

The School District of Lee County



School Board Audit Office Annual Report FY 2006—2007

August 17, 2007

**School Board Auditor:
Julie Nieminski, CPA, CIA, CFE, CISA**



THE SCHOOL DISTRICT OF LEE COUNTY

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August 17, 2007

TO: Mrs. Jeanne S. Dozier, Chairman
Board members

FROM: Julie Nieminski, CPA, School Board Auditor

CC: Dr. James W. Browder, Ed.D, Superintendent
Mr. Keith Martin, Esq., Board Attorney

RE: School Board Audit Office Annual Report - FY2006-2007

Jeanne S. Dozier
Chairman, District 2
Jane E. Kuckel, Ph.D.
Vice Chairman, District 3
Robert D. Chilmonik
District 1
Steven K. Teuber, J.D.
District 4
Elinor C. Scricca, Ph.D.
District 5
James W. Browder, Ed.D.
Superintendent
Keith B. Martin, Esq.
Board Attorney
Julie B. Nieminski
Board Internal Auditor

Please find attached a copy of the School Board Audit Office Annual Report for Fiscal Year 2006-2007. The Annual Report summarizes the School Board Audit Office's accomplishments for the past fiscal period. The approved FY 2006-2007 Annual Audit Plan was the guide used as a starting point to complete selected audits. The estimated audit hours did vary from actual hours used because the estimation is only an educated "guess" as to how long each audit should take.

Internal auditing "best practice" assumes that a good starting point for a first time audit is approximately 400 auditing hours if the auditor does not have prior audits for comparison. Since this was the first full year of operations for the School Board Audit Office and no prior audits were available to determine a "baseline", the audit plan was a moving target, similar to the target goals established for the District. Thus, as more data becomes available the projections can be amended to more closely reflect an obtainable target.

As a licensed Florida CPA and Certified Internal Auditor, it is my professional and ethical duty under the "International Standards for the Professional Practice of Internal Auditing", "AICPA", and the "GAO Yellow Book" to practice due diligence and expand audit testing when exceptions or red flags are noted during the audit. This is a necessary step to determine whether the finding is due to a breakdown in the operational process, an isolated incidence, or a potential fraud discovery.

I hope the attached School Board Audit Office Annual Report will provided you a positive picture of the School Board Audit Office's effectiveness to District operations over the past year while still being fiscally efficient in the process. If there is any additional information you may require, please feel free to contact me at anytime.

Sincerely,

Julie B. Nieminski, CPA, CIA, CFE, CISA
School Board Auditor

Attachment:

School Board Audit Office Annual Report - FY2006-2007

The School Board Audit Office provides the School Board of Lee County with an independent audit function that evaluates District policies, programs, and services to determine if those operations have been conducted in accordance with established state and federal laws; District policies and procedures; and financial and operational internal control standards. The School Board Auditor is appointed by and reports directly to the School Board.

Mission

The mission of the School Board Audit Office is to help ensure LCSD manages all risks, including financial, operating, and other business risks, by measuring and evaluating the effectiveness of financial and managerial controls and recommending enhancements or corrective actions as needed.

To accomplish the mission, the School District operations are divided into audits based on an assessment of the risks involved with those operations. The internal audits involve a systematic review of an area's activities and the development of objectives to assess performance and identify opportunities for improvements in their effectiveness and efficiency. There is a strong relationship between operational effectiveness and efficiency. Effectiveness refers to the accomplishment of objectives. Efficiency refers to the resources consumed in achieving those objectives.

Internal audits are conducted in accordance with generally accepted government auditing standards. Those standards require that auditors plan and perform the audit to afford a reasonable basis for their judgments and conclusions regarding the organization, program, activity, or function under audit. An audit also includes assessments of applicable internal controls and compliance with requirements of laws and regulations when necessary to satisfy the audit objectives. In addition to coverage of the School District's processes, audit hours are made available for special assignments requested by the Superintendent and School Board Members.

Audits and special projects cover the full range of District performance issues in order to evaluate how well the School District:

- ✓ Operates efficiently and effectively;
- ✓ Reports on the accuracy of financial and performance information;
- ✓ Safeguards assets from loss, damage, or inappropriate use;
- ✓ Complies with laws, regulations, and contractual terms; and
- ✓ Develops and maintains competence and integrity of staff.

In addition, the School Board Auditor is a Certified Fraud Examiner (CFE) and Certified Information Systems Auditor (CISA), thus other value-added services available from the School Board Audit Office could include but are not limited to: internal control expertise during system conversions and performing special fraud investigations.

FY 2006-2007 Annual Audit Plan Results

The following FY 2006-2007 Annual Audit Plan results outline the numerous value-added enhancements to District operations provided by the School Board Internal Auditor from May 2006 through June 30, 2007. Table I is a detail of estimated audit hours for audit projects and the actual audit hours used.

1. Invoices Less Than \$25,000 Audit Report - Released August 4, 2006

The internal audit was conducted in response to a special request from the School Board made at the May 1, 2006 workshop. Audit results: Five action plan items were implemented by management to ensure greater efficiency, effectiveness, and compliance in the accounts payable process.

2. Review of Board Member Report dated June 6, 2006 - Released Aug. 28, 2006

The review resulted in recommendations for a Procurement audit and Maintenance Department Inventory audit be completed. These were included in the approved FY 2006-2007 Annual Audit Plan.

3. Procurement Audit Report - Released March 9, 2007

The Procurement Audit was conducted in accordance with the FY 2006-2007 Audit Plan. This audit exceeded the estimated time allowed due to the antiquated information system requiring more labor intensive testing of the procurement and other related processes. Audit testing was conducted on the following procurement processes:

- 1) Vendor setup/change,
- 2) Procurement,
- 3) Bidding, and
- 4) Compliance to performance/payment bonds and liability insurance requirements for construction contracts.

Many of the Procurement Audit's 20 findings and 33 recommendations were related to limitations of the current District's mainframe information system. The identified system limitations will be addressed in the new ERP system which is scheduled for implementation in 2009. Until then, the current District procurement practices have been enhanced with additional procedures and monitoring controls as recommended in the audit. These enhancements should help ensure greater efficiency, effectiveness and compliance to District policies, procedures, and state regulations.

4. Consultant Contracts Audit Report – Released June 19, 2007

The Consultant Contracts Audit was conducted in accordance with the FY 2006-2007 Audit Plan. Consultant contracts define the important legal responsibilities and obligations in the event of disputes and litigation. Unless contracts are sufficiently detailed, the District's ability to ensure satisfactory completion of the agreed upon work within specified time frames is limited. Furthermore, if the written contracts are not signed by all parties, there is an increased risk that the District may not be able to enforce its contractual rights.

Identified during the Consultant Contracts audit planning was that a written District standard operating procedure (“Process Document”) was not in place to ensure all District staff followed a standard procedure for initiating and monitoring consultant contracts. The initial 80 hours included in the Annual Audit Plan as the estimated audit hours needed to complete this audit was based on an assumption that established procedures existed. The lack of a standard operating procedure for initiating, approving, and monitoring consultant contracts resulted in expanding the audit testing to ensure “due diligence” was achieved in the audit process.

The Consultant Contracts Audit resulted in five (5) findings and five (5) recommendations. The five recommendations have been “accepted with implementation pending” until the start of the new 2007-2008 school year (August 2007). Since implementation should be fully completed by September 2007, the action plan results will be reported to the School Board during a September 2007 School Board Briefing Meeting.

5. Maintenance Department Inventory Audit – under study

The Maintenance Department Inventory audit was recommended and incorporated in the FY 2006-2007 Annual Audit Plan. However, this audit has been put on hold to allow the Maintenance Department (with the assistance of the Superintendent’s Internal Audit Department) the latitude to finish their current development and implementation of several new enhanced inventory procedures. The procedural “Process Documents” will be routed to the School Board Audit Office for review when they are completed within the next few months. Only after these new processes are fully implemented and data is readily available can the effectiveness of controls be audited. An internal audit should be conducted either by the Internal Audit Department or the School Board Audit Office (dated TBD).

6. Annual Audit Recommendations/Action Plan Follow-up Report- Released June 5, 2007

As a component to the standard audit process, audit follow-ups are to be conducted to ascertain that management is progressing with the agreed upon action plan steps. The Annual Recommendation Follow-up Report, released June 5, 2007, was the first annual follow-up report covering the period May 1, 2006 through May 31, 2007. This report included:

1. Accounts Payable Audit Report of Invoices less than \$25,000 completed August 2006.
2. Procurement Audit Report completed March 2007.

A total of 40 recommendations were made in both audits with 28 being fully implemented (70%). The recommendations did not require additional funding in order to be implemented. All incomplete action plan items from the audits previously conducted will be reviewed at the next scheduled follow-up in FY 2007-2008. [Note: The audit follow-ups are now scheduled to occur every six months as an on-going Audit Office function. In addition, previously implemented procedures will be spot checked to ensure compliance is consistently occurring.]

7. Process Document/ Admin. Regulations/ District Policy Assessment – this assessment was on-going and conducted in the scope of the internal audits performed throughout the audit year. There were seven new process documents and three process document revisions as a result of the audits performed.

Audit Value-added Enhancements to District Operations

- ***The Budget department*** has limited user access to the budget vendor system to increase security to the system.
- ***The Budget department*** is now retaining all documentation concerning vendor changes and setup for three fiscal periods to strengthen the audit trail.
- ***The Budget department*** is now entering the vendor tax ID number into the system as a means to reduce duplication of vendors.
- ***The Budget department*** currently has re-trained personnel on proper vendor setup to help reduce duplicate vendor setup. The vendor name standards will be attached to their process document.
- ***The Budget department*** will work with Information Systems to determine the feasibility to produce the recommended exception report in conjunction with ASP implementation for greater monitoring of system input.
- ***The Budget department*** agrees that assigning the vendor numbers in sequential order is the most efficient way to proceed, and will be implementing sequential vendor numbering in the new software system.
- ***The Budget department*** will continue to stress the importance of having social security numbers for every individual, and will document this in their process document in order to ensure consistency that social security numbers are being recorded.
- ***The Budget department*** will implement sporadic management spot reviews to determine whether additional re-training is needed.
- ***Financial Accounting*** will begin using an open purchase order “aging” report semi-annually to ensure proper accounting of funds.
- ***Financial Accounting*** will send a report of specific open purchase orders to each school/department annually beginning May 1, 2007 to determine whether open P.O.s should be closed to ensure proper accounting of funds.
- ***Financial Accounting*** has completed a written “process document” to outline the journal entry procedure for construction payments that require a retainage.
- ***Procurement Department*** has completed a “process document” for requisition processing and monitoring to ensure all purchases over \$25,000 are approved by the Board.
- ***Procurement Department*** will utilize the BL-016 “Paid Invoice Report” as a cross check to insure purchase splitting is not occurring.
- ***Procurement Department*** has developed a written “process document” for the formal solicitation process and subsequent renewals to ensure compliance to the procurement policies.

- **Procurement Department** has implemented a monitoring procedure to verify that awarded bidders are supplying on-going proof of insurance coverage during the contract period as a means to ensure there is no potential liability risk to the School District and the School Board.
- **Procurement Department** has revised their current award process to now require proof of insurance within five (5) business days of the “Notice to Award”. This will ensure that current liability insurance forms are obtained and verified prior to formal Board approval thus protecting the School District and the School Board.
- **Procurement Department** has developed a standard operating procedure (SOP) as a “process document” to standardize the Bid / RFP / RFQ folder format to ensure required documents are being properly maintained.
- **Construction Department** has developed a “process document” to ensure the initial Payment and Performance Bonds are received prior to construction and also that a “Consent of Surety” is received at completion of the project.
- **Construction Department** has added a procedure to prepare a form letter that will be sent to the Surety each time a change order results in an increase over the original contract price; thus, ensuring that the Surety is informed of the change in contract price.
- **Construction Department** has developed a pre-construction “checklist” for monitoring full compliance to the Florida Statute regarding legal recording of the required Bonds.
- **Construction Department** now has evidence of the Bond being recorded (prior to construction) kept in the construction project file.
- **Construction Department** has implemented a tickler reminder system that notifies staff 30 days prior to the expiration date of the liability insurance policies that a certificate needs to be requested from the contractor as a means to ensure current insurance is being maintained.
- **Construction Department’s** “process document” for “Construction Projects Final Payment Review” now includes a step to write a response letter to the Internal Audit Department indicating how all audit recommendations will be resolved. The response letter will be copied to Executive Director of School Support and the Project Manager.
- **Construction Department** has implemented a procedure to provide an action plan that will address Cuthill & Eddy, LLC recommendations made in their reports.
- **Construction Department** has implemented a procedure to send all copies of Cuthill & Eddy, LLC reports along with their responses to the Superintendent, School Board Attorney, and School Board Auditor to ensure greater accountability is being maintained.
- **The Internal Audit Department’s** “process document” for “Construction Projects Final Payment Review” was enhanced by adding the Executive Director of School Support and the School Board Audit Office in the distribution of their report so as to increase accountability.

- ***The Internal Audit Department*** has enhanced their “construction project final payment reviews” audit program by including additional follow-up audit testing as a means to ensure audit recommendations are being fully addressed.
- ***The Internal Audit Department*** will prepare a quarterly status report that summarizes the construction projects they reviewed, the recommendations they made, and the status of managements’ action plan implementation. Initially this report will be provided to the Superintendent, Chief Administrative Officer, the Executive Director of School Support, and the School Board Audit Office as a tool to monitor the implementation progress made by the Construction Services Department.
- ***The Department of Professional Standards & Equity*** has implemented two new process documents that address in-state and out-of-state consultant services procedures.
- ***District wide staff*** that hire outside consulting or other professional services now have a written “process document” and a revised consultant contract form to use. The new written procedures and revised contract form should provide additional staff guidance in complying with the laws when initiating, monitoring, and paying for consultant services.

[**Click Here For Time Allocation by Audit Project**](#)

[**Click Here for 2006-2007 Audit Plan Table**](#)