

The School District of Lee County



Review of Board Member Report

Dated June 6, 2006

**Released by: School Board Audit Office
School Board Auditor: Julie Nieminski, CPA, CIA,
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EXECUTIVE SUMMARY

The goal of the School Board Audit Office in reviewing the Board member's report is to foster improved organizational processes and operations. To address the issues in an organized manner, this report separated the Board member's issues into their own separate sections.

Payment and Performance Bonding Requirements

1. A violation of the Florida State Statute 255.05 did occur. However, when it became clear that the project would change from just having modules built to becoming a construction project (December 2004), District staff informed the contractor, Modtech, that a payment bond and performance bond were required and must be provided. In analyzing the situation, it was noted that **District staff applied due diligence** in requesting these bonds several months prior to commencement of construction but that the contractor delayed the process for several months. In addition, the additional rider to cover the amended project cost, although executed June 27, 2005, had an effective date back to December 10, 2004, which preceded May 2005 when construction began. The bond stated that it covered all payments under the contract.
2. There is no penalty provided for in the Statutes. However, if a subcontractor would have made a claim when the bonds were not in place, there could have been a risk of liability to the District and to individual Board Members. In this particular situation, that risk did not materialize because the amount of payments to Modtech withheld was always more than the potential claims from the subcontractors. A review of payment records indicated that there were no subcontractor claims filed at any time during the gap between the May construction and the time the bonds were obtained in June.
3. There is a procedure to insure contractors have adequate bonding capacity. The current procedure of LCSO is not to issue the contractor a notice to proceed until receipt of the bonds and insurance certificate. If the contractor cannot provide 100% bond, the District will not approve their contract.

Auditor's conclusion: Although there was a violation of State Statute, there is no penalty. The risk was minimized by having available funds for potential claims during the six-week period between construction commencement and bond execution. District staff assures that this is an isolated incidence and compliance to bonding procedures are in place. To ensure consistent compliance to established policy and procedures, a Purchasing audit is recommended. The scope of the audit would include a step to review compliance to bonding requirements on a sample of construction contracts.

Change Order Procedures

The issues brought up in the Board member's report regarding change orders were initiated from prior audit findings and recommendations. The risk assessment by Cherry, Bekaert and Holland (CBH) noted that the approval process for change orders equal to or greater than \$25,000 needed to be expedited to reduce risk associated with the delays in construction while going through the approval process. In addition, the recent Auditor General's report recommended that change orders be reported to the Board and entered into the official minutes as required by Sec. 1013.48, Florida Statute and Board policy 4.42.

Management has responded by taking corrective action. A proposed revision to Policy 4.42 "Change Orders" was reviewed with the Board at its Briefing meeting on Monday, July 31, 2006. A public hearing was set for August 15, 2006. The revised Policy 4.42 complies with Section 1013.48, Florida Statutes.

Auditor's conclusion: The Purchasing audit will include a step to review compliance to change order requirements on a sample of construction contracts selected for review. At that time, the current change order policy and procedures will be reviewed for potential recommended enhancements.

Budget transfers from capital to operating budget have increased over the past three years.

Mr. Chilmonik's memo states that operating funds are used for maintenance and construction purposes, and then "refunded back at year-end." In actuality, the transfer of funds is recorded as revenue in the general fund at the beginning of the fiscal year. This prevents the general fund from being negatively impacted by these expenditures, because the revenue to offset them is shown as additional revenue in transfers from the capital funds to the operating budget, increasing the general fund budget for these expenses. These expenditures are monitored throughout the year to ensure the transfer made is sufficient to cover the expenditures. This is viewed as a positive fact, as the District is attempting every year to analyze expenditures and use capital funds as outlined in State Statute.

The funds transferred from capital sources to the operating budget are the source of revenue that pay for these expenses. If the source of funding for those capital expenditures is categorical dollars, then those expenditures are recorded in the general fund to correspond with the categorical revenue received from the state, which is also recorded in the general fund.

Auditor's conclusion: While there are capital expenditures shown in the operating fund, these expenditures are properly recorded in the general fund. Funds are transferred from capital sources to the operating budget to cover certain expenditures that can be paid for with capital dollars. These expenditures are recorded in the general fund to properly account for them according to the rules of cost accounting and reporting as outlined by the Florida Department of Education.

The Board member states in his report, "Purchases paid with general fund dollars may not be appropriate if related to capital projects."

The Audit Office did three different analyses. An analysis was completed of the operating general fund payments to Lowes and Home Depot. A sample of invoice checks and supporting documentation was reviewed and indicated that the schools appropriately used funds from their FF&E (furniture, fixture & equipment) budget for the items purchased.

The second analysis was conducted of the Lowes and Home Depot invoices paid that were charged to capital funds. All were paid using capital dollars for capital items accurately coded in compliance to the Uniform Chart of Accounts.

The third analysis reviewed a sample of 49 capital projects' invoice payments totaling approximately \$9 million dollars. The results of the analysis indicated that operating funds were not used for capital expenditures for any school capital projects. However, the analysis identified 10 remodeling/renovation invoices for a technology project - Security System/Networking Upgrades (project #2706) totaling approximately \$17,700 (.2% error rate) that were incorrectly coded by a clerical error charging general fund dollars. The clerical errors appear to be an isolated incidence and do not indicate any signs of blatant disregard for established policies and procedures. The Financial Accounting Department has contacted the department and has reiterated the proper coding procedure and is completing correcting journal entries for the miscoded payments identified.

Auditor's conclusion: In a school system that pays out over a billion dollars for District operations and capital projects, some human error is expected in performing the manual clerical duties. Identifying a very small .2% error rate for miscoded invoices that equals approximately \$17,700 in a sample size of \$9 million dollars signifies that **established disbursement policies and procedures are working effectively to ensure proper reporting of District expenditures.**

The 2002 OPPAGA report recommended the Food Service Department absorb all program maintenance and repair costs and budget accordingly.

The Board member states in his report that the 2002 OPPAGA Report cited the District for spending operating dollars for repairs and maintenance in the Food Service Department. Beginning in 2003 this was corrected according to the OPPAGA 2003 action plan document created by the District. To verify this, the School Board Audit Office ran an Access query of repair and maintenance invoices paid in 2006.

Auditor's conclusion: The results indicated that Food Service Department has been charged for repair and maintenance purchases since 2003. The OPPAGA recommendation has been fully implemented.

The recommendations included in the Board member’s report are as follows:

- “Policy should be developed through the Board Auditor as to why excessive operating funds are diverted to capital outlays and particularly why so much of maintenance funds are spent on newly constructed schools that should be the responsibility and expense of the contractor.”
- “The Board needs to set policy to stimulate a highly competitive bidding procedure to attract as many firms as possible.”

Auditor’s response: To maintain objectivity and independence in reviewing policies and procedures it would be inappropriate for the Audit Office to develop and implement District policies. Auditors should recommend only.

Auditor’s response. A thorough review of bidding practice will be done in the Purchasing audit recommended as part of the annual audit plan. At that time the current bidding policy and procedures will be reviewed for potential recommended enhancements.

The Board member states in his report, “We need to tighten and improve our purchasing and inventory policy controls in the Maintenance Department.”

In order to review the dollars and volume of purchases made for Maintenance Department inventory, The School Board Audit Office developed two special queries. The results indicate that the Maintenance Department makes a high volume of small dollar purchases for maintenance inventory purposes.

Per the Risk Assessment completed by Cherry, Bekaert and Holland (CBH) in 2005, they recommended:

1. The District establishes internal controls to safeguard stockroom inventory.
2. The District should consider if a physical inventory of maintenance trucks should be implemented.
3. The District should establish internal controls to ensure that purchases of supplies and parts are used for approved work orders.

Auditor’s conclusion: Based on CBH’s report, The Maintenance Department stockroom inventory and parts inventory that are on the trucks may need stronger controls to ensure greater accountability. The type of audit needed to review these issues will be addressed in the development of the Annual Audit Plan.

The Board member states in his report, “Multiple payments to the same vendor in a very short timeframe give the appearance of bid splitting.”

The Board member expressed concern that multiple payments to the same vendor in a very short period could be a red flag to possible bid splitting. In addition, he mentioned that

Cherry, Beckaert & Holland 2005 risk assessment pointed out that the District has limited controls in place to prevent bid splitting.

The Board member's report recommended:

1. The Board should ensure proper controls are in place in the Procurement Department to insure Board policy compliance.
2. A full audit should be done of the \$25,000 and below contracts.
3. The Superintendent's approval authority should be lower to \$5,000.
4. A monthly contract report should be presented on the consent agenda format for Board approval.
5. Public access via the internet on a monthly basis should be provided.

The School Board Auditor's response:

1. Using the \$25,000 or less invoice data provided, a query of the invoices paid to the vendor "Acousti Engineering" for 2006 was pulled. No bid splitting was found using this data. However, a mainframe report has been requested from Information Systems of all 2006 purchases orders issued. The **purchase order (not invoice)** data will need to be analyzed to determine if there are any indicators of bid splitting. This is a standard audit test when conducting a "purchasing" audit, which has been recommended.
2. An audit of account payables for invoices less than \$25,000 was released to the School Board on August 4, 2006. No signs of fraud or intentional mismanagement were found. Management accepted six recommendations for enhancements to current policies and procedures. They are currently in the process of implementing those recommendations. As stated in the audit report, an audit follow-up will be scheduled to ascertain the completion of the action plan items.
3. A comparison with several other Florida school districts indicated that the current \$25,000 approval level appears to be "best practice" for most Florida school districts at this time. However, based on the CBH risk assessment finding and recommendation, the School Board should consider whether the current approval level is adequate in order to "fast track" not only time sensitive change orders but new construction contracts as well.

Per the 2005 risk assessment by CBH, "there are no procedures to fast track the board approval of construction change orders that are greater than \$25,000. As a result, construction activities could be delayed on deadline-sensitive projects. This increases the pressure to complete a project in a shorter timeframe, which may increase construction risk. The District may want to consider how this approval process could be expedited."

4. The Board needs to determine if "contracts" (not purchase orders) less than \$25,000 Board Approval limit should be presented for informational purposes at the monthly Board Meetings.
5. The Board member did not outline what his suggestions were regarding this recommendation. Clarification of this recommendation should be directed to the Superintendent who has assigned staff that oversees the District website.

The Board member recommends, “The travel policy needs review and meaningful change.”

The School Board Audit Office reviewed the travel payment procedures during the accounts payable audit. Consistent compliance to established policy and procedures were in place. Although a formal written District “travel policy” does not exist, management and the School Board Auditor agreed that the current practice is well defined in Florida Statute 112.061. In addition, Administrative Regulation AR-2.49, “Authorized Travel Expense Reimbursement” and the “Budget Manual” describe LCSD travel policy and procedures.

Auditor’s conclusion: Whether a district employee’s job function requires 1) travel for training purposes and 2) where they should stay, is a management decision based on several factors. Continuous improvement (through training) is generally a mandated State and/or District requirement for many LCSD instructional and non-instructional staff. This required training may necessitate out-of-county travel (possibly out of state or country). It is the decision of the respective department head, school principal, and/or Superintendent or his designee via the pre-approval process to determine “if”, “when”, and “where” the training is to be obtained. Furthermore, pre-established appropriations (spending caps) for training budgets help ensure that fiscally responsible controls are in place to use only allowable budgeted dollars.

AUDITOR’S SUMMARY OF RECOMMENDATIONS

Recommendation 1. A “Purchasing” audit is recommended to ascertain that established purchasing controls are efficient and effective in ensuring consistent compliance to State and District regulations. The scope of the Purchasing audit would include reviewing a sample of construction contracts for compliance to bidding, bonding and change order policy and procedures. At that time, the current policies and procedures will be reviewed for potential recommended enhancements.

Recommendation 2. Audit reports generated externally or internally should have audit follow-ups conducted on a timely basis. The School Board Audit Office could most effectively coordinate the responsibilities to oversee audit follow-ups. Therefore, it is recommended that audit follow-up responsibilities should be incorporated as an on-going component of the School Board Audit Office current and future annual audit plans.

Recommendation 3. The School Board Auditor agrees that stronger internal controls for Maintenance Department inventory are needed. This will be addressed in the development of the Annual Audit Plan.

Attachment: Detail Report

DETAIL REPORT

BOARD MEMBER ISSUES

ISSUE ONE. Hector Cafferata Elementary School Construction Performance and Payment Bonding

1. **Was this a violation?** Yes. Per FS 1013.47, “the contractor shall furnish the Board with a performance and payment bond as set forth in FS 255.05.” Per FS 255.05, 1)(a) “Any person entering into a formal contract with the state or any county, city, or political subdivision thereof, or other public authority, for the construction of a public building, for the prosecution and completion of a public work, or for repairs upon a public building or public work shall be required, before commencing the work or before recommencing the work after a default or abandonment, to execute, deliver to the public owner, and record in the public records of the county where the improvement is located, a payment and performance bond with a surety insurer authorized to do business in this state as surety.”

When it became clear that the project would change from just having modules built to becoming a construction project, District staff contacted Modtech that a payment bond and performance bond were required and must be provided. The bonds were executed June 27, 2005 after the start of the construction project that began May 2005. However, it should be noted that District management applied due diligence in requesting these bonds several months prior to construction but that the contractor delayed the process for several months. In addition, the additional rider to cover the amended project cost, although executed June 27, 2005, had an effective date back to December 10, 2004, which preceded May 2005 when construction began. The bond stated that it covered all payments under the contract.

A review of payment records indicated that there were no subcontractor claims filed at any time during the gap between the May construction and the time the bonds were obtained in June. Also allowed by the contract, all payments were withheld from Modtech to cover any claims made by subcontractors until the bond was provided. If any claims had been filed, the District would have had funds to honor those claims. At that time, the maximum claims could have been \$275,354 for foundation work performed by subcontractors. In addition, no payments were made to the contractor, Modtech, until the required bonds were received.

2. **Is there a penalty?** No. There is no penalty provided for in the Statutes. However, if a subcontractor would have made a claim when the bonds were not in place, there could have been a risk of liability to the District and to individual Board Members. In this particular situation, that risk did not materialize because the amount of payments to Modtech withheld was always more than the potential claims from the subcontractors.

3. **Is there a procedure to insure contractors have adequate bonding capacity?** Yes. LCSD projects over \$200,000 must be bonded for the full cost of the project. The bonding company determines the limit or maximum amount they will bond for the contractor. If the contractor cannot provide 100% bond, the District will not approve their contract. If a change order is approved that increases the contract amount, the increase of the bond is also included in the change order. Verifying that LCSD has sufficient bond capacity for the project is done by ensuring the contract amount and bond amount are the same. If the contract amount increases, the bond is increased to maintain 100% value.
4. **Is proof of bonding provided in contracts presented to the board?** No. The bond need not be in place before the total cost of the project is brought before the Board for approval and authority for the Superintendent to execute the contract(s). The current procedure of LCSD is not to issue the contractor a notice to proceed until receipt of the bonds and insurance certificate.

School Board Auditor's conclusion: Although there was a violation of State Statute, the risk was minimized by having available funds for potential claims during the six-week period between construction commencement and bond execution. LCSD management assures that this is an isolated incidence and compliance to bonding procedures are in place. As recommended in the Accounts Payable audit, a Purchasing audit should be conducted. The scope of the audit would include a step to review compliance to bonding requirements on a sample of construction contracts.

ISSUE TWO. Construction Change Orders, Auditor General and CBH findings and recommendations

The issues brought up in the Board member's report regarding change orders were initiated from prior audit findings and recommendations. The risk assessment by Cherry, Bekaert and Holland (CBH) noted that the approval process for change orders equal to or greater than \$25,000 needed to be expedited to reduce risk associated with the delays in construction while going through the approval process. In addition, the recent Auditor General's report recommended that change orders be reported to the Board and entered into the official minutes as required by Sec. 1013.48, Florida Statute and Board policy 4.42.

Management has responded by taking corrective action. A proposed revision to Policy 4.42 "Change Orders" was reviewed with the Board at its Briefing meeting on Monday, July 31, 2006. A public hearing was set for August 15, 2006. The revised Policy 4.42 complies with Section 1013.48, Florida Statutes.

School Board Auditor's conclusion: The Purchasing audit will include a step to review compliance to change order requirements on a sample of construction contracts selected for review. At that time, the current change order policy and procedures will be reviewed for potential recommended enhancements.

ISSUE THREE. Budget transfers from capital to operating budget have increased over the past three years.

The Board member's report had three components regarding use of operating (general fund) money.

- 1. Budget transfers from the capital to operating budget have increased dramatically over the past three years.**
- 2. Lowes and Home Depot purchases paid with general fund dollars may not be appropriate if related to capital projects.**
- 3. The 2002 OPPAGA report recommended the Food Service Department absorb all program maintenance and repair costs and budget accordingly.**

1. The School Board Auditor's response. Yes, the budget transfers from capital to operating budget have increased over the past three years. However, this is viewed as a positive fact, as the District is attempting every year to analyze expenditures and use capital funds as outlined in State Statute. Per the final 2005-2006 Budget document, the explanation provided states, "Transfers are made from capital to the operating funds to help pay for the maintenance of District facilities. In the early 90's, the legislature allowed school districts to transfer funds for operating expenditures. In FY04, the transfer increased due to a change in accounting method to cover maintenance costs no longer allowed to be directly charged to capital funding. In FY05, the transfer increase was a result of the additional repairs caused by hurricane Charley.

Mr. Chilmonik's memo states that operating funds are used for maintenance and construction purposes, and then "refunded back at year-end." In actuality, the transfer of funds is recorded as revenue in the general fund at the beginning of the fiscal year. This prevents the general fund from being negatively impacted by these expenditures, because the revenue to offset them is shown as additional revenue in transfers from the capital funds to the operating budget, increasing the general fund budget for these expenses. These expenditures are monitored throughout the year to ensure the transfer made is sufficient to cover the expenditures.

There are several instances when capital expenditures are properly charged to the operating fund:

- Categoricals from the State - The District receives categorical dollars from the state that are recorded in the general fund. Examples of these include Instructional Materials and Education Technology. If the categorical is earmarked to be used for capital expenditures, then those expenditures will appear in the operating fund.
- Transfers from Capital Funds - There are some expenditures recorded in the operating fund that can be funded through capital dollars. These expenditures are recorded in the operating fund under the proper function and object code in order to follow the accounting methodology that all Florida school districts must adhere to as prescribed by the Department of Education. However, because these expenditures can be funded through capital dollars, funds are transferred from the capital fund to the operating fund. This transfer is done at the beginning of the year, so the capacity to use operating funds is not affected by these capital expenditures recorded in the operating fund.

- Funding from Outside Sources – LCSD does fundraising from sources outside the general fund in order to finance special projects that make their schools a better place for students to learn. When schools raise money from sources, such as fee supported programs (before and after school care), rental funds, or donations, those funds are sent to Financial Accounting, and subsequently recorded in the general fund. Once in the general fund, the school can choose how to spend the funds they have raised, which may include some capital expenditures.
- Administrative Capital Costs - According to Florida Statute 1011.71, capital funds raised from the 2 mill levy should be used first for educational facilities. Because of this limitation, expenditures for departmental capital needs are funded through operating dollars.
- Hurricane Related Expenditures - LCSD has experienced damage over the past couple of years due to hurricanes Charley and Wilma. The funds to cover these damages are budgeted in a separate fund within the operating budget, and are offset by revenue received from insurance, FEMA reimbursement, and transfers from capital funds.

Capital expenditures have been analyzed in the general fund, for the period from July 2005 through March 2006. The following information has been provided by the Budget Department.

Based on Florida Statute		
Charter School Administration Fee	\$371,866.92	The 5% administrative cost over the 500 students to go back to the charters for building
Workforce Development (5280)	\$330,489.00	Funds from the state specifically for the adult secondary programs
Workforce Development (5281)	\$158,242.00	Fees collected from adult students for the Workforce program
School Improvement (6306)	\$37,012.00	School Advisory Committee (SAC) has full control of expenditures in this project
Transfer from Capital Funds		
Maintenance (2XXX series) projects	\$338,616.49	Transfer from Capital
Building Services Group	\$207,202.00	Transfer from Capital
School Equipment Allocation	\$25,208.00	Transfer from Capital (Now putting directly into Capital this was from previous years carry forward)
Fine Arts Equipment	\$199,431.00	Transfer from Capital
Categoricals from State		
Safe Schools	\$56,546.95	Cameras for security
Instructional Materials (5019 & 5119)	\$27,015.00	Software and AV materials such as globes and maps (State funds)
Teacher Training Categorical (5033)	\$7,187.00	Categorical from the state for training - AV materials and/or software
Supplemental Academic Instruction (5058)	\$1,916.00	Software for below or substantially below students

Instructional Media Materials (5219)	\$142,362.00	Funds from the state for library books and AV materials
School Recognition (5X06)	\$63,016.00	Funds generated based on "A" schools and able to spend based on faculty and SAC agreement
Reading Instruction Categorical (5435)	\$7,398.00	
State Educational Technology (586X)	\$672,582.00	Categorical funds for the purchase of student computer hardware and software
Outside Sources		
Fee Supported Project	\$255,687.39	Schools collect fees from their before and after school programs
Parent Involvement (5031)	\$866.00	Outside donations
Rental Funds (5040)	\$19,460.00	Funds generated from the schools from the rental of their buildings
Landscape Funds (5046)	\$2,197.00	Funds matched from parents/ community donations for beautifying the school
Quest Training (5102)	\$588.00	Outside donations
Donated Funds	\$3,480.00	Outside donations
E-Rate (5965)	\$344,158.00	
8XXX & 9XXX Projects in General Funds not able to use Capital	\$127,413.00	Federal/State Projects in Fund 110
Hurricane Related Expenses – Reimbursements from FEMA, Insurance Loss Recoveries or Transfer from Capital		
Cypress Lake High Gym Replacement (6809)	\$2,440,437.00	Hurricane Charley funds will receive reimbursement
Hurricane Charley	\$16,854.00	Hurricane Charley funds will receive reimbursement
Hurricane Wilma	\$10,095.00	Hurricane Wilma funds will receive reimbursement
Administrative Cost Not Allowable from Capital Funding		
Transportation GPS System	\$636,543.00	Administration cost not allowable from Capital
District Communication Package	\$477,037.00	Administration cost not allowable from Capital
Fingerprinting Subs and Temps	\$67,771.00	Administration cost not allowable from Capital
Repairs and Maintenance Phones (6251)	\$1,592.00	Administration cost not allowable from Capital
Department Equipment	\$880,959.00	Unallowable expense with Capital dollars for administration equipment
Minor Expenses at Schools		
International Baccalaureate	\$14,348.00	
504/ADA Compliance (6102)	\$1,005.00	
Comprehensive Health Ed (6294)	\$4,037.00	
District Wide Health and PE	\$5,884.00	

While there are capital expenditures shown in the operating fund, these expenditures are properly recorded in the general fund. If the source of funding for those capital expenditures is categorical dollars, then those expenditures are recorded in the general fund to correspond with the categorical revenue received from the state, which is also recorded in the general fund.

In addition, funds are transferred from capital sources to the operating budget to cover certain expenditures that can be paid for with capital dollars. These expenditures are recorded in the general fund to properly account for them according to the rules of cost accounting and reporting as outlined by the Florida Department of Education. The funds transferred from capital sources to the operating budget are the source of revenue that pay for these expenses.

2. The School Board Auditor's response. The Board member asks in his report if the approximately \$193,000 spent at Lowes and Home Depot was used for any new school construction? Citing Hector Cafferata Elementary being one example of misuse.

The Audit Office did three different analyses. First, an Access query was pulled for Lowes and Home Depot invoices paid in FY06. The general fund invoices were isolated from the other fund type invoices (capital, food service and grants). An analysis was completed of the operating general fund payments to these vendors. Fifteen Lowes invoices for a total of \$1,730.95 were identified for location 0712 "Hector Cafferata Elementary". There were no Home Depot invoices paid for Hector Cafferata. Of these 15 invoices, one was for a refrigerator charged to non-capital equipment; the others were for miscellaneous custodian supplies purchased between July 05 and February 06. All but the refrigerator (\$397.00) were purchased using an L type purchase order that is generated by the school for fast local purchases less than \$150. **The checks and backup were reviewed and indicated that the school appropriately used funds from their FF&E (furniture, fixture & equipment) budget for the items purchased.**

The second analysis was conducted of the Lowes and Home Depot invoices paid that were charged to capital funds other than the general fund (i.e. impact fees, COPs, Capital Improvement Millage, and PECO). There were 78 invoices in the query and **all were paid using capital dollars for capital items accurately coded in compliance to the Uniform Chart of Accounts.**

The third analysis reviewed a sample of 49 capital projects' invoice payments totaling approximately \$9 million dollars. The results of the analysis indicated that operating funds were not used for capital expenditures for any school capital projects. However, the analysis identified 10 remodeling/renovation invoices for a technology project - Security System/Networking Upgrades (project #2706) totaling approximately \$17,700 (.2% error rate) that were incorrectly coded by a clerical error charging general fund dollars. **The clerical errors appear to be an isolated incidence and do not indicate any signs of blatant disregard for established policies and procedures.** The Financial Accounting Department has contacted the department and has reiterated the proper coding procedure and is completing correcting journal entries for the miscoded payments identified.

In a school system that pays out over a billion dollars for District operations and capital projects, some human error is expected in performing the manual clerical duties. Identifying a very small .2% error rate for miscoded invoices that equals approximately \$17,700 in a review of \$9 million dollars signifies that established disbursement policies and procedures are working effectively to ensure proper reporting of District expenditures.

3. The School Board Auditor's response. The Board member states in his report that the 2002 OPPAGA Report cited the District for spending operating dollars for repairs and maintenance in the Food Service Department. Beginning in 2003 this was corrected according to the OPPAGA 2003 action plan document created by the District. To verify this, the School Board Audit Office ran an Access query of repair and maintenance invoices paid in 2006. The results indicated that Food Service Department was in fact being charged for repair and maintenance purchases.

The recommendations included in the Board member's report are as follows:

- “Policy should be developed through the Board Auditor as to why excessive operating funds are diverted to capital outlays and particularly why so much of maintenance funds are spent on newly constructed schools that should be the responsibility and expense of the contractor.”

The School Board Auditor's response: To maintain objectivity and independence in reviewing policies and procedures it would be inappropriate for the Audit Office to develop and implement District policies. Auditors should recommend only.

- “The Board needs to set policy to stimulate a highly competitive bidding procedure to attract as many firms as possible.”

The School Board Auditor's response. A thorough review of bidding practice will be done in the Purchasing audit recommended as part of the annual audit plan. At that time the current bidding policy and procedures will be reviewed for potential recommended enhancements.

ISSUE FOUR. The School District Inventory Policy Controls.

The Board member states in his report, “We need to tighten and improve our purchasing and inventory policy controls in the Maintenance Department.”

The School Board Auditor's response: In order to review the dollars and volume of purchases made for Maintenance Department inventory, The School Board Audit Office developed two special queries. A vendor analysis report pulled specifically for Lowe's and Home Depot indicated a large volume (40%) of the total number of invoices was for Maintenance Department inventory purchases. A second inventory analysis report was pulled on all District inventory purchases (i.e. Transportation, Food Service, ITS, Maintenance, Warehouse, Printing, and Textbooks). Thirty-eight percent of the total number of inventory purchases was for Maintenance Department inventory while only

13% of the total dollars were for Maintenance Department inventory. This indicates that the Maintenance Department makes a high volume of small dollar purchases for maintenance inventory purposes.

Per the Risk Assessment completed by Cherry, Bekaert and Holland (CBH) in 2005, they recommended:

- The District establishes internal controls to safeguard stockroom inventory.
- The District should consider if a physical inventory of maintenance trucks should be implemented.
- The District should establish internal controls to ensure that purchases of supplies and parts are used for approved work orders.

The School Board Auditor's response. The School Board Auditor agrees that the Maintenance Department stockroom inventory and parts inventory that are on the trucks may need stronger controls to ensure greater accountability. The type of audit needed to review these issues will be addressed in the development of the Annual Audit Plan.

ISSUE FIVE. The Board member states in his report, "Multiple payments to the same vendor in a very short timeframe give the appearance of bid splitting."

The Board member expressed concern that multiple payments to the same vendor in a very short period could be a red flag to possible bid rigging. In addition, he mentioned that Cherry, Beckaert & Holland 2005 risk assessment pointed out that the District has limited controls in place to prevent bid-splitting.

The Board member's report recommended:

1. The Board should ensure proper controls are in place in the Procurement Department to insure Board policy compliance.
2. A full audit should be done of the \$25,000 and below contracts.
3. The Superintendent's approval authority should be lower to \$5,000.
4. A monthly contract report should be presented on the consent agenda format for Board approval.
5. Provide public access via the internet on a monthly basis.

The School Board Auditor's response:

1. Using the \$25,000 or less invoice data provided, a query of the invoices paid to the vendor "Acousti Engineering" for 2006 was pulled. No bid splitting was found using this data. However, a mainframe report has been requested from Information Systems of all 2006 purchases orders issued. The **purchase order (not invoice)** data will need to be analyzed to determine if there are any indicators of bid splitting. This is a standard audit test when conducting a "purchasing" audit, which has been recommended.

2. An audit of account payables for invoices less than \$25,000 was released to the School Board on August 4, 2006. No signs of fraud or intentional mismanagement were found. Management accepted six recommendations for enhancements to current policies and procedures. They are currently in the process of implementing those recommendations. As stated in the audit report, an audit follow-up will be scheduled to ascertain the completion of the action plan items.
3. A comparison with several other Florida school districts indicated that the current \$25,000 approval level appears to be “best practice” for most Florida school districts at this time. However, budget size, student count and growth factors were not reviewed in comparison.

In addition, based on the CBH risk assessment finding and recommendation, the School Board should consider whether the current approval level is adequate in order to “fast track” not only time sensitive change orders but new construction contracts as well.

Per the 2005 Cherry, Bekaert & Holland (CBH) risk assessment report, “There are no procedures to fast track the board approval of construction change orders that are greater than \$25,000. As a result, construction activities could be delayed on deadline-sensitive projects. This increases the pressure to complete a project in a shorter timeframe, which may increase construction risk. The District may want to consider how this approval process could be expedited.”

4. The Board needs to determine if “contracts” (not purchase orders) less than \$25,000 Board Approval limit should be presented for informational purposes at the monthly Board Meetings.
5. The Board member did not outline what his suggestions were regarding this recommendation. Clarification of this recommendation should be directed to the Superintendent who has assigned staff that oversees the District website.

ISSUE SIX. The Board member recommends, “The travel policy needs review and meaningful change.”

The School Board Auditor’s response: The School Board Audit Office reviewed the travel payment procedures during the accounts payable audit. Consistent compliance to established policy and procedures were in place. Although a formal written District “travel policy” does not exist, management and the School Board Auditor agreed that the current practice is well defined in Florida Statute 112.061. In addition, Administrative Regulation AR-2.49, “Authorized Travel Expense Reimbursement” and the “Budget Manual” describe LCSD travel policy and procedures.

Whether a district employee’s job function requires 1) travel for training purposes and 2) where they should stay, is a management decision based on several factors. Continuous improvement (through training) is generally a mandated State and/or District requirement

for many LCSD instructional and non-instructional staff. This required training may necessitate out-of-county travel (possibly out of state or country). It is the decision of the respective department head, school principal, and/or Superintendent or his designee via the pre-approval process to determine “if”, “when”, and “where” the training is to be obtained. Furthermore, pre-established appropriations (spending caps) for training budgets help ensure that fiscally responsible controls are in place to use only allowable budgeted dollars.

CONCLUSION:

The School Board Audit Office has dedicated numerous hours to research the respective issues cited in the Board member’s report. The CBH risk assessment, Auditor General Report, and OPPAGA Report required many hours to review. In addition, the numerous financial queries pulled created a volume of supporting documentation to substantiate the School Board Audit Office’s responses, conclusions and following recommendations.

Recommendation 1. A “Purchasing” audit is recommended to ascertain that established purchasing controls are efficient and effective in ensuring consistent compliance to State and District regulations. The scope of the Purchasing audit would include reviewing a sample of construction contracts for compliance to bidding, bonding and change order policy and procedures. At that time, the current policies and procedures will be reviewed for potential recommended enhancements.

Recommendation 2. Audit reports generated externally or internally should have audit follow-ups conducted on a timely basis. The School Board Audit Office could most effectively coordinate the responsibilities to oversee audit follow-ups. Therefore, it is recommended that audit follow-up responsibilities should be incorporated as an on-going component of the School Board Audit Office current and future annual audit plans.

Recommendation 3. The School Board Auditor agrees that stronger internal controls for Maintenance Department inventory are needed. This will be addressed in the development of the Annual Audit Plan.