John M. McKay Scholarships for Students with Disabilities Program

Overview

The Department's Office of Independent Education and Parental Choice (IEPC) has established many effective controls for the John M. McKay Scholarships for Students with Disabilities Program (McKay Scholarship Program).

This report identifies opportunities for further improvement of the program. These include measures that will enhance oversight and monitoring of McKay eligible private school activities related to the scholarship program, strengthen controls in the form of written procedures, and address potential control weaknesses in a key program application.

We recommend the Department:

- Pursue statutory and administrative changes to improve oversight of McKay eligible private schools participating in the program;

- Prepare written operating procedures for several program processes;

- Ensure effective application controls are included in the payments application program currently under development;

- Address a concentration of duties in the activities performed by the program's Payment Specialist position; and

- Strengthen the warrant endorsement review process.

Background

This audit was identified in the Office of Inspector General's (OIG) annual risk assessment and included in the approved annual audit plan. It was performed in support of the Department's goal of quality efficient services with the purpose of promoting the strategic imperative of aligning resources with performance.

Florida's school choice programs help ensure that no child will be left behind by allowing parents to choose the best educational setting - public or private - for their child. The McKay Scholarship Program provided 20,926 Florida students with special needs the opportunity to attend a participating private school during the 2009-10 school year. The McKay Scholarship Program also offers parents public school choice.

Previous Audit Findings

An OIG audit entitled "Choice Scholarship Programs" was completed in April 2006. It included an evaluation of the McKay Scholarship Program. The report commented on how the IEPC continued to make improvements in the internal control structure for the scholarship programs, but noted further program improvements that should be made. Findings included the need for:

- Written internal operating policies and procedures in selected areas;

- Validation checks to prevent invalid data from being entered, saved, and used in the scholarship database;

- Improvements in attendance monitoring; and

- More sufficient supporting documentation in areas that included support for school eligibility determination; tracking of complaints and their resolution; and documenting and tracking refunds due to the Department.

During this audit, we reviewed for implementation of management actions in response to the above findings. Most findings were resolved. Those not resolved, were evaluated during this audit (e.g., need for written procedures and improvements in attendance monitoring.)

Audit Results

Internal management controls serve as a tool for management's use in providing reasonable assurance that program objectives are achieved. Many effective controls are in place for the McKay Scholarship Program. Examples include:

- Development and use of a process manual which includes extensive guidance on eligibility for schools and students;

- Use of a strong web-based interactive scholarship database system for obtaining and circulating information;

- Establishment of a system to verify private school compliance;

- Development of an attendance verification procedure;

- Cross checking with public school attendance;

- Fingerprinting for staff with direct contact with students;

- Operation of a hot line for complaints and systems for investigating them; and

- Provision of technical assistance to parents, school districts, and private schools throughout the state.

There are opportunities for further improvement for the McKay Scholarship Program. The findings below identify areas where management action is recommended. Certain findings report on conditions similar to those identified in the previous OIG audit report.

Findings and Recommendations

1. Oversight of McKay eligible private schools could be improved with statutory and administrative changes.

Though the program is complying with statutory provisions, annual onsite monitoring is limited to less than one percent of private schools participating in the program. Risks related to these schools include the following:

- Private schools are allowed to self report student enrollment, attendance and withdrawals to the database, generating the data used to process payments;

- Recent site reviews performed by program staff show most schools visited were not in compliance with important program requirements;

- Noncompliance notices as well as proposed actions to deny, suspend or revoke private school participation are processed monthly by the program; and

- The program has experienced fraudulent rule violations by a small number of private school owners.

Florida Statutes provide for limited onsite visits of private schools by department staff. Current oversight provisions limit onsite visits to not more than three private schools per year. Over 900 private schools participate in the program each year. The onsite visits must be selected randomly and no private school can be visited more than once in the same year.

Recommendation:

The Department should propose statutory changes that allow the number of onsite visits to be increased, and the selection of private schools for review determined using a risk based approach (e.g., focus on newer schools, schools with larger student participation, geographic considerations, etc.).

Additionally, emphasis can be placed on such activities as:

- Expanded desk reviews of private school documentation (student attendance, background screening, instructor qualifications, etc.);

- Conducting parent surveys to verify student attendance, school location, academic reporting, etc.;

- Observations of warrant endorsements at selected private schools (in conjunction with the restrictive endorsement of warrants); and

- Greater review and inquiry of complainant assertions of program violations by private schools (e.g., polling of other parents when complaints allege school is not observing published instruction schedules, for example).

Management Response:

The audit report states that IEPC is compliant with all statutory monitoring requirements. Therefore, the previous narrative discussing the inherent risks should not be construed as a negative reflection on the program office's administration of the program according to statute.

It should be noted that noncompliance notices can be triggered by a number of instances, some as simple as the change in director's name, or change in school name. The number of noncompliant notices, as well as actions to deny, suspend or revoke is evidence of the due diligence on the IEPC's part in implementing the additional accountability measures required in the 2006 legislation and should not necessarily be construed as a negative component or finding of the program.

As noted in the report, IEPC lacks statutory authority to increase the yearly on-site visits of scholarship participating schools; however, a criterion for site based visits resides not only in Section 1002.39, F.S., but Section 1002.421, F.S. as well. Further, Rule 6A-6.03315 adds even more clarification on conditions to monitor during site visits. At this time, although a risk based approach to site visits might be preferable, it is prohibited by Section 1002.39(6)(f).

IEPC lacks the authority to seek statutory changes as it relates to greater oversight activities; however, we will make recommendations to the

Commissioner, who in turn, has the ability to make recommendations to the State Board of Education.

Regarding the report's call for expanded desk reviews of private school documentation, we submit that the Department only has statutory authority to review documentation for the three schools included in the annual on-site monitoring visits. However, it should be mentioned that authority is given for yearly reviews of private school compliance documentation as found in Section 1002.421(2), F.S. The Department does not have statutory authority or adequate staff resources to conduct parent surveys at this time.

Regarding the report's call for greater review and inquiry of complainant assertions of program violations by private schools, IEPC is incorporating a system of greater review and inquiry in the course of a legally sufficient complaint and has stated such in the revisions of the Complaint Process written procedures. Additionally, numerous complaints with legally sufficiency have been forwarded to the Office of Inspector General for investigative assistance.

2. Formal written procedures are needed.

We noted informal documentation (e.g., brief narratives, annotated screenshots, etc.) was available to describe aspects of certain program activities and processes. However, formal written operating procedures have not been prepared and are needed for the following processes:

- Site review process for private schools;

- Quarterly processing of scholarship payments, including steps performed by the Office of Funding and Financial Reporting and the DOE Comptroller's office;

- Process for documenting and tracking returned and cancelled warrants from private schools as well as refunds due to the Department;

- Process for administering and controlling supplemental payments;

- Statewide payment verification process (used to determine enrollment in school districts other than the one where students were zoned);

- Collection process for erroneously obtained payments (prompting return of funds letters);

- Quarterly reviews of warrant endorsements, and

- Complaint administration process.

Written procedures are a management tool used to communicate and control the activities and processes to achieve established goals and objectives. Procedures should be comprehensive, current, and effectively communicated to the responsible staff. Written procedures will help ensure regulations are met, goals and objectives are achieved, and management directives are accomplished.

Program staff members have relied on the instructions provided from other sources of guidance (e.g., reliance on other knowledgeable staff, statutes, and rules). Without written operating procedures, administration of the program may not be consistent and accountability is difficult to maintain.

Recommendation:

We recommend that IEPC: prepare written operating procedures for the processes cited; implement and train staff on the approved procedures; and update the procedures as needed.

Management Response:

IEPC is expanding written procedures as it pertains to the on-site visit review process. This written procedure will be updated and shared with staff no later than July 31, 2011.

IEPC is in the process of expanding written procedures as related to quarterly processing of scholarship payments; processes for documenting and tracking returned and cancelled warrants; administering and controlling supplemental payments; and the statewide payment verification process as well as the collection process for payment refunds. Additionally, summary information incorporating the role of OFFR, DFS as well as the Comptroller's office will be incorporated. Written procedures will be updated and shared with pertinent staff no later than December 1, 2011.

IEPC has updated and trained staff on the revised Complaint Process written procedures as suggested.

Regarding quarterly reviews of warrant endorsements, IEPC will update written procedures as suggested. Additionally, IEPC will take the suggestion of the auditor and incorporate a more risk based approach to the warrant selection(s) beginning 2011-12 school year. If discrepancies are found, an on-site review could be triggered.

3. Application controls in the payment application program should be improved.

Each quarter, the McKay Scholarship Program's payment application processes a listing of prospective payments to parents or guardians of students participating in the program. We analyzed 2009-10 payments and found that a significant portion ($11.7M or 8%) of payments required manual procedures to stop processing of the payments.

We noted the program's Payment Specialist manually cancels payments based on additional analysis performed. Reasons for manual cancellation of payments included the following:

- Students were enrolled in public school*;*

- Students had less than the minimum ten days of private school attendance;

- Invalid parent or guardian names or social security numbers;

- Duplicate social security numbers for students, parents or guardians;

- Private schools with outstanding payment letters; and

- Suspended private schools

The need for manual efforts to "police" the payments process can be reduced through greater use of automated application controls. However, many manual payment cancellations will remain based on the impact of statutorily required deadlines associated with payment dates as the requirements necessitate the processing of payments before each quarterly payment period ends.

We learned that a new payment application has been under development for the past year that is designed to address known inadequacies of the current application. Program staff agreed it will be

much less costly to build in needed controls during the development phase of the application.

Recommendation:

To address conditions noted in this finding, we recommend that:

- Application controls be added to filter ineligible payments due to invalid parent names/ social security numbers or duplicate social security numbers for students, parents or guardians;

- Application controls be added that would stop payments to private schools that are ineligible to receive payments;

- Consideration be given to automating, as part of the payments application, a comparison of payments data to statewide public school attendance information to detect ineligible payments related to students enrolled in public schools anywhere within the state (not just their zoned school district).

- Exception reports be developed and used to review scholarship payments data on a periodic basis (Example: the 10-day attendance script currently run on demand could be scheduled as an automated procedure which would generate exception reporting that program staff can analyze);

- Automated controls embedded in the new payments application be adequately documented to facilitate quality assurance reviews to verify effectiveness of the controls; and

- Manual processing activities (for procedures not included in the payments application) be adequately documented.

Management Response:

The payment process must take into account several statutory deadlines that do not coincide with district enrollment/withdrawal deadlines and requires verification of information prior to most public and privates schools opening for session in the fall. This is true, particularly for the September 1 payment deadline.

Deadlines in the McKay statute have never coincided with school district enrollment deadlines

or school district calendars; and therefore many of the statutory requirements and rule deadlines cannot be accommodated in an automated system. Varying public school calendars and private school calendars and attendance verification processes in each make it impossible to hard code deadlines and qualifiers into the payment application.

The payment application is currently being revised with additional functions to address some of the reasons for manual cancellations. To the extent possible, application controls will be built into the new payment application to reduce payments that are processed, but subsequently manually cancelled.

The new payment system will compare the list of payment candidates to the statewide Public School Student Survey data. If the student has been reported in public school in the most recent survey, the student will be rejected and a payment will not be generated.

The new payment system includes additional documentation, which is more detailed than the documentation for the old system.

The Payment Specialist currently adds comments to payment records as a method of documentation and this will be included in the revised Payment Process Manual.

4. A concentration of duties exists in the activities performed by the program's Payment Specialist position.

We noted that duties assigned to this position include:

- Access rights to read, delete, insert, and update information in the scholarship database;

- Maintaining direct contact with staff from private schools and parents;

- Generating and processing tuition payments on behalf of students;

- Performing quarterly reviews of warrant endorsements;

- Receiving returned warrants; and

- Collecting erroneously obtained payments from private schools.

As reported in Finding 2, we noted limited documentation for procedures performed by the Payments Specialist position (e.g., processing of scholarship payments, returned and cancelled warrants, and collection of erroneously obtained payments.) The Scholarship Program Manager stated that, typically, another staff member participates in the payment duties, though this was not documented. We were informed that additional payment process documentation exists; however, the documentation is still being developed.

A fundamental element of internal control is the segregation of duties. Adequate segregation of duties reduces the likelihood that errors (intentional or unintentional) will remain undetected by providing for separate processing by different individuals at various stages of a transaction and for independent reviews of the work performed. The basic idea underlying segregation of duties is that no employee or group should be in a position both to commit and conceal errors or fraud in the normal course of their duties.

We were informed that this condition exists because of limited staff resources. Left uncorrected, it may be possible, for example, for the Payment Specialist position to receive checks returned from private schools and convert them for personal use. The position could adjust database records so the act is not detected; or collude with a private school owner or staff member to generate erroneous payments that go undetected.

Recommendation:

We recommend that IEPC determine whether certain duties performed by the Payment Specialist position can be shifted to another employee or employees to reduce the potential risks noted above. If this is done, employee responsibilities as well as changes in related processes should be formally documented in written procedures.

Management Response:

At the time of this audit, one of two positions dedicated to payment specialist duties was filled. When both positions are filled, the primary Payment Specialist will be responsible for the processing of scholarship payments with the backup Program Specialist assuming the duties of processing returned and cancelled warrants as well as collection of erroneously obtained payments.

5. The warrant endorsement review process should be strengthened.

Florida Statutes require that scholarship payments be by individual warrant made payable to each student's parent or guardian and mailed by the Department to the private school. The parent is to restrictively endorse the warrant to the private school for deposit into the account of the private school. Section 1002.39(10)(f), Florida Statutes, denotes warrant endorsement review requirements by program staff to confirm compliance by private schools.

We noted that the review process has had limited impact. In cases where private schools are suspected of not following the statute, there is limited pressure that can be used to force compliance. Without an effective process in place, schools may not follow requirements intended to ensure students are enrolled and parents or guardians are signing scholarship warrants.

Recommendation:

We recommend that IEPC establish a consistent warrant endorsement review process to help ensure scholarship payments are properly executed. Schools receiving scholarship funds should be required to use a prescribed endorsement stamp. Warrants must be signed only by the individual whose name is on the check and action should be taken when schools fail to follow requirements.

Additionally, consideration should be given to performing reviews of warrants selected based on risk based criteria (in place of the current random selection process). Where private schools are suspect of not following rules, onsite verification, perhaps with the assistance of staff from the OIG, should be considered.

Management Response:

As addressed in Finding 2 and recommended in this audit report, IEPC will develop and incorporate a

more risk based approach to warrant endorsement review beginning in the 2011-12 school year. This will include but not be limited to: verifying a school's endorsement stamp as well as verifying that the endorser and warrant name are matched. If discrepancies are found, an on-site visit could be triggered with administrative action to follow.

As addressed in Finding 2 and recommended in this audit report, IEPC will develop and incorporate a more risk based approach to warrant endorsement review beginning in the 2011-12 school year. If discrepancies are found, an on-site visit could be triggered.

Objectives and Scope

The objectives of this audit were to determine whether: 1) student eligibility is clearly established and enrollment is adequately verified; 2) scholarship payments are accurate, made only to eligible students, and processed timely; 3) private school information is appropriately verified and compliance is sufficiently monitored; and 4) internal controls are present and effective to provide reasonable assurance of compliance with law, policies and procedures, and management's objectives.

The scope of the audit included scholarship activity during the period July 1, 2009, to September 30, 2010.

Methodology

This audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. To achieve audit objectives, the audit team:

- Researched and reviewed applicable statutes, rules, manuals, procedures, related reports, and supporting documentation;

- Interviewed and observed appropriate staff;

- Analyzed scholarship data using various tests;

- Surveyed parents regarding aspects of the program. See Exhibit 1 (page 8) for details and results;

- Evaluated internal controls; and

- Determined management actions taken in response to previous audit reports.

Closing Comments

The OIG would like to recognize and acknowledge IEPC management and staff for their assistance during the course of this audit. Our fieldwork was facilitated by the cooperation and assistance provided by all personnel involved.

Exhibit 1

Telephone Survey of Parents or Guardians of McKay Students

A telephone survey was performed of parents or guardians of students participating in the McKay Scholarship Program using a statistically valid random sample of 98 students. Contact information for parents or guardians of each selected student was obtained from the database maintained by the Choice Office.

McKay program staff provided input on the ten questions used in the survey. The questions focused on student attendance, physical location of school activities, student transportation, warrant endorsement, and student progress reporting.

Parents and guardians contacted were also given the opportunity to provide open ended feedback on their experience with the private school and with the McKay scholarship Program.

Survey Results

Sixty-four (65%, 64/98) of the parents/ guardians (respondents) contacted provided responds to survey questions. We found that in 25% of cases, telephone numbers from the database were invalid (incorrect/ out of service).

Of the 64 surveys completed, 49 (77%, 49/64) respondents verified that their student was currently enrolled in the private school. The remaining 15 (23%, 15/64) respondents verified that their student had withdrawn from the private school.

Of the 64 surveys completed, 59 (92%, 59/64) respondents verified the school location as listed in the database.

Survey questions regarding average school days per week and hours per day generally received responses of five days and seven hours, respectively.

Regarding the availability of school-provided transportation: 48 (75%, 48/64) respondents stated that transportation was not offered by the private school; 13 (20%, 13/64) respondents stated that transportation was available through the school.

Regarding whether the parent or guardian had endorsed McKay warrants: 49 (77%, 49/64) responded they had endorsed warrants; five were unsure; and in ten instances, students had been withdrawn from school and no response to the question was provided.

Regarding whether school reporting of academic progress was appropriate: 58 (91%, 58/64) respondents said that it was, while 3 (5%, 3/64) stated that it was not.

A final question on the survey invited respondents to provide open ended feedback. Most (39 or 61%, 39/64) provided positive feedback regarding the private school experience. Thirteen (20%, 13/64) respondents provided negative feedback.

We did not capture particulars regarding positive responses; however, respondents with negative feedback were usually eager to articulate their concerns.

Concerns voiced most frequently regarded school academic issues and administrative practices. Academic concerns included school graduates being unprepared for college, the school being too easy, poor reading curriculum, unqualified teachers, and limited individualized instruction. School administration concerns included possible nepotism, questionable disciplinary practices, poor communications, and concerns that schools were being run like business instead of educational institutions.

In the event respondents wished to continue a dialogue regarding their private school experience, we referred them to the McKay Scholarship Program's complaint hotline.