REPORT NO. 2015-071
DECEMBER 2014

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 2013-14 fiscal year are listed below:

	District No.
Michael Busha, Vice Chair to 11-18-13, Chair from 11-19-13	1
Marsha Powers	2
Rebecca Negron	3
Maura Barry-Sorenson, Chair to 11-18-13	4
Michael DiTerlizzi, Vice Chair from 11-19-13	5

Laurie J. Gaylord, Superintendent

The audit team leader was Mark Smith, CPA, and the audit was supervised by Diana G. Garza, CPA. Please address inquiries regarding this report to Douglas R. Conner, CPA, Audit Manager, by e-mail at doug.conner@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.

MARTIN 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.

NONPROFIT ORGANIZATION

Finding No. 2: The District did not have monitoring procedures to ensure that cash donations of $65,000 to a nonprofit organization were used for allowable purposes.

PROCUREMENT

Finding No. 3: Procurement procedures could be enhanced to provide for routine review of required statements of financial interests for consideration in making procurement decisions.

ADULT GENERAL EDUCATION

Finding No. 4: Improvements were needed in controls over the reporting of instructional contact hours for adult general education classes to the Florida Department of Education.

VIRTUAL INSTRUCTION PROGRAM

Finding No. 5: Controls over virtual instruction program (VIP) operations and related activities could be enhanced by developing and maintaining comprehensive, written policies and procedures.

Finding No. 6: Procedural enhancements were needed to ensure that all students are offered the option of participating in a part-time VIP as required by law.

INFORMATION TECHNOLOGY

Finding No. 7: Some inappropriate or unnecessary information technology access privileges existed.

BACKGROUND

The Martin County School District (District) is part of the State system of public education under the general direction of the Florida Department of Education, and is governed by State law and State Board of Education rules. Geographic boundaries of the District correspond with those of Martin County. The governing body of the District is the Martin County District School Board (Board), which is composed of five elected members. The elected Superintendent of Schools is the executive officer of the Board.

During the 2013-14 fiscal year, the District operated 22 elementary, middle, high, and specialized schools; sponsored one charter school; and reported 18,296 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 and school administrators, the Board must provide for differentiated pay based on District-determined factors, including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties.

While compensation of instructional personnel is typically subject to collective bargaining, 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 prescribed 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.

On June 17, 2014, the Board revised Policy 1410 - *Compensation* to provide a framework for compliance with the differentiated pay law and to require that the Board-adopted salary schedule provide for differentiated pay based on District-determined factors, such as additional academic responsibilities, school demographics, critical shortage areas, and level of job performance difficulties. Although the Board has developed a process for determining which instructional personnel are to receive differentiated pay, it was not implemented as of October 2014. Without implementation, the District is 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. 2013-040 and 2014-062.

Recommendation: The District should continue its efforts to implement 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.

Nonprofit Organization

Finding No. 2: Donations

Section 1001.453, Florida Statutes, requires that a Board-approved direct-support organization (DSO) operate exclusively to receive, hold, invest, and administer property; make expenditures to or for the benefit of District; and is permitted to use District property, facilities, and personal services. Also, pursuant to State Board of Education (SBE) Rule 6A-1.0143(2), Florida Administrative Code (FAC), the District may use auxiliary enterprise funds, such as proceeds from vending machine or internal account fund profits, for promotion and public relations when it benefits the District. Promotions and public relations activities include activities such as graduation, work conferences, employee recruitment, guest speakers, and awards for meritorious performance. In addition, School Board Policy 6685 – *Funding for Promotion, Public Relations, and Hospitality*, authorizes the Superintendent to make such expenditures, which are restricted as to the source of funds, amount of annual expenditures, and conditions for expenditures.

In February 1991, the School Board approved the Martin County Education Foundation (Foundation) as a DSO to raise and distribute funds through several programs such as classroom enrichment grants, mentoring programs, professional development for teachers, scholarships, and other programs to recognize outstanding teaching. In September 2011, the Foundation revised its name to the Education Foundation of Martin County (EFMC), adopted new articles of incorporation and by-laws to limit the District's control over its operation, and the School Board rescinded its approval of the EFMC as a DSO in November 2011.

For the 2011-12, 2012-13, and 2013-14 fiscal years, the District donated cash to the EFMC of $25,000, $25,000, and $15,000, respectively, or a total of $65,000 over these three fiscal years from funds authorized by SBE Rule 6A-1.0143(2), FAC. District personnel indicated that the donations were part of the District's core mission to partner with the community to educationally equip students. However, the donations were not made pursuant to a written contract specifying the purposes for which the moneys were to be used, nor did District records indicate the purpose for which the moneys were to be used. In addition, the District did not have monitoring procedures to ensure that the donations were used for intended purposes. Under these conditions, there is an increased risk that such donations may be used inconsistent with the District's intent.

Recommendation: In the future, the District should enter into a written agreement with the EFMC that specifies the purposes for which any donations are to be used and how such purposes are consistent with SBE Rule 6A-1.0143(2), FAC, and Board Policy 6685. The agreement should also include provisions necessary for the District to maintain proper oversight as to the use of the moneys, such as requiring the EFMC to maintain adequate records of the use of the moneys and the right for District personnel to examine such records.

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, the Purchasing Director provides conflicts of interest presentations and training to the Board, directors, and various employees involved in the purchasing process, and Board policies provide guidance on prohibited contractual arrangements for administrative, instructional, and support personnel. Also, employees participating on professional services selection committees responsible for evaluating bidders must certify on a Purchasing Department form whether they have any potential conflicts of interest and potential bidders must disclose whether they have any conflicts of interest on request for proposal documents.

The Superintendent, Board members, Purchasing Director, and Director of Finance were required to file a statement of financial interests pursuant to Section 112.3145, Florida Statutes. However, these statements of financial interests were not provided to the Purchasing Department for review. Providing for routine review of required statements of financial interests 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 provide for routine review of required statements of financial interests by its Purchasing Department for consideration in making procurement decisions.

Follow-up to Management's Response:

The District indicates in its response that the finding should be removed because of controls that compensate for the lack of Purchasing Department reviews of statements of financial interests. While certain controls exist, providing for routine review and consideration of required statements of financial interests by the Purchasing Department would enhance the District's procurement practices.

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 2013-40, Laws of Florida, Specific Appropriation 117, required that each school district report enrollment for adult general education programs identified in Section 1004.02, Florida Statutes, in accordance with the Florida Department of Education (FDOE) instructional hours reporting procedures.

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. FDOE procedures also provided that school districts develop a procedure for withdrawing students for nonattendance and that the standard for setting the withdrawal date be six consecutive absences from a class schedule, with the withdrawal date reported as the day after the last date of attendance.

For the 2013-14 fiscal year, the District reported to the FDOE 191,698 instructional contact hours for 793 students enrolled in 2,513 adult general education classes. We randomly selected a representative sample of 8,394 hours reported for 30 students enrolled in 117 adult general education classes to test the accuracy of the District's reporting procedures. Our test disclosed 279 net hours under-reported. These misreported hours consisted of 185 hours over-reported for 1 student in 6 classes, ranging from 10 to 56 hours, and 464 hours under-reported for 2 students in 7 classes, ranging from 20 to 106 hours. In response to our inquiries, District personnel indicated that the misreported hours resulted from a system programming error and employee oversights. Given the number of errors, the full extent of the class hours misreported was not readily available.

Since future funding may be based, in part, on enrollment data submitted to the FDOE, it is important that the District reports data correctly.

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

Virtual Instruction Program

Finding No. 5: 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. Educational 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 contracted with the St. Lucie County District School Board, which operates the Mosaic Digital Academy, to provide VIP services to eligible students in Martin County and, during the 2013-14 fiscal year, the District had 14 students enrolled full-time in the VIP. While the District generally administered the VIP in accordance with applicable State requirements, the District had not established written policies and procedures for administering the VIP. Written policies and procedures would promote compliance with VIP statutory requirements, evidence management's expectations of key personnel, and communicate management's commitment to, and support of, effective controls.

Also, Section 1002.45(10), Florida Statutes, requires that each school district provide information to parents and students about their right to participate in a VIP, and Section 1002.45(1)(b), Florida Statutes, requires school districts to provide parents with timely, written notification of the open enrollment periods for their VIPs. The District's Web site has links with information about the District's VIP, and the District distributes fliers to students to bring home disclosing the availability of the VIP; however, District records did not evidence that written notifications were provided directly to parents. Absent timely, written notification provided directly to parents, some parents may not have been informed of available VIP options and associated enrollment period dates, potentially resulting in the low number (14) of students who participated in the VIP.

Recommendation: The District should develop and maintain comprehensive, written VIP policies and procedures to enhance the effectiveness of VIP operations and related activities. Such policies and procedures should ensure that parents are directly provided timely, written notifications about student rights to participate in the District's VIP and VIP open enrollment periods.

Finding No. 6: Virtual Instruction Options

Section 1002.45(1)(b), Florida Statutes, requires the District, because it is located in a sparsely-populated county eligible for special funding pursuant to Section 1011.62(7), Florida Statutes, to provide students the option of participating in a part-time and full-time VIP.

Although the District provided all students the opportunity to participate in full-time virtual instruction, through the Mosaic Digital Academy, the District did not provide students in grades kindergarten through 12 the opportunity to participate in part-time virtual instruction. Florida law allows school districts to contract with the Florida Virtual School (FLVS) or establish a franchise of the FLVS to meet the part-time requirement. District personnel indicated that the FLVS was the District's method of meeting this requirement. However, the District had neither a franchise agreement nor a contract with the FLVS for the 2013-14 school year, and had not otherwise evidenced that it had provided the required part-time virtual instruction option. Without providing the required option, the District limited student access to the part-time virtual instruction types, contrary to Section 1002.45(1)(b), Florida Statutes.

Recommendation: The District should ensure that it offers all students the option of participating in a part-time VIP as required by law.

Information Technology

Finding No. 7: Access Privileges

Access controls are intended to protect data and information technology (IT) resources from unauthorized disclosure, modification, or destruction. Effective access controls provide employee 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. Periodic reviews of assigned IT access privileges are necessary to ensure that employees can only access IT resources that are necessary to perform their job responsibilities and that assigned access privileges enforce an appropriate separation of incompatible duties.

Our test of selected access privileges to the District's finance and human resources (HR) applications and the supporting operating system disclosed some access privileges that were unnecessary or that permitted certain employees to perform incompatible duties. Specifically:

- The payroll manager, assistant payroll manager, and a business systems analyst had the ability to add an employee record; edit an employee address; add and update pay rates, pay grades, and job codes; make payroll adjustments; and setup and run either a manual check process or a direct deposit.
- Twelve education technology employees, a secretary, and eight finance employees had the ability to create and update (add/modify/delete) journal entries. Subsequent to our review, these security access privileges for the secretary were removed.

To compensate, in part, for the above deficiencies, District personnel annually reviewed application access privileges and user group profiles, and performed other controls such as supervisory monitoring of expenditures. Also, our analytical procedures and tests of expenditures, salaries, and journal entries did not disclose any errors or fraud from the above deficiencies; however, our procedures cannot substitute for management's responsibility to maintain adequate internal controls. The existence of the above inappropriate or unnecessary access privileges indicated a need for an improved review of access privileges and increased the risk of unauthorized disclosure, modification, or destruction of District data and IT resources.

Recommendation: The District should improve its review of IT access privileges and remove any inappropriate or unnecessary access privileges detected.

PRIOR AUDIT FOLLOW-UP

The District had taken corrective actions for findings included in our report No. 2014-062, except that finding No. 1 was also in prior audit report Nos. 2013-040 and 2014-062, as finding Nos. 1 and 3, respectively.

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, and identify weaknesses in those controls.
- Determine whether management had taken corrective actions for findings included in our report No. 2014-062.
- 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 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. 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 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) access privileges and separation of duties.	Reviewed procedures for maintaining and reviewing access to IT resources. Tested selected access privileges over the database and finance and human resources applications to determine the appropriateness and necessity based on employees' job duties and user account functions and adequacy with regard to preventing the performance of incompatible duties. Tested administrator account access privileges granted and procedures for oversight of administrator accounts for the network, operating system, database, and application to determine whether these accounts had been appropriately assigned and managed.
Deactivation of employee IT access.	Reviewed procedures to prohibit former employees' access to electronic data files. Tested access privileges for former employees to determine whether their access privileges had been timely deactivated.
IT data loss prevention.	Determined whether the District had developed written security policies and procedures governing the classification, management, and protection of sensitive and confidential information.
IT disaster recovery plan.	Determined whether a comprehensive IT disaster recovery plan was in place and had been recently tested.
IT logical access controls and user authentication.	Reviewed selected operating system, database, network, and application security settings to determine whether authentication controls were configured and enforced in accordance with IT best practices.
IT security awareness and training.	Reviewed the District's IT security awareness training procedures.
IT program change management controls.	Reviewed IT procedures for requesting, testing, approving, and implementing changes to the District's business system.
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 physical access controls.	Reviewed the Data Center's physical access controls to determine whether vulnerabilities existed.
IT environmental controls.	Reviewed the data center's physical security and environmental safeguards.
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 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.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Donations.	Reviewed cash donations to a nonprofit organization to determine the legal authority of such payments.
Earmarked capital project resources.	Determined, on a test basis, whether non-voted capital outlay tax levy proceeds and Public Education Capital Outlay funds, were expended in compliance with the restrictions imposed on the use of these resources.
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.
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.
Severance pay.	Reviewed severance pay provisions in selected contracts to determine whether the District was in compliance with Florida Statutes.
Compensation and salary schedules.	Examined supporting documentation to determine whether the Board established a documented process and adopted a salary schedule to ensure that differentiated pay of instructional personnel and school administrators is based on District-determined factors, including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties.
Background screenings.	Determined, on a test basis, whether personnel had been subjected to required fingerprinting and background checks.
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 whether such payments were contrary to Section 112.313, Florida Statutes.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
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.
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 District policies and procedures related to the dual enrollment programs. Determined, on a test basis, whether payments made for dual enrolled students were consistent with the applicable dual enrollment agreement and Section 1007.271, Florida Statutes.
Charter school audit.	Reviewed the audit report for the District sponsored charter school to determine whether the required audit was performed.
Virtual instruction program (VIP) policies and procedures.	Determined whether the District had 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 Sunshine State Standards.	Reviewed records to determine whether VIP curriculum and course content was aligned with Sunshine State Standards and whether the instruction offered was designed to enable students to gain proficiency in each virtually delivered course of study.
VIP instructional materials.	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.

EXHIBIT A (CONTINUED)
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
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.
VIP FDOE-approved contract provisions.	For District-contracted FDOE-approved VIP providers, determined whether the 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 contract 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 District payments to FDOE-approved providers for services rendered.
VIP teacher certification.	Compared the certification coverages listed on the teachers' certificates to the required coverages for courses taught as listed on the FDOE's Course Code Directory to determine whether the VIP teachers selected for testing were properly certified.
VIP residual funds.	Determined whether the District had established controls to ensure that residual VIP funds are restricted and used on the District's local instructional improvement system or other technological tools, as required by law.

EXHIBIT B
MANAGEMENT'S RESPONSE

THE SCHOOL BOARD OF MARTIN COUNTY, FLORIDA

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December 9, 2014

David W. Martin, CPA
Office of the Auditor General
State of Florida
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, FL 32399-1450

Dear Mr. Martin:

The purpose of this letter is to respond to the preliminary and tentative audit findings for the School Board of Martin County as a result of the audit for the fiscal year ending June 30, 2014. The following response has been submitted by District staff:

Finding No. 1: Compensation and Salary Schedules

The District's School Board adopted Policy 1410 which provides the framework for differentiated pay using factors prescribed in Section 1012.22(1)(c)4.b. However, the District requires funding to increase the General Operating Fund to provide for such implementation.

The District's ending fund balance at June 30, 2014 in the General Fund is 3.8 percent and per Section 1011.051 F.S., the district school board shall maintain a general fund balance that is sufficient to address normal contingencies, or three percent (3%). Furthermore, School Board Policy 6210 states that the School Board shall strive to maintain an unassigned fund balance in its operating funds equal to five percent (5%) of the annual resources. Therefore, the District is not in the position to currently implement due to financial restraints of the fund balance in its operational fund.

Finding No. 2: Donations

The District donated funds to one specific organization, the Education Foundation of Martin County (Foundation). The Foundation is well received in the community and its success is based on the donations provided from the community. The donations from the District are apparent every day in the classrooms; e.g. "Adopt-A-Classroom", scholarships to students, and grants to teachers. With a retired Superintendent and School Board Member serving in the capacity of Board members to the Foundation and the current Superintendent and a School Board member as Ex-officio members of the Foundation, there is oversight of the funds that are donated.

The donations that were provided to the Foundation from the District were $25,000, $25,000, and $15,000 respectively for the 2011-12, 2012-13, and 2013-14 fiscal years and represent less than 0.02% of revenues in the general fund for each of the fiscal years. Further, due to the District's goal of increasing the fund balance to 5 percent, the Foundation did not receive a donation from the District for fiscal year 2014-15.

Laurie J. Gaylord, Superintendent
School Board Members: Michael DiTerlizzi • Tina McSoley • Rebecca Negron • Marsha Powers • Christia Li Roberts
"An Equal Opportunity Agency"

EXHIBIT B (CONTINUED)
MANAGEMENT'S RESPONSE

Finding No. 3: Purchasing Procedures

The District has comprehensive compensating controls in place, which have been reviewed by the Auditor General, and we deem that the finding should be removed due to these compensating controls.

Finding No. 4: Adult General Education Classes

The District concurs with the auditor's position and has promptly worked with the Educational Technology department to review and ensure that all bell schedules are correct to prevent under reporting of hours. The District has also created a process to withdraw students to prevent over reporting of hours.

Finding No. 5: Virtual Instructional Program (VIP) Policies and Procedures

The District concurs with the auditor's position and will be developing and maintaining comprehensive, written VIP policies and procedures to enhance the effectiveness of its VIP operations and related activities, such as parent notification.

Finding No. 6: Virtual Instruction Options

The District did offer and provided all students, who qualified, with the option of participating in a part-time Virtual Instructional Program (VIP). All students who used the Florida Virtual School (FLVS) were afforded all the same benefits whether or not an agreement was executed. The part-time option was evidenced through the information that is posted on the District's Web site and access to students was not limited based on the lack of an agreement. The District now currently holds a memorandum of understanding with the FLVS and, as stated earlier, the addition of the memo did not change the option of participation to the student; this is evident in the participation rate of the students within the District.

Finding No. 7: Access Privileges

The District concurs with the auditor's position and has since removed any inappropriate or unnecessary access privileges detected.

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

Sincerely,

Laurie J. Gaylord

Laurie J. Gaylord
Superintendent

CC: School Board Members
Superintendent's Cabinet