

STATE OF FLORIDA AUDITOR GENERAL

Operational Audit

Report No. 2017-146
March 2017

MADISON COUNTY DISTRICT SCHOOL BOARD



Sherrill F. Norman, CPA
Auditor General

Board Members and Superintendent

During the 2015-16 fiscal year, K. Doug Brown served as Superintendent of the Madison County Schools and the following individuals served as School Board Members.

	<u>District No.</u>
Susie Williamson	1
Kenneth D. Hall, Chair to 11-16-15	2
VeEtta L. Hagan, Chair from 11-17-15, Vice Chair to 11-16-15	3
Dr. Karen Pickles, Vice Chair from 11-17-15	4
Bart Alford	5

The team leader was Nicole Lee, and the audit was supervised by Glenda K. Hart, CPA.

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MADISON COUNTY DISTRICT SCHOOL BOARD

SUMMARY

This operational audit of the Madison County School District (District) focused on selected District processes and administrative activities and included a follow-up on findings noted in our report No. 2016-132. Our operational audit disclosed the following:

Finding 1: The District continues to lack effective procedures to monitor the propriety of construction management entity (CME) general conditions costs. During the 2015-16 fiscal year, the CME for Madison County High School (MCHS) renovations project submitted pay requests to the District totaling \$6.6 million, including payment requests related to general conditions costs of \$662,541.

Finding 2: As similarly noted in our report No. 2016-132, the District did not verify the licenses of subcontractors before they commenced work on the MCHS renovations project.

Finding 3: Contrary to Florida Department of Education (FDOE) requirements, the District expended 2015-16 fiscal year Capital Outlay and Debt Service (CO&DS) funds totaling \$17,312 for a project that was not listed on the District's project priority list. Consequently, the expenditures did not appear consistent with the allowable uses of CO&DS proceeds and, as such, represent questioned costs. Additionally, no corrective action had been taken to resolve the 2014-15 fiscal year CO&DS questioned costs totaling \$117,280 noted in our report No. 2016-132.

Finding 4: District controls continue to need strengthening to ensure accurate reporting of instructional contact hours for adult general education classes to the FDOE.

Finding 5: The Board has not adopted formal policies and procedures establishing a documented process to identify instructional personnel entitled to differentiated pay using the factors prescribed in State law. A similar finding was noted in our report No. 2016-132.

Finding 6: The Board did not adopt salary schedules that provide annual salary adjustments for instructional personnel and school administrators based on employee and student performance.

Finding 7: Required background screenings were not always documented for applicable instructional and noninstructional employees or contractor workers. A similar finding was noted in our report No. 2016-132.

Finding 8: As similarly noted in in our report No. 2016-132, controls over virtual instruction program (VIP) operations and related activities could be enhanced by developing and maintaining comprehensive, written VIP policies and procedures.

Finding 9: The District's two VIP provider contracts continued to exclude certain required and necessary provisions.

Finding 10: District records continued to lack evidence that VIP provider employees were subject to required background screenings prior to the delivery of services.

Finding 11: District procedures could be enhanced to ensure the eligibility of all students participating in a VIP. A similar finding was noted in our report No. 2016-132.

BACKGROUND

The Madison 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 Madison County. The governing body of the District is the Madison 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 2015-16 fiscal year, the District operated 6 elementary, middle, high, and specialized schools; sponsored 1 charter school; and reported 2,520 unweighted full-time equivalent students.

This operational audit of the District focused on selected processes and administrative activities and included a follow-up on findings noted in our report No. 2016-132. The results of our audit of the District's financial statements and Federal awards for the fiscal year ended June 30, 2016, are presented in a separate report.

FINDINGS AND RECOMMENDATIONS

Finding 1: General Conditions Costs

Pursuant to State law,¹ the District may contract for the construction or renovation of facilities with a construction management entity (CME). Under the CME process, contractor profit and overhead are contractually agreed upon and the CME is responsible for all scheduling and coordination in both the design and construction phases. The CME is also generally responsible for the successful, timely, and economical completion of the construction project. The CME may be required to offer a guaranteed maximum price (GMP), which allows for the difference between the actual cost of the project and the GMP amount, the net cost savings, to be returned to the District. As such, effectively documenting the reasonableness of general conditions costs is essential to ensure that potential cost savings are realized under GMP contracts.

During the 2014-15 fiscal year, the District solicited competitive proposals, as required by State law,² for CME services relating to the Madison County High School (MCHS) Renovation Project and the District entered into three GMP contracts with the same CME for these services, including a GMP contract for MCHS renovations totaling \$12 million. The \$12 million CME GMP contract for the MCHS renovation project included general conditions costs provisions totaling \$1.2 million, which addressed such items as direct and indirect salary, permitting, bonds, and insurance costs.

During the 2015-16 fiscal year, the CME submitted pay requests totaling \$6.6 million for the MCHS renovation project, including general conditions costs of \$662,541. As part of our audit, we examined District records supporting five payments to the CME totaling \$3.4 million, including payments for general conditions costs totaling \$241,139. We found that the CME pay requests for general conditions costs were based on a percentage of completion of the project as it progressed. However, the CME did not

¹ Section 1013.45(1)(c), Florida Statutes.

² Section 287.055, Florida Statutes.

provide detailed documentation to support the general conditions costs, such as CME payroll records or CME paid invoices, to support the propriety of the amounts the CME requested from the District.

In response to our inquiry, District personnel indicated that they relied on the project architect to monitor the general conditions costs through the course of the project and, although we requested, District records were not available to support the general conditions costs. According to District personnel, the District was waiting to obtain support for these costs at the conclusion of the project. Notwithstanding these explanations, absent the effective monitoring of general conditions costs during the course of a project, the District may be limited in its ability to determine the propriety of pay requests that include such costs and to evaluate the reasonableness of the general conditions costs so that net cost savings may be maximized. A similar finding was noted in our report No. 2016-132.

Recommendation: The District should enhance procedures for monitoring general conditions costs by requiring and reviewing sufficiently detailed documentation supporting CME pay requests for general conditions costs during the course of a project.

Finding 2: Subcontractor Licenses

State law³ provides that a CME must consist of, or contract with, licensed or registered professionals for the specific fields or areas of construction to be performed. State law⁴ also establishes certain certification requirements for persons engaged in construction contracting, including licensing requirements for specialty contractors such as electrical, air conditioning, plumbing, and roofing contractors.

For the MCHS renovation project, District personnel indicated that they did not verify that the subcontractors were licensed but, instead, relied on the CME to verify the subcontractors' licenses. As part of our audit procedures, we selected 6 subcontractors required to be licensed from the 41 subcontractors engaged by the CME during the audit period. Subsequent to our inquiry, District personnel requested and the CME provided evidence that the selected subcontractors were appropriately licensed; however, these subcontractors had already commenced work on the project. Timely documented verifications that subcontractors are appropriately licensed provides the District assurance that the subcontractors who will be working on District facilities meet the qualifications to perform the work for which they are engaged. A similar finding was noted in our report No. 2016-132.

Recommendation: The District should enhance procedures to require verification that subcontractors are appropriately licensed before they commence work on District facilities. Such verifications should be documented in District records.

Finding 3: Capital Outlay and Debt Service Expenditures

The State Constitution⁵ provides for the allocation of Capital Outlay and Debt Service (CO&DS) funds, derived from motor vehicle license revenue, to district school boards and other educational entities. Also,

³ Section 1013.45(1)(c), Florida Statutes.

⁴ Chapter 489, Florida Statutes.

⁵ Article XII, Section 9(d) of the State Constitution.

according to Florida Department of Education (FDOE) requirements,⁶ the proceeds of CO&DS funds are to be expended only for the costs of projects designated in a project priority list (PPL) approved by the respective school board and subsequently approved by the State Board of Education (SBE). If a school board must add new projects, it may amend the PPL; however, the SBE must approve the amended PPL before a school board may use CO&DS funds on the new projects. The District's PPL for the 2015-16 fiscal year identified only the MCHS projects.

The District accounts for CO&DS proceeds in the Capital Projects - CO&DS Fund. For the 2015-16 fiscal year, District expenditures of CO&DS proceeds totaled \$28,395. We examined District records supporting these expenditures and noted expenditures totaling \$17,312 for maintenance services on the Madison County Central School (MCCS) chillers that were not listed on the PPL. In response to our inquiry, District personnel indicated that the District was initially unaware that the chillers were not on the District's PPL, and no other available funding source existed during the 2015-16 fiscal year to pay the MCCS chiller maintenance costs. Our further examination found that these expenditures did not appear consistent with the allowable uses of CO&DS proceeds and, as such, represent questioned costs.

Also, our discussions with District personnel and examination of District records disclosed that, as of December 2016, the District had taken no corrective action to resolve the 2014-15 fiscal year CO&DS questioned costs totaling \$117,280 noted in our report No. 2016-132.

Recommendation: The District should enhance procedures to ensure that CO&DS funds are expended in accordance with FDOE requirements. In addition, the District should provide documentation to the FDOE supporting the allowability of the questioned costs, totaling \$134,592, or restore this amount to the Capital Projects - CO&DS Fund.

Finding 4: Adult General Education Classes

State law⁷ 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 General Appropriations Act⁸ proviso language required each district to report enrollment for adult general education programs in accordance with the FDOE instructional hours reporting procedures.⁹

FDOE procedures state 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. The procedures also require school districts to develop a procedure for withdrawing students for nonattendance and provide 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 2015-16 fiscal year, the District reported 4,352 instructional contact hours for adult general education classes provided to 32 students enrolled in 7 classes for the Fall semester. As a part of our audit, we examined District records for 2,501 instructional contact hours reported for 17 students enrolled

⁶ FDOE, Office of Educational Facilities, publication (2014) *State Requirements for Educational Facilities*, Section 2.1(5).

⁷ Section 1004.02(3), Florida Statutes.

⁸ Chapter 2015-232, Laws of Florida, Specific Appropriation 122.

⁹ FDOE Memorandum No. 06-14, dated May 15, 2006, *Reporting Procedures for Adult General Education Enrollments*.

in 7 adult general education classes for the fall semester. We found that the attendance records for 12 students did not support the instructional contact hours reported for these students, resulting in 731 over-reported hours. District personnel indicated these exceptions occurred primarily because of systemic programming errors in the computer software used to calculate and report instructional contact hours.

Subsequent to our inquiry, District personnel indicated in August 2016 that they submitted corrected Fall 2015 instructional contact hours to the FDOE. Since future funding is based, in part, on enrollment data submitted to the FDOE, it is important for the District to report accurate data.

Recommendation: The District should strengthen controls to ensure instructional contact hours for adult general education classes are accurately reported to the FDOE. District action to strengthen controls should include the software modifications necessary to accurately calculate and report contact hours.

Finding 5: Compensation and Salary Schedules

State law¹⁰ requires the Board to designate positions to be filled, prescribe qualifications for those positions, and provide for the appointment, compensation, promotion, suspension, and dismissal of employees. State law¹¹ also 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 instructional personnel compensation is typically subject to collective bargaining, the Board had not adopted formal policies and procedures establishing a documented process to identify instructional personnel entitled to differentiated pay using the factors prescribed in State law. 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.

During the 2015-16 fiscal year, the District paid 227 instructional personnel compensation totaling \$8.7 million. Our examination of the District's instructional salary schedule disclosed that the District provided for differentiated pay based on additional responsibilities, such as salary supplements for additional activities instructional personnel performed beyond the standard workday, including supplements for athletic coaches and band directors. However, District records did not evidence instructional personnel differentiated pay based on the factors of school demographics, critical shortage areas, or level of job performance difficulties.

In response to our inquiry, District personnel indicated that salary schedule revisions to comply with differentiated pay requirements were delayed to coincide with implementing instructional personnel performance pay plans. While these plans were included in the negotiations with the Madison County Education Association (MCEA) Union as of November 2016, no agreement had been finalized. Notwithstanding this response, without a Board-established documented process for determining and applying differentiated pay considering the factors prescribed in State law, the District's ability to

¹⁰ Section 1001.42(5)(a), Florida Statutes.

¹¹ Section 1012.22(1)(c)4.b., Florida Statutes.

demonstrate the consistent application of the differentiated pay and compliance with State law is limited. Similar findings were noted in our report Nos. 2015-162 and 2016-132.

Recommendation: The Board should continue efforts to establish a documented process for determining and applying differentiated pay considering the factors prescribed in State law.

Finding 6: Payroll and Personnel – Performance Salary Schedule

State law¹² requires the Board to adopt salary schedules that provide annual salary adjustments for instructional personnel and school administrators based upon performance. If budget constraints in any given year limit the Board's ability to fully fund all adopted salary schedules, the performance salary schedules are not to be reduced on the basis of total cost or the value of individual awards in a manner that is proportionally greater than reductions to any other salary schedules adopted by the District. State law¹³ also provides that a performance evaluation must be conducted for each employee at least once a year, and specifies certain evaluation criteria and percentage weightings, including basing at least one-third of the evaluation on student performance.

Our review of the performance evaluations and Board-adopted salary schedules for the 2015-16 fiscal year disclosed that, although the performance evaluations included the required evaluation criteria and percentage weightings, the Board's salary schedules for instructional personnel and school administrators were not based on employee or student performance. Instead, in accordance with the negotiated union agreement in effect for the 2015-16 fiscal year, the Board provided an increase ranging from \$249 to \$1,627, depending on years of service, to all instructional personnel and school administrators for the 2015-16 fiscal year.

In response to our inquiries, District management indicated that the Board did not adopt a performance salary schedule for the 2015-16 fiscal year due to ongoing negotiations with the MCEA Union; however, as noted in Finding 5, an agreement had not been finalized as of November 2016. District personnel further indicated that negotiations with the MCEA Union include consideration of a performance salary schedule for the 2016-17 fiscal year. Notwithstanding these explanations, we are unaware of any exemption from the requirement to adopt salary schedules that provide annual salary adjustments for instructional personnel and school administrators based on employee and student performance.

Recommendation: The Board should ensure that adopted performance salary schedules provide annual salary adjustments for instructional personnel and school administrators based on evaluations of employee and student performance as required by State law.

Finding 7: Background Screenings

State law¹⁴ requires that each person hired or contracted to serve in an instructional or noninstructional capacity who are permitted access on school grounds when students are present or who have direct

¹² Section 1012.22(1), Florida Statutes.

¹³ Section 1012.34, Florida Statutes.

¹⁴ Sections 1012.32, 1012.56(10), 1012.465, and 1012.467, Florida Statutes.

contact with students must undergo a level 2 background screening¹⁵ at least once every 5 years. State law¹⁶ also provides that noninstructional contractors may be exempt from the background screening requirements if the contractors are under the direct supervision of a school district employee or contractor who has had a criminal history check and meets the State law screening requirements. Additionally, for noninstructional contractors, State law¹⁷ requires that the District verify the results of the contractor's background screening using the shared system implemented by the Florida Department of Law Enforcement (FDLE). To promote compliance with the statutory background screening requirements, District procedures require employees and contractor workers who have access to school grounds to undergo required background screenings.

District personnel indicated that contractor workers are required to wear a District-issued name badge, which expires after 5 years, to gain access to school grounds. Once the badge expires, the contractor workers are prohibited from accessing school grounds unless they undergo the required background screening and obtain a new badge. However, as of December 2016, the District did not maintain a comprehensive, up-to-date list of the contractor workers subject to screenings.

We evaluated District records and background screening procedures for District instructional and noninstructional employees and contractor workers, and determined that:

- During the 2015-16 fiscal year, the District employed 227 instructional and 332 noninstructional personnel. To determine whether required background screenings were performed, we requested for examination District records, as of June 20, 2016, for 30 selected employees¹⁸ and found that, for 3 noninstructional employees screened before August 2015, District records did not evidence the required background screening had been performed at least once in the past 5 years. According to District personnel, to correct the background screening finding in our report No. 2016-132, the District began maintaining background screening results for screenings performed after August 2015; however, for employees screened before that date, District records were not always available to evidence such screenings. Subsequent to our inquiry, the District obtained level 2 background screenings in June and July 2016 for the 2 individuals still employed by the District, and noted no inappropriate backgrounds. However, it had been 9 years since 1 employee's last screening, and District records were not available to evidence that any previous background screening had been performed for the other employee who had been a District employee for 2 years. As of October 2016, District personnel indicated that additional background screenings had been obtained and included in the District records for all employees as required.
- The Board routinely contracts for noninstructional therapist and psychologist services, which are provided directly to students. Our examination of District records for the 2015-16 fiscal year indicated that there were five contractor workers who provided these services. We requested for examination District records to evidence, as of June 30, 2016, the required background screenings for these five workers. We found that, for three of the five workers, District records did not demonstrate that screenings had ever been performed. According to the District personnel, the lack of screenings occurred because of oversights.

Subsequent to our inquiry, the District obtained level 2 background screenings in September and October 2016 for the three contractor workers and noted no inappropriate backgrounds. In

¹⁵ A level 2 background screening includes fingerprinting for Statewide criminal history records checks through the FDLE and national criminal history records checks through the FBI.

¹⁶ Section 1012.468, Florida Statutes.

¹⁷ Sections 1012.467(2)(f) and 1012.467(7)(a), Florida Statutes.

¹⁸ The 30 selected employees included 12 instructional employees and 18 noninstructional employees.

January 2017 we noted that the District had prepared a comprehensive list of contractor workers identifying 77 workers subject to required screenings and the dates the workers were screened in the last 5 years.

Absent effective controls to ensure that required background screenings are timely performed, there is an increased risk that individuals with unsuitable backgrounds may be allowed access to students. A similar finding was noted in our report No. 2016-132.

Recommendation: The District should continue efforts to ensure that required background screenings are timely performed for District employees and contractor workers and maintain documentation of the background screening results and evaluations.

Finding 8: Virtual Instruction Program – Policies and Procedures

State law¹⁹ provides that school districts are to prescribe and adopt 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. State law²⁰ 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 the VIPs; and provide computer equipment, Internet access, and instructional materials to eligible students.

During the 2015-16 fiscal year, the District enrolled 64 part-time and 25 full-time VIP students. However, the District did not have comprehensive, written VIP policies and procedures to identify the processes necessary to ensure compliance with statutory requirements, document personnel responsibilities, provide consistent guidance to staff during personnel changes, ensure sufficient and appropriate training of personnel, or establish a reliable standard to measure the effectiveness and efficiency of operations.

On September 20, 2016, the Board adopted written VIP policies²¹ and, in response to our inquiry, District personnel indicated that the District is in the process of developing written procedures to comply with VIP policies. The absence of comprehensive, written VIP procedures may have contributed to the instances of noncompliance and control deficiencies discussed in Findings 9 through 11. A similar finding was noted in our report No. 2016-132.

Recommendation: The District should continue efforts to enhance written VIP policies and procedures to promote compliance and the effectiveness of its VIP operations and related activities.

Finding 9: Virtual Instruction Program – Provider Contracts

State law²² requires that each contract with an FDOE-approved VIP provider contain certain provisions.

¹⁹ Section 1001.41(3), Florida Statutes.

²⁰ Section 1002.45, Florida Statutes.

²¹ Board Policy No. 2370.01, *Virtual Instruction*.

²² Section 1002.45(4), Florida Statutes.

For example, contracts with FDOE-approved VIP providers must contain a provision for the provider to publish student-teacher ratios²³ and other instructional information in all contracts negotiated pursuant to the applicable section of State law. District records should evidence the basis upon which District personnel determined the reasonableness of student-teacher ratios established in the VIP provider contracts. Additionally, to ensure appropriate controls over data quality, security measures, and provider contract compliance, VIP provider contracts need to contain other provisions necessary to establish the District's expectations for the VIP providers.

During the 2015-16 fiscal year, the District contracted with two FDOE-approved VIP providers. Our review of these contracts and other District records disclosed that:

- The contract with one FDOE-approved provider did not establish student-teacher ratios. Without a contractual provision establishing the ratios, there is an increased risk that the number of students in the VIP classes may be excessive and reduce the quality of the provider's virtual instruction.
- Neither contract included data quality requirements. Providers are to maintain significant amounts of education data to support the VIP administration and to meet District reporting needs for compliance with State funding, information, and accountability requirements in State law.²⁴ Accordingly, it is essential that accurate and complete data maintained by the provider on behalf of the District be readily available. Inclusion of data quality requirements in the provider contract would help ensure that District expectations for the timeliness, accuracy, and completeness of education data are clearly communicated to providers.
- Neither contract specified the minimum required security controls the District considered necessary to protect the confidentiality, availability, and integrity of critical and sensitive data. While the contracts contained requirements for the providers to implement, maintain, and use appropriate administrative, technical or physical security measures required by Federal law,²⁵ without specified minimum required security controls, there is an increased risk that provider information security and other information technology controls may not be sufficient to protect the data.
- Neither contract provided for the District's monitoring of provider compliance with contract terms or quality of instruction. 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.

District Management indicated that, due to personnel changes, they were unaware that the VIP contracts omitted certain required and necessary provisions. A similar finding was noted in our report No. 2016-132.

Recommendation: The District should enhance procedures to ensure that the FDOE-approved VIP provider contracts include statutorily required contract provisions regarding established student-teacher ratios. In addition, the District should include provisions for promoting data quality, specifying the minimum required security controls, and monitoring provider compliance in the FDOE-approved VIP provider contracts.

²³ Section 1002.45(2)(a)8.e., Florida Statutes.

²⁴ Section 1008.31, Florida Statutes.

²⁵ The Family Educational Rights and Privacy Act (Title 20, Section 1232g, United States Code).

Finding 10: Virtual Instruction Program – Background Screenings

State law²⁶ requires VIP providers to conduct background screenings for all employees as a condition of approval by the FDOE as a VIP provider in the State. The FDOE process for approving VIP providers requires applicants to submit assurances that applicant employees have obtained the required background screenings and to provide lists of the background-screened employees to each applicable school district.

During the 2015-16 fiscal year, the District contracted with two FDOE-approved VIP providers. According to District personnel, the District did not obtain or request documentation to evidence that the VIP provider employees had background screenings performed prior to delivery of services by the approved provider. Instead, the District relied solely on assurances provided in the contract that background screenings would be conducted for all provider employees. Subsequent to our audit inquiry, in June 2016, the District obtained copies of the requested employee background screenings from each provider and noted no unsuitable backgrounds. As similarly noted in Finding 7, absent effective controls to ensure that background screenings are timely performed, there is an increased risk that individuals with unsuitable backgrounds may be interacting with students. In addition, individuals with unsuitable backgrounds may also be granted access to confidential or sensitive District data and information technology resources. A similar finding was noted in our report No. 2016-132.

Recommendation: The District should routinely verify that the required background screenings have been performed for all VIP provider employees prior to the delivery of services.

Finding 11: Virtual Instruction Program – Student Eligibility

State law²⁷ authorizes students to participate in VIPs if they meet certain eligibility criteria. The eligibility criteria include attending a Florida Public school in the prior year and being funded by the Florida Education Finance Program, being a dependent child of a member of the United States Armed Forces who was transferred within the last 12 months to Florida from another state or foreign country, being eligible to enter kindergarten or first grade, and other qualifying reasons.

During the 2015-16 fiscal year, the District enrolled 89 VIP students; however, District Management indicated that, due to personnel changes, they did not consistently document whether the students were eligible to participate in the VIP. As part of our audit, we requested for examination District records supporting the eligibility of 25 VIP students. Our examination disclosed that District records did not evidence that District personnel had verified 11 of the students' VIP eligibility. Subsequent to our initial testing in July 2016, we examined the applicable student enrollment records and determined that these 11 students were, in fact, eligible to participate in the District's VIP.

While our tests did not identify any VIP students who did not meet the eligibility criteria, our tests do not substitute for the District's responsibility to verify student eligibility. In response to our inquiry in December 2016, District personnel indicated that a policy to document eligibility through an application/registration form had been implemented. Absent effective procedures to verify and document

²⁶ Section 1002.45(2)(a)3., Florida Statutes.

²⁷ Section 1002.455(1) and (2), Florida Statutes.

student eligibility, there is an increased risk that ineligible students may participate in a VIP. In addition, documentation of the verification of VIP student eligibility is necessary to demonstrate compliance with State law. A similar finding was noted in our report No. 2016-132.

Recommendation: The District should establish procedures to verify and document the eligibility of VIP students.

PRIOR AUDIT FOLLOW-UP

The District had taken corrective actions for applicable findings included in our report Nos. 2015-162 and 2016-132, except as noted in Findings 1, 2, 3, 5, 7, 8, 9, 10, and 11 and shown in the Table 1.

Table 1
Findings Also Noted in Previous Audit Reports

Finding	2014-15 Fiscal Year	2013-14 Fiscal Year
	Report No. 2016-132, Finding	Report No. 2015-162, Finding
1	5	Not Applicable
2	4	Not Applicable
3	6	Not Applicable
5	7	4
7	8	5
8	9	Not Applicable
9	10	Not Applicable
10	11	Not Applicable
11	14	Not Applicable

OBJECTIVES, SCOPE, AND METHODOLOGY

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

We conducted this operational audit from June 2016 to November 2016 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 safeguarding of assets, and identify weaknesses in those controls.
- Determine whether management had taken corrective actions for findings included in our report No. 2016-132.
- Identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

This audit was designed to identify, for those programs, activities, or functions included within the scope of the audit, weaknesses in management's internal controls, instances of noncompliance with applicable laws, rules, regulations, contracts, grant agreements, and other guidelines; and instances of inefficient or ineffective operational policies, procedures, or practices. The focus of this audit was to identify problems so that they may be corrected in such a way as to improve government accountability and efficiency and the stewardship of management. Professional judgment has been used in determining significance and audit risk and in selecting the particular transactions, legal compliance matters, records, and controls considered.

As described in more detail below, for those programs, activities, and functions included within the scope of our audit, our audit work included, but was not limited to, communicating to management and those charged with governance the scope, objectives, timing, overall methodology, and reporting of our audit; obtaining an understanding of the program, activity, or function; exercising professional judgment in considering significance and audit risk in the design and execution of the research, interviews, tests, analyses, and other procedures included in the audit methodology; obtaining reasonable assurance of the overall sufficiency and appropriateness of the evidence gathered in support of our audit findings and conclusions; and reporting on the results of the audit as required by governing laws and auditing standards.

Our audit included transactions, as well as events and conditions, occurring during the 2015-16 fiscal year audit period, and selected District actions taken prior and subsequent thereto. Unless otherwise indicated in this report, these records and transactions were not selected with the intent of statistically projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

An audit by its nature does not include a review of all records and actions of management, staff, and vendors, and as a consequence, cannot be relied upon to identify all instances of noncompliance, fraud, waste, abuse, or inefficiency.

In conducting our audit we:

- Evaluated the District's security policies and procedures governing the classification, management, and protection of sensitive and confidential information.
- Interviewed District personnel and reviewed documentation to determine whether the District effectively monitored charter schools.
- Examined Board, committee, and advisory board minutes to determine whether Board approval was obtained for policies and procedures in effect during the audit period and for evidence of

compliance with Sunshine Law requirements (i.e., proper notice of meetings, meetings readily accessible to the public, and properly maintained meeting minutes).

- Examined District records to determine whether the District had developed an effective anti-fraud policy and procedures to provide guidance to employees for communicating known or suspected fraud to appropriate individuals. Also, we examined District records to determine whether the District had implemented appropriate and sufficient procedures to comply with its anti-fraud policy.
- Analyzed whether the District's General Fund total unassigned and assigned fund balances at June 30, 2016, was less than 3 percent of the fund's projected revenues, as specified in Section 1011.051, Florida Statutes. We also performed analytical procedures to determine the ability of the District to make its future debt service payments.
- From the population of \$10.9 million total expenditures and \$161,786 total transfers made during the audit period from nonvoted capital outlay tax levy proceeds, Public Education Capital Outlay funds, and other restricted capital project funds, examined documentation supporting selected expenditures and transfers totaling \$6.5 million and \$161,786, respectively, to determine District compliance with the restrictions imposed on the use of these resources.
- Reviewed Workforce Development funds expenditures totaling \$29,805 for the audit period and examined supporting documentation to determine whether the District used the funds for authorized purposes (i.e., not used to support K-12 programs or District K-12 administrative costs).
- From the population of 32 adult general education instructional students reported for 4,352 contact hours during the Fall 2015 semester, examined District records supporting 2,501 reported contact hours for 17 selected students to determine whether the District reported the instructional contact hours in accordance with Florida Department of Education (FDOE) requirements.
- Examined the District Web site to determine whether it included the 2015-16 fiscal year proposed, tentative, and official budgets pursuant to Section 1011.035(2), Florida Statutes.
- Examined District records and the District's charter school records to verify that the charter school did not transfer funds or make loans to another organization.
- From the population of compensation totaling \$10.5 million paid to 559 employees during the audit period, examined District records supporting 30 selected salary payments totaling \$81,648 to determine the accuracy of the rate of pay and whether supervisory personnel reviewed and approved employee reports of time worked.
- Examined District records to determine whether the Board adopted a salary schedule with differentiated pay for both instructional personnel and school administrators based on District-determined factors, including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties in compliance with Section 1012.22(1)(c)4.b., Florida Statutes.
- From the population of 227 instructional personnel and 12 school administrators compensated a total of \$9.4 million during the audit period, examined District records related to 30 selected employees who were paid a total of \$1.4 million to determine whether the District had developed adequate performance assessment procedures for instructional personnel and school administrators based on student performance and other criteria in accordance with Section 1012.34(3), Florida Statutes, and determined whether a portion of each selected instructional employee's compensation was based on performance as required by Section 1012.22(1)(c)4., Florida Statutes.
- Examined District records for 30 selected employees from the population of 559 employees during the audit period to assess whether personnel who had direct contact with students were subjected to the required fingerprinting and background screening.

- Examined District records for five contractor employees, including two psychologists, one occupational therapist, and two speech therapists, who provided District services for the audit period and were required to have level 2 background screenings, to determine whether the District complied with background screening requirements.
- Examined District records supporting the eligibility of all 8 recipients of the Florida Best and Brightest Teacher Scholarships Program awards totaling \$66,050 during the audit period.
- Examined District policies, procedures, and related records for school volunteers to determine whether the District searched prospective volunteers' names against the Dru Sjodin National Sexual Offender Public Web site maintained by the United States Department of Justice, as required by Section 943.04351, Florida Statutes.
- Examined District records to determine whether Board member salaries for the audit period were in compliance with Section 1001.395, Florida Statutes.
- From the population of non-payroll expenditures totaling \$13.3 million during the audit period, examined documentation related to 30 selected expenditures totaling \$32,324 to determine whether the non-payroll expenditures were reasonable, correctly recorded, adequately documented, for a valid District purpose, properly authorized and approved, and in compliance with applicable State laws, rules, contract terms and Board policies.
- Examined documentation for the only significant construction project (guaranteed maximum price of \$12 million) with a construction management entity and associated expenditures totaling \$10.7 million for the audit period to determine compliance with District policies and procedures and provisions of State laws and rules. Specifically, we:
 - o Reviewed District procedures for monitoring subcontractor selection and licensure, and examined records to determine whether subcontractors were properly selected and licensed.
 - o Determined whether the District established written policies and procedures addressing negotiation and monitoring of general conditions costs.
 - o Examined records supporting 5 payments totaling \$3.4 million to determine whether District procedures for monitoring payments to construction managers were adequate and payments were sufficiently supported.
- Determined whether the District had designed procedures to conduct applicable charter school expedited review procedures pursuant to Section 1002.345, Florida Statutes.
- From the population of 102 consultant contracts totaling \$1.4 million during the audit period, examined supporting documentation, including the contract documents, for 30 selected payments totaling \$323,783 related to 29 contracts to determine whether:
 - o The District complied with competitive selection requirements.
 - o Contracts clearly specified deliverables, time frames, documentation requirements, and compensation.
 - o Records documented satisfactory receipt of deliverables before payments were made.
 - o Payments complied with contract provisions.

We also determined whether the District complied with Section 112.313, Florida Statutes, and had not contracted with employees for services provided beyond those in their salary contracts.

- Determined whether the District used supplemental academic instruction and research-based reading instruction allocations to provide, to the applicable schools pursuant to Section 1011.62(9), Florida Statutes, an additional hour of intensive reading instruction to students every day, schoolwide during the audit period. Also, pursuant to the 2015 General

Appropriations Act, we determined whether the District appropriately reported to the FDOE the funding sources, expenditures, and student outcomes for each participating school.

- Determined whether the District had adequate Virtual Instruction Program (VIP) policies and procedures.
- Evaluated District records for the audit period to determine whether the District provided the required VIP options and properly informed parents and students about students' rights to participate in a VIP and the VIP enrollment periods as required by Section 1002.45(1)(b) and (10), Florida Statutes.
- From the population of 89 students enrolled in the District VIP during the audit period, examined District records for 25 selected students to determine whether the District verified that the students enrolled met statutory eligibility requirements prescribed by Section 1002.45(5), Florida Statutes.
- For the two FDOE-approved VIP providers that contracted with the District for the audit period, determined whether the District obtained a list of provider employees and contracted personnel who had obtained background screenings in accordance with Section 1012.32, Florida Statutes.
- Examined the contract documents for the two FDOE-approved VIP providers to determine whether the contracts contained required statutory provisions. Also, we:
 - o Examined the contract documents to determine whether provisions were included to address compliance with contract terms, the confidentiality of student records, and monitoring of the providers' quality of virtual instruction and data quality.
 - o Evaluated the contract and other related records to determine whether the District documented the reasonableness of student-teacher ratios established in the contract.
 - o Examined contract fee provisions, if any, and reasonableness of such fees.
- Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.
- Prepared and submitted for management response the findings and recommendations that are included in this report and which describe the matters requiring corrective actions. Management's response is included in this report under the heading **MANAGEMENT'S RESPONSE**.

AUTHORITY

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



Sherrill F. Norman, CPA
Auditor General

MANAGEMENT'S RESPONSE

District School Board of Madison County

210 NE Duval Avenue · Madison Florida 32340

Date: February 24, 2017

To: Sherrill F. Norman, CPA
Auditor General
Claude Denson Pepper Building, Suite G74
111 West Madison Street
Tallahassee, Florida 32399-1450

Management Response to Preliminary and Tentative Findings Operational Audit for 2015-2016

Dear Ms. Norman:

Finding No. 1: General Conditions Costs

Response No. 1: The District concurs with this finding. In September 2016, the Board approved new policies under the guidance of NEOLA, a policy & procedure consulting firm. With the new policies in place, work has begun to re-write procedures for each policy. In the past, the District relied on the services of the architect of record to monitor this item. It is the intention of the District to include this item as a District responsibility within the updated procedures for future construction contracts that are guided by a Construction Management Entity (CME) and/or when a guaranteed maximum price (GMP) contract is entered into.

Finding No. 2: Subcontractor Licenses

Response No. 2: This is another area that the District utilized the services of the architect of record to monitor. This item too will be included as a District responsibility for monitoring for any future CME lead projects or GMP contracts.

Finding No. 3: Capital Outlay & Debt Service Expenditures

Response No. 3: The District concurs with this finding. Per recommendations, the District has restored the CO&DS expenditures mentioned in order to resolve this finding.

Finding No. 4: Adult General Education Classes

Response No. 4: The District concurs with this finding. The District has modified the enrollment period utilized for new students in order to have a consist time frame for monitoring and reporting. In addition,

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Karen Pickles, Superintendent · Susie Williamson District 1 · Carol Gibson District 2 · VeEtta L. Hagan District 3 · Reginald Daniels District 4 · Bart Alford District 5

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two new staff members have been cross trained to input and review for accuracy the student information entered into the District's student software system prior to submission for funding.

Finding No. 5: Compensation & Salary Schedules

Response N. 5: The District concurs with this finding. The District and Union finalized the 2015-2018 contract in January 2017. Unfortunately, Differentiated Pay was not part of the new contract. The District has contracted with legal counsel specializing in labor relations in order to complete negotiations to establish the required Differentiated Pay Schedules.

Finding No. 6: Payroll & Personnel -Performance Salary Schedule

Response No. 6: The District concurs with this finding. The District and Union finalized the 2015-2018 contract in January 2017. Unfortunately, Performance Pay was not part of the new contract. The District has contracted with legal counsel specializing in labor relations in order to complete negotiations to establish the required Performance Pay Salary Schedules.

Finding No. 7: Background Screenings

Response No. 7: The District concurs with this finding. As noted in the audit, in January 2017, the District updated and provided to auditors a comprehensive list of contract workers and the dates last screened. This spread sheet list will continue to be added to and monitored for contract workers that will need to be re-screened on the designated dates.

Finding No. 8: Virtual Instruction Program -Policies & Procedures

Response No. 8: The District concurs with this finding. In September 2016, the Board approved new policies under the guidance of NEOLA, a policy & procedure consulting firm, including virtual school policies. Procedures are in process of being reviewed and/or written with NEOLA 's assistance.

Finding No. 9: Virtual Instruction Program -Provider Contracts

Response No. 9: The District concurs with this finding. As mentioned in response #8, the District is in the process of updating procedures for the new policies approved in September 2016. Contract language and specific requirements with VIP providers will be included as part of the District's new procedures for VIP.

Finding No. 10: Virtual Instruction Program - Background Screening

Response No.10: The District concurs with this finding. As mentioned in response #8 & #9, the District is in the process of updating procedures for the new policies. Verification of background screenings will be addressed in the procedural review to ensure that VIP contracts contain written requirements for providers to supply written evidence of background screenings for VIP employees.

Finding No.11: Virtual Instruction Program - Student Eligibility

Response No.11: The District concurs with this finding. As mentioned in response #8, #9, & # 10, the District is in the process of updating procedures for the new policies. Verification of student eligibility for VIP will be included.

Sincerely,

A handwritten signature in black ink that reads "Dr. Karen Pickles". The signature is written in a cursive, flowing style.

Dr. Karen Pickles, Superintendent
District School Board of Madison County