



AUDITOR GENERAL

WILLIAM O. MONROE, CPA



OKALOOSA COUNTY DISTRICT SCHOOL BOARD

OPERATIONAL AUDIT

For the Period July 1, 2002, through June 30, 2003

SUMMARY

Finding No. 1: Strategic Planning

The District could improve its strategic planning process by including ancillary departments in its strategic plan.

Finding No. 2: Control Environment – Procedures Manuals

The District had not developed task-oriented procedures manuals for all critical finance-related activities.

Finding No. 3: Terminal Pay – Annual Leave

The District overpaid an employee \$113.39 in terminal vacation leave benefits. This overpayment resulted from a misinterpretation of Section 1012.65, Florida Statutes.

BACKGROUND

The District is part of the State system of public education under the general direction of the Florida Department of Education. Geographic boundaries of the District correspond with those of Okaloosa County. The governing body is the Okaloosa County District School Board, which is composed of five elected members. The elected Superintendent of Schools is the executive officer of the School Board. The Board members and the Superintendent who served during the audit period are listed in Exhibit 1.

During the audit period, the District operated 36 elementary, middle, and high schools, and reported 30,589.33 unweighted full-time equivalent students. In addition to its primary responsibility of providing educational services to students in grades kindergarten through 12, the District provided post-secondary vocational training.

The results of our audit of the District's financial statements and Federal awards are presented in audit report No. 2004-068.

FINDINGS AND RECOMMENDATIONS

Finding No. 1: Strategic Planning

As similarly noted in audit report No. 01-104, improvements were needed in the District's strategic planning process. In its individual School Improvement Plans, the District had established goals and priorities and linked financial resources to those goals and priorities. As of February 2004, the District had not completed its strategic planning process that will link and meld individual School Improvement Plans into a District plan with accountability measures for educational performance, as well as performance of ancillary departments. The inclusion of ancillary departments, such as human resources, finance, etc., will help ensure that all of the District's operations are working together to achieve strategic plan priorities. These enhancements will also provide District management with guidance when developing budgets and when making spending decisions.

Recommendation: We recommend that the District continue its work towards developing a strategic plan that establishes financial priorities for all segments of the District and helps guide budget development and spending decisions.

District Response:

The Okaloosa School District operates on a substantially decentralized management model in which the district's strategic plan is a melded product of all schools' School Performance Plans. District strategic objectives are published and included within each school's Plan.

The Okaloosa School Board allocates 91 percent of FEEP and certain other revenues directly to schools and reposes operating authority at the school level in return for a specific performance contract known as the School Performance Plan. Each school's School Advisory Council develops, approves, and implements (subject to endorsement by the Superintendent and confirmation by the School Board) a School Performance Plan which is driven by that school's academic baseline for all students of all ability groups and addresses how the school will achieve better student performance, better financial management, and better customer relations. Each such Plan encompasses and exceeds state school improvement requirements as well as showing how the school will comply with accreditation requirements. A part of the Plan is the school's operating budget which is tied directly to academic and customer relations objectives and strategies. The Plan for each school already includes ancillary service components. Each district ancillary department then synchronizes its priorities, staffing, budgets, and activities to those requirements of schools' Plans.

This decentralized approach to strategic planning and operational management has resulted in remarkable academic gains and the largest percentage of A schools of any district in the state in any year despite Okaloosa receiving \$200 per student less than the state average in funding.

Okaloosa Schools will not develop a "district strategic plan" separate from this successful decentralized method of management. However, to comply with audit recommendations, by 2006 Okaloosa will publish a digest of district objectives and strategies which are already found in School Performance Plans.

Finding No. 2: Control Environment – Procedures Manuals

As also noted in audit report No. 01-104, the District had not developed task-oriented procedures manuals for all finance-related activities. The development and maintenance of task-oriented procedures manuals will help promote effective internal controls and result in more efficient and effective work processes. Procedures manuals can also be used to train new staff and aid in the effective transition of key business services or finance-related personnel. Finance personnel have developed procedures for several tasks; however, as of February 2004, comprehensive procedures for all critical finance and accounting processes had not been completed.

Recommendation: We recommend that the District continue its efforts to develop task-oriented procedures manuals for critical finance and accounting processes.

District Response:

The District recognizes the importance of task-oriented procedures manuals for all critical finance related activities and accounting processes and will continue our efforts to expand our comprehensive task-oriented procedures manual.

Finding No. 3: Terminal Pay – Annual Leave

Section 1012.65, Florida Statutes, provides that a district school board may establish policies to provide for a lump-sum payment for accrued vacation leave to an employee of the district school board upon termination of employment or upon retirement. This Section further provides that, effective July 1, 2001, terminal pay for accrued vacation leave may not exceed a maximum of 60 days of actual payment. This Section also states that this limit does not impair any contractual agreement established before July 1, 2001, and that terminal pay for unused vacation leave accumulated before July 1, 2001, shall be made pursuant to the district school board's policies, contracts, or rules that were in effect on June 30, 2001.

Our review of terminal vacation leave payments that the District paid to employees during the 2002-03 fiscal year disclosed one employee who was paid for accrued vacation leave in excess of that allowed by District policy. At June 30, 2001, this employee had a balance of 492.50 hours in accrued vacation leave. Upon retirement during the 2002-03 fiscal year, the employee had accumulated in excess of 500 vacation hours; therefore, the District paid the employee for 500 hours, which was the maximum allowed under District policy in effect at June 30, 2001. However, the maximum accrued vacation leave the employee was entitled to, based on Section 1012.65, Florida Statutes, was 492.50 hours, the balance at June 30, 2001. As a result, the District's terminal vacation leave payment to this employee of \$7,559.05 was \$113.39 more than the amount to which the employee was entitled. District personnel stated that they had interpreted this law to mean that terminal vacation leave payments to employees of the District at June 30, 2001, could be made in accordance with District policy in effect at June 30, 2001, regardless of when the leave was accumulated.

Recommendation: We recommend that the District revise its terminal vacation leave payment practices to ensure that payments conform to the restrictions established in Section 1012.65, Florida Statutes. The District should also seek reimbursement of the overpayment made to this employee.

District Response:

Employees whose original hire date is after July 1, 1995, shall be paid for all annual leave not to exceed 60 days. (450 hours for full-time 7.5 hours per day employee.)

The District does not agree with this finding from the Auditor General as it relates to employees hired before July 1, 1995, because it is our contention that the District had a contract with employees hired before 1995, to pay up to 500 hours which should take precedence over the July 1, 2001 law. Nonetheless, for employees hired before July 1, 1995, the District will pay the employee for up to 500 hours of annual leave depending on the following:

- A. Annual leave balance must have been more than 450 hours on July 1, 2001.*
- B. Maximum number of hours is the amount accumulated as of July 1, 2001.*

This is a procedural change and requires no change in policy.

The Auditor General found that the District overpaid an employee by \$113.39. However, the District is not comfortable this employee was informed in the 2000-2001 school year that it made a difference if the employee rolled over 492.5 or 500 hours of annual leave. Considering the small amount of money, lack of information to the employee, possible ill will in trying to collect the over payment, and possible expense involved in collecting it; the District recommends writing off the \$113.39. This request will be submitted to the School Board for approval at the May 24, 2004, School Board meeting.

SCOPE, OBJECTIVES, AND METHODOLOGY

The objectives of this operational audit were to obtain an understanding and make overall judgments as to whether District management controls promoted and encouraged compliance with applicable laws, regulations, and provisions

of contracts or grant agreements; the economic, effective, and efficient operation of the District; the reliability of records and reports; and the safeguarding of assets. Specifically, for the period July 1, 2002, through June 30, 2003, we reviewed management controls over strategic planning, school advisory councils, monitoring of charter schools, banking agreements, bank account reconciliations, wire transfers, capital assets, capital outlay expenditures, budgetary procedures, cash receipts, bidding procedures, processing of vendor invoices, employee compensation and overtime, and payments for accrued leave.

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.

William O. Monroe

William O. Monroe, CPA
Auditor General

PRIOR AUDIT FINDINGS

We found that the District substantially corrected the deficiencies noted in audit report No. 01-104, except as discussed in Finding Nos. 1 and 2.

DISTRICT RESPONSE

The Superintendent's response, as originally submitted to this office, may be viewed in its entirety on the Auditor General's Web site.

To promote accountability in government and improvement in government operations, the Auditor General makes operational audits of selected programs, activities, and functions of district school boards. This operational audit was made in accordance with applicable **Government Auditing Standards** issued by the Comptroller General of the United States. This audit was conducted by Joan E. Valle, CPA, and supervised by James W. Kiedinger, CPA. Please address inquiries regarding this report to David W. Martin, CPA, Audit Manager, via e-mail at davidmartin@aud.state.fl.us or by telephone at (850) 487-9039.

This audit report, as well as other reports prepared by the Auditor General, can be obtained on our Web site at www.state.fl.us/audgen; by telephone at (850) 487-9024; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

EXHIBIT 1
OKALOOSA COUNTY DISTRICT SCHOOL BOARD
FOR THE PERIOD JULY 1, 2002, THROUGH JUNE 30, 2003

The Board members and the Superintendent of Schools who served during the audit period are listed below:

	<i><u>District No.</u></i>
<i>Lucinda J. Frakes, Vice-Chair to 11-18-02, Chair from 11-19-02</i>	<i>1</i>
<i>Lloyd Taylor</i>	<i>2</i>
<i>Rodney L. Walker, Chair to 11-18-02</i>	<i>3</i>
<i>Catherine S. Thigpen, Vice-Chair from 11-19-02</i>	<i>4</i>
<i>Howard Hill</i>	<i>5</i>
 <i>Don Gaetz, Superintendent</i>	

SCHOOL DISTRICT OF OKALOOSA COUNTY

SUPERINTENDENT OF SCHOOLS
DON GAETZ

ATTORNEY TO THE BOARD
C. JEFFREY McINNIS



BOARD MEMBERS
CINDY FRAKES
HOWARD HILL
LLOYD TAYLOR
CATHY THIGPEN
RODNEY L. WALKER

April 30, 2004

William O. Monroe, CPA
Auditor General - State of Florida
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450

Re: Preliminary and Tentative Audit Findings
And Recommendations for the Fiscal Year
Ended June 30, 2003 - Operational Audit

Dear Mr. Monroe:

Enclosed is the District's response to the Preliminary and Tentative Audit Findings and Recommendations for the Operational Audit of the Okaloosa County District School Board for the fiscal year ended June 30, 2003.

Should you have any questions or require further clarification regarding our responses, please do not hesitate to call.

Sincerely,

Don Gaetz
Superintendent

DG:jap

cc: Cindy Frakes, Chairman, School Board
Rodney Walker, School Board Member
Howard Hill, School Board Member
Lloyd Taylor, School Board Member
Cathy Thigpen, School Board Member
Area Superintendents
Patricia Wascom, Chief Financial Officer

ADMINISTRATIVE COMPLEX - 120 LOWERY PLACE S.E. - FORT WALTON BEACH, FLORIDA 32548
TELEPHONE (850) 833-3100 FAX (850) 833-3436

CARVER HILL - 461 W. SCHOOL AVE. - CRESTVIEW, FLORIDA 32536
TELEPHONE (850) 689-7300 FAX (850) 689-7129

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