures to identify the processes necessary to ensure compliance with statutory requirements, document District administrative personnel responsibilities, provide consistent guidance to staff during personnel changes, ensure sufficient and appropriate training of personnel, and establish a reliable standard to

measure the effectiveness and efficiency of operations. The procedures could also provide guidance on monitoring VIP teacher qualifications and certifications. For example, policies and procedures could require school district personnel to confirm Florida teaching certificates with the Florida Department of Education (FDOE) and survey a sample of parents to confirm that the contracted VIP teachers were the teachers who provided the services.

Comprehensive written policies and procedures would promote compliance with the VIP statutory requirements and evidence management's expectations of key personnel and communicate management's commitment to, and support of, effective controls. Further, the absence of comprehensive, written VIP policies and procedures may have contributed to the instances of District noncompliance and control deficiencies identified in Finding Nos. 5 through 9.

Recommendation: The District should develop and maintain comprehensive, written VIP policies and procedures to enhance the effectiveness of its VIP operations and related activities.

Finding No. 5: Provider Contracts

Section 1002.45(4), Florida Statutes, requires that each contract with a FDOE-approved VIP provider contain certain provisions. During the 2013-14 fiscal year, the District contracted with two FDOE-approved VIP providers who provided students credit recovery courses or special programs needed for graduation. Our review of these two contracts disclosed that, due to oversights, the contracts contained deficiencies and lacked some statutorily required provisions, as follows:

- Neither contract required the provider to comply with all requirements of Section 1002.45, Florida Statutes. As this law contains specific program requirements, such as student eligibility and compulsory attendance requirements, excluding such requirements from the contracts may limit the District's ability to ensure compliance with these requirements in the event of a dispute.
- One contract, which provided for remote instruction, did not include agreed-upon student-teacher ratios. This is contrary to Section 1002.45(2)(a)8., Florida Statutes, which requires that FDOE-approved VIP providers publish student-teacher ratios and other instructional information in all contracts negotiated pursuant to Section 1002.45, Florida Statutes. Further, the District did not establish student-teacher ratio thresholds for the contracted VIP classes to allow for evaluations of the reasonableness of such ratios. Without establishing such ratios or ratio thresholds in the contracts, the number of students in the VIP classes may exceed the District's expectation and the District's ability to monitor the quality of the provider's virtual instruction may be limited.
- Neither contract included a provision requiring the provider to be responsible for all debts of the VIP if the contract was not renewed or was terminated, contrary to Section 1002.45(4)(e), Florida Statutes. The inclusion of such a provision would strengthen the District's position in the event of a challenge by a provider.
- One contract did not contain requirements for the provider to implement, maintain, and use appropriate, administrative, technical, or physical security measures to the full extent required by Title 20, Section 1232g, United States Code, The Family Educational Rights and Privacy Act, to maintain the confidentiality of education records and did not specify any minimum required security controls that the District expected to be in place to protect the confidentiality, availability, and integrity of critical and sensitive education data. Without specifying minimum required security controls, there is an increased risk that deficiencies in information security and other information technology (IT) controls may occur.
- Section 1002.45(2)(a)3., Florida Statutes, requires VIP providers to conduct background screenings for all employees or contracted personnel as a condition of approval by the FDOE as a VIP provider in the State. However, one contract, which provided for remote instruction, did not require the instructors to have the required background screenings. Without such contract provisions, there is an increased risk that these employees may have backgrounds that are inappropriate for communicating with students and accessing confidential or sensitive District data and IT resources. For further discussions regarding VIP provider employee background screenings, see Finding No. 8.
- Neither contract provided for the District to monitor the provider's compliance with contract terms. Without such a provision, District personnel may be limited in their ability to perform such monitoring. Such monitoring could include confirmation or verification that the VIP provider protected the confidentiality of student records and supplied students with necessary instructional materials.

Recommendation: The District should ensure that statutorily required and other necessary provisions are included in contracts with all FDOE-approved VIP providers.

Finding No. 6: Virtual Instruction Options

Section 1002.45(1)(b), Florida Statutes, requires school districts, under certain conditions, to provide students the option of participating in VIPs. For example, students may choose VIP services provided by the school district, FLVS, another approved provider, another school district, or a virtual charter school. Pursuant to Section 1002.45(1)(b), Florida Statutes, school districts that are not considered to be in sparsely-populated counties, as discussed in Section 1011.62(7), Florida Statutes, must provide students with at least three options to participate in virtual instruction. As the District is not in a sparsely-populated county, the District must offer three VIP types for all grade levels within the District's VIP.

The District provided students in grades K-5 two options, including one provider that offered full-time and part-time instruction and one provider that offered only full-time instruction. The District also provided students in grades 6-12 two options unless the student was enrolled in a specialized course in Middle School Mastery Based Instruction, needed a special program for graduation, or needed credit recovery courses for academic intervention. As a result, the District did not provide all students in all grade levels at least three options, contrary to Section 1002.45(1)(b), Florida Statutes, and limited student access to the different virtual instruction types.

Recommendation: The District should ensure that the minimum number of VIP options is offered as required by law.

Finding No. 7: Written Parental Notifications

Section 1002.45(10), Florida Statutes, requires that the District provide information to parents and students about their right to participate in a VIP. Further, Section 1002.45(1)(b), Florida Statutes, requires the District to provide parents with timely written notifications of the open enrollment periods for VIPs.

For the 2013-14 school year, District personnel indicated there were several communication methods used to provide information about the District's VIP to parents and students. Such communication included direct mailings sent to all home-school students, information posted on the District's Web site, flyers posted in school libraries and distributed at community events, and news articles published in the local newspaper. While these methods indicate efforts by District personnel to communicate with parents and students about the VIPs, District records did not evidence that written notifications were provided directly to parents.

Absent timely, written notifications provided directly to all parents, some parents may not be informed of available VIP options and associated enrollment periods, potentially limiting student access to virtual instruction types.

Recommendation: The District should enhance its procedures to ensure that records are maintained evidencing timely, written notifications to parents about student opportunities to participate in the District's VIP and open enrollment period dates.

Finding No. 8: Provider Instructor Certifications and Background Screenings

Section 1012.55(1), Florida Statutes, requires that District instructional personnel, including those providing direct instruction to students through a virtual environment or through a blended virtual and physical environment, hold the certificate required by law. Also, Section 1002.45(2)(a)3., Florida Statutes, requires VIP providers to conduct background screenings for all employees.

One VIP provider with a principal place of business in the State used instructors employed remotely and the provider contract required that instructors be certified as required; however, as noted in Finding No. 5, the provider contract did not require that provider employees undergo background screenings. Also, the District did not request or obtain confirmation that these instructors were certified, or that the provider employees were subject to background screenings. Without effective controls to ensure that VIP provider instructors are certified and provider employees subjected to required background screenings, there is an increased risk that instructors may not be appropriately certified and provider employees may have backgrounds that are inappropriate for interacting with students and accessing confidential or sensitive District data and IT resources.

Recommendation: The District should enhance its procedures to ensure that VIP provider instructors are appropriately certified and that provider employees obtain the required background screenings.

Finding No. 9: Computing Resources

Section 1002.45(3)(d), Florida Statutes, requires the District to provide all necessary equipment, such as computers, monitors, printers, and Internet access for online instruction, to full-time VIP students who are eligible for free or reduced price school lunches, or who are on the direct certification list, and who do not have a computer or Internet access in the student's home.

The District did not provide computer equipment or assistance with Internet access to any VIP students during the 2013-14 school year. The District's Web site and VIP flyers required that VIP students have daily access to a computer and the Internet, and the District developed computer loan agreement and request for technology forms for eligible VIP students; however, District personnel indicated that the forms were not provided directly to VIP students or their parents. Directly notifying eligible students or their parents of the availability of computing resources would help ensure that these students have the appropriate resources required to successfully complete VIP courses.

Recommendation: The District should establish procedures to ensure that VIP students and their parents are properly notified of the availability of computing resources and that qualified VIP students are provided these resources.

Information Technology

Finding No. 10: Risk Assessment

Management of IT-related risks is a key part of enterprise IT governance. Incorporating an enterprise perspective into day-to-day governance actions helps an entity understand its greatest security risk exposures and determine whether planned controls are appropriate and adequate to secure IT resources from unauthorized disclosure, modification, or destruction. IT risk assessment, including the identification of risks, the evaluation of the likelihood of threats, and the severity of threat impact, helps support management's decisions in establishing cost-effective measures to mitigate risk and, where appropriate, formally accept residual risk.

Although the District had informally considered external and internal risks identified through vendor-performed network vulnerability assessments, the District had not developed a comprehensive, written IT risk assessment. A comprehensive, written IT risk assessment would consider, in addition to network vulnerability assessments, threats and vulnerabilities at the Districtwide, system, and application levels and document the range of risks that the District systems and data may be subject to, including those posed by internal and external users. The absence of a comprehensive, written IT risk assessment may lessen the District's assurance that all likely threats and vulnerabilities have been identified, the most significant risks have been addressed, and appropriate decisions have been made regarding which risks to accept and which risks to mitigate through appropriate controls. A similar finding was noted in our report No. 2012-116.

Recommendation: The District should develop a comprehensive, written IT risk assessment to provide a documented basis for managing IT-related risks.

Finding No. 11: Access Privileges

Access controls are intended to protect data and IT resources from unauthorized disclosure, modification, or destruction. Effective access controls provide employees access to IT resources based on a demonstrated need to view, change, or delete data and restrict employees from performing incompatible functions or functions outside of their areas of responsibility.

The District migrated to a new administrative software suite for which finance and human resources (HR) applications were implemented on January 1, 2013, and student applications are scheduled for implementation on July 1, 2015. Our review of selected access privileges to the finance and HR applications disclosed that a senior programmer analyst, payroll supervisor, application technician, application specialist, and senior accountant had systemwide access privileges to the District's administrative software suite. In addition, we noted that the HR supervisor and the HR records manager had systemwide access privileges through use of a shared account. Systemwide access privileges allowed update access to all functions within the finance and HR applications, including transaction origination, correction, and changes to finance and payroll data and security tables.

In response to our inquiry, District personnel indicated that systemwide access was assigned to facilitate the implementation of the District's new administrative software suite and the ongoing monitoring and change efforts needed during the implementation. District personnel further indicated that they will review the access to determine whether the number of employees with systemwide access can be minimized in relation to the District's current phase of implementation. However, complete update access privileges to all application functions were not necessary for each of these employees' day-to-day responsibilities and were contrary to an appropriate separation of duties. In addition, the use of shared accounts limits the District's ability to assign responsibility for actions taken with the account. Although the District had certain controls (e.g., Director of Finance routinely monitored expenditures and monthly reported financial information to the Board, department supervisors monitored budget and actual expenditures, etc.) that compensated, in part, for the above deficiencies, the existence of these inappropriate access privileges increases the risk of unauthorized disclosure, modification, or destruction of District data and IT resources.

Recommendation: The District should remove systemwide access privileges and the use of shared accounts to ensure that access privileges assigned are necessary and enforce an appropriate separation of duties.

Finding No. 12: Security Controls – User Authentication and Data Loss Prevention

Security controls are intended to protect the confidentiality, integrity, and availability of data and IT resources. Our audit disclosed that certain District security controls related to user authentication and data loss prevention needed improvement. We are not disclosing specific details of the issues in this report to avoid the possibility of compromising District data and IT resources. However, we have notified appropriate District management of the specific issues. Without adequate security controls related to user authentication and data loss prevention, the risk is increased that the confidentiality, integrity, and availability of District data and IT resources may be compromised. A similar finding was communicated to District management in connection with our report No. 2012-116.

Recommendation: The District should improve IT security controls related to user authentication and data loss prevention to ensure the continued confidentiality, integrity, and availability of District data and IT resources.

PRIOR AUDIT FOLLOW-UP

The District had taken corrective actions for findings included in previous audit reports except as shown in the following table.

	Financial		Operational
Current Fiscal Year Finding Numbers	**2012-13 Fiscal Year Audit Report and Finding Numbers**	**2011-12 Fiscal Year Audit Report and Finding Numbers**	**2010-11 Fiscal Year Audit Report and Finding Numbers**
1	NA	NA	Audit Report No. 2012-116, Finding No. 1
10	NA	NA	Audit Report No. 2012-116, Finding No. 6
12	NA	NA	Audit Report No. 2012-116, Finding No. 9

NA – Not Applicable (Note: Above chart limits recurring findings to two previous audit reports.)

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 March 2014 to October 2014, 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.
- Determine whether management had taken corrective actions for findings in previous audit reports.
- 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.

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.

The scope and methodology of this operational audit are described in Exhibit A. Our audit included the selection and examination of records and transactions occurring during the 2013-14 fiscal year, and select capital outlay transactions during the 2011-12 and 2012-13 fiscal years. Unless otherwise indicated in this report, these records and transactions were not selected with the intent of 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.

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) access privileges and separation of duties.	Reviewed procedures for maintaining and reviewing access to IT resources. Tested selected access privileges to the District's administrative software suite finance and human resources applications and network to determine the appropriateness and necessity based on the employees' job duties and adequacy with regard to preventing the performance of incompatible duties.
IT data loss prevention.	Determined whether the District had developed written policies and procedures governing the classification, management, and protection of sensitive and confidential information.
IT contractual services.	Reviewed the written agreement between the District, administrative software suite vendor, and the host data center.
IT logical access controls and user authentication.	Reviewed supporting documentation to determine whether authentication controls were configured and enforced in accordance with IT best practices.
IT risk management and assessment.	Determined whether a written, comprehensive IT risk assessment had been developed.
IT security awareness and training.	Reviewed the District's IT security awareness training procedures.
IT audit logging and monitoring.	Reviewed procedures and reports related to the capture and review of system activity that were designed to ensure the appropriateness of access to and modification of sensitive or critical IT resources.
IT environmental controls.	Reviewed independent service auditor's report for the District's private cloud services, which examined physical security and environmental safeguards for the District's host data center.
Monitoring of charter schools.	Interviewed District personnel and reviewed supporting documentation to determine if the District effectively monitored charter schools.
Fraud policy and related procedures.	Examined the District's written policies and procedures related to fraud.
Financial condition.	Applied analytical procedures to determine whether the percent of the General Fund total unassigned and assigned fund balances at June 30, 2014, to the fund's revenues was less than the percentages 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.
Earmarked capital project resources.	Determined, on a test basis, whether nonvoted capital outlay tax levy proceeds, Public Education Capital Outlay funds, and other restricted capital project funds were expended in compliance with the restrictions imposed on the use of these resources.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Restrictions on use of Workforce Development funds.	Determined, on a test basis, whether the District used funds for authorized purposes (i.e., not used to support K-12 programs or District K-12 administrative costs).
Adult general education program enrollment reporting.	Tested a representative sample of 30 students from the population of students in adult general education classes to determine whether the District reported instructional contact hours in accordance with Florida Department of Education (FDOE) requirements.
Transparency.	Determined whether the District Web site included the proposed, tentative, and official budgets pursuant to Section 1011.035(2), Florida Statutes.
Budgets.	Determined whether District procedures for preparing the budget were sufficient to ensure that all potential expenditures were budgeted.
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.
Internal audit function.	Reviewed organizational charts and audit plans to verify that the internal audit department reports directly to the Board or its designee as required by Section 1001.42(12)(1), Florida Statutes.
Inventories.	Reviewed the District's controls over safeguarding transportation parts inventories.
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.
Investments.	Determined whether the Board established investment policies and procedures as required by Section 218.415, Florida Statutes, and whether investments during the fiscal year were in accordance with those policies and procedures.
Self-insurance for employee health.	Reviewed District procedures to inform the third-party administrator (TPA) of the eligibility of employees and dependents. Reviewed District tests of claims processed by the TPA.
Overtime payments.	Reviewed District policies, procedures, and supporting documentation evidencing the approval of, and necessity for, overtime payments. Performed analytical procedures to determine the reasonableness of overtime payments.
Bonuses.	Determined whether employee bonuses were paid in accordance with Section 215.425(3), Florida Statutes.
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-based administrators based upon District-determined factors, including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Time records.	Reviewed payroll records to determine whether employee work time is appropriately documented, including supervisory review and approval of such time.
Background screenings.	Determined, on a test basis, whether personnel had been subjected to required fingerprinting and background checks.
Bus drivers.	Determined whether District procedures were adequate to ensure that bus drivers were properly licensed and monitored.
Eligibility for health insurance benefits.	Reviewed District policies and procedures to ensure health insurance was provided only to eligible employees, retirees, and dependents and that such insurance was timely cancelled upon employee termination. Also, determined whether the District had procedures for reconciling health insurance costs to employee, retiree, and Board-approved contributions.
Employee payments.	Tested employee payments, other than travel and payroll payments, to determine whether such payments were reasonable, adequately supported, and for valid District purposes. Also, determined that such payments were not contrary to Section 112.313, 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.
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 administration.	Tested payments and supporting documentation for major construction projects to determine compliance with District policies and procedures and provisions of law and rules.
Use of State sales tax exemption for direct purchase of construction materials.	Tested major construction projects to determine whether the District made use of its sales tax exemption to make direct purchases of materials.
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.
Rebate revenues.	Determined whether rebate revenues received from the purchasing card program were allocated to the appropriate District funds.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Related-party transactions.	Reviewed District policies and procedures related to identifying potential conflicts of interest. For selected District employees, reviewed Department of State, Division of Corporation, records; statements of financial interest; and District records to identify any potential relationships that represent a conflict of interest with vendors used by the District.
Dual enrollment programs.	Reviewed adequacy of District policies and procedures for dual enrollment programs. Reviewed payments remitted by the District to determine compliance with Section 1007.271, Florida Statutes.
Electronic funds transfers and payments.	Reviewed District policies and procedures relating to electronic funds transfers and vendor payments. Reviewed supporting documentation to determine whether 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.
Charter school fiscal viability.	Determined whether the District evaluated the charter school application for the fiscal viability of the charter school and the competency of the staff responsible for operating the charter school before the charter was granted using the FDOE evaluation instrument required by Section 1002.33(6)(b), Florida Statutes, and State Board of Education Rule 6A-6.0786, Florida Administrative Code.
Direct-support organizations and charter school audits.	Determined whether audits of the District's direct-support organization and charter schools were performed pursuant to Chapters 10.700 and 10.850, Rules of the Auditor General, and Section 1001.453, Florida Statutes.
Charter school expedited review.	Reviewed District procedures to determine whether they were sufficient and appropriate to determine whether its charter schools were required to be subjected to an expedited review pursuant to Section 1002.345, Florida Statutes. For schools subjected to an expedited review, examined records to determine whether the District timely notified the applicable governing board pursuant to Section 1002.345(1)(b), Florida Statutes, and whether the District, along with the governing board, timely developed and filed a corrective action plan with the FDOE pursuant to Section 1002.345(1)(c), Florida Statutes.
Charter school employee training.	Determined whether the District properly monitored the new charter school to evaluate whether charter school employees received the appropriate training, pursuant to Section 1002.33(6)(f), Florida Statutes.
Charter school background screenings.	Determined whether the District verified that new charter schools subjected its employees and contractors to background screenings pursuant to Section 1002.33(12)(g)1., Florida Statutes.

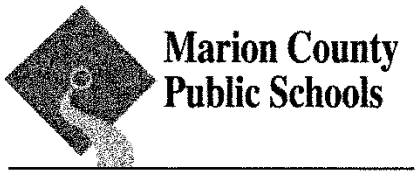
EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
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.
Virtual instruction program (VIP) policies and procedures.	Determined whether the District had comprehensive written VIP policies and procedures addressing certain important VIP functions.
VIP parent options.	Reviewed District records to determine whether the District provided the VIP options required by State law and provided parents and students with information about their rights to participate in VIPs as well as timely written notification of VIP enrollment periods.
VIP fees.	Reviewed District accounting records to ensure that the District refrained from assessing registration or tuition fees for participation in the VIPs.
VIP instructional materials and computing resources.	Reviewed student records and determined whether the District ensured that VIP students were provided with all necessary instructional materials and computing resources necessary for program participation for those eligible students that did not already have such resources in their home.
VIP eligibility.	Tested student records to determine whether students enrolled in VIPs met statutory eligibility requirements.
VIP background screenings.	For FDOE-approved VIP providers for which the District contracted, verified whether the District obtained a list of provider employees and contracted personnel, who could have direct contact with students, for whom background screenings were completed in accordance with Section 1012.32, Florida Statutes.
VIP participation requirements.	Tested student records to determine whether students enrolled in VIPs met statutory participation requirements, including compulsory attendance and State assessment testing requirements.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
VIP FDOE-approved contract provisions.	For District-contracted FDOE-approved VIP providers, determined whether contracts with the providers contained provisions required by State law, including: (1) a detailed curriculum plan; (2) a method for satisfying graduation requirements; (3) a method for resolving conflicts; (4) authorized reasons for contract terminations; (5) a requirement that the provider be responsible for all debts of the VIP should the contract be terminated or not renewed; and (6) a requirement that the provider comply with Section 1002.45, Florida Statutes. Also, reviewed contracts to determine whether provisions were included to address compliance with contact terms, the confidentiality of student records, monitoring of the providers' quality of virtual instruction, data quality, and the availability of provider accounts and records for review and audit by the school districts and other external parties.
VIP FDOE-approved contract fees.	Reviewed contract fee provisions, inquired as to how fees were determined, and reviewed payments the District made to FDOE-approved providers for services rendered.
VIP residual funds.	Determined whether the District had established controls to ensure that residual VIP funds are restricted and used for the District's local instructional improvement system or other technological tools, as required by law.

EXHIBIT B
MANAGEMENT'S RESPONSE



www.marion.k12.fl.us
512 SE Third Street • Ocala FL 34471-2212
PO Box 670 • Ocala FL 34478-0670
(352) 671-7700 • Fax (352) 671-7788
FRS (800) 955-8770 (voice) • (800) 955-8771 (TTY)

November 10, 2014

David W. Martin, CPA
Auditor General
111 West Madison Street
Tallahassee, FL 32399-1450

Dear Mr. Martin:

In response to the auditors' comments relative to the operational audit of our District, we offer the following:

Finding #1 Compensation and Salary Schedules

The District has begun establishing a process for identifying instructional personnel entitled to differentiated pay using the factors specified in law. These processes will be negotiated with the union prior to their effective date.

Finding #2 Payroll Processing – Time Records

The District is currently evaluating procedures for documenting supervisory review and approval of non-instructional contracted personnel work time.

Finding #3 Purchasing Procedures

The District has established procedures to provide for routine review of required statements of financial interests by the Purchasing Department for consideration in making procurement decisions.

Finding #4 Virtual Instruction Program (VIP) - Policies and Procedures

The District is in the process of developing written comprehensive procedures regarding the VIP operations to promote compliance with applicable statutes.

George D. Tomyn, Superintendent | Nancy Stacy, District 1 | Carol Ely, District 2 | Bobby L. James, District 3 | Angie Boynton, District 4 | Kelly King, District 5

– An Equal Opportunity School District & Drug-Free Workplace –

SAVE-A-FRIEND Hotline 1-877-7FRIEND

Be There

EXHIBIT B
MANAGEMENT'S RESPONSE (CONTINUED)

Finding #5 Virtual Instruction Program - Provider Contracts

The District has reviewed all of the provider contracts for the 2014-15 fiscal year to ensure that all requirements of Section 1002.45(4), Florida Statutes, are included. Modifications to the contracts are currently being considered.

Finding #6 Virtual Instruction Program - Virtual Instruction Options

The District will pursue additional options to ensure compliance with Section 1002.45(1)(b), Florida Statutes.

Finding #7 Virtual Instruction Program - Written Parental Notifications

The District will notify all parents by putting an announcement on every end of the year report card that is distributed to every child in the District.

Finding #8 Virtual Instruction Program Provider - Instructor Certifications and Background Screenings

The District has obtained necessary documentation to ensure that VIP provider instructors are appropriately certified and that provider employees obtain the required background screenings.

Finding #9 Virtual Instruction Program Computing Resources

The District will establish control procedures to ensure that VIP students and their parents are properly notified of the availability of computing resources, that only qualified VIP students are provided these computing resources and that accountability for the computing resources is maintained.

Finding #10 Information Technology (IT) - Risk Assessment

The District IT department will begin developing a written and comprehensive IT risk assessment to manage IT related risks with a estimated completion during the 2015-16 fiscal year.

Finding #11 Information Technology - Access Privileges

The District provided evidence to the auditing team while onsite that access to assigned admin accounts were changed to reflect appropriate level of access (Security Access\Levels 1-5) based on assigned duties and resources available. Additionally, the District also implemented restrictions to both the HR supervisor, and records manager admin account effective 11/10/2014. The District IT department will complete the restriction (Security Access/Levels 1-5 to the final unrestricted admin account assigned to the District's Sr. Accountant by 11/25/2014).

EXHIBIT B
MANAGEMENT'S RESPONSE (CONTINUED)

Finding #12 Information Technology - Security Controls User Authentication and Data Loss Prevention

The district implemented changes to security controls related to User Authentication effective 11/10/2014 that addresses this finding.

The District IT department will begin developing a comprehensive data loss prevention program with an estimated completion during the 2015-16 fiscal year.

We appreciate your assistance and review of our systems and look forward to working together to continually improve our District.

George D. Tomyn, Superintendent of Schools

Theresa Boston-Ellis, Executive Director of Business Services

Alice A. Posada, Director of Finance