AUDITOR GENERAL

WILLIAM O. MONROE, C.P.A.

HILLSBOROUGH COUNTY DISTRICT SCHOOL BOARD

OPERATIONAL AUDIT

For the Period July 1, 2001, through June 30, 2002

Summary

Finding No. 1: The District continued to experience a lower than average financial position during the 2001-02 fiscal year. The District's unreserved fund balance at June 30, 2002, was approximately 2 percent of General Fund revenues for the fiscal year. In these circumstances, the District has minimal resources available for emergencies and unforeseen situations.

Finding No. 2: Improvements were needed in the financial information presented to the Board. The monthly financial statements submitted to the Board did not include balance sheets nor did they include the internal service fund used to account for the District's self-insurance programs which currently had a net asset deficiency at June 30, 2002.

Finding No. 3: The District continued to experience a net asset deficit totaling $11,893,634 at June 30, 2002, for its workers' compensation and automobile and general liability self-insurance programs. District personnel indicated that the District had not implemented a formal plan for funding the remaining deficit.

Finding No. 4: Timely financial information was not always received from the District's charter schools. Five of 15 charter schools did not provide the District any quarterly financial statements and 8 other charter schools did not submit some of the quarterly financial statements. In addition, 8 of the 15 charter schools' audited financial statements were provided to the District two to four months after the deadline provided in the contract.

Finding No. 5: Improvement was needed in the District's management of Federal cash advances. For example, Federal programs funded by the cash advance systems were operated in a deficit cash position for seven months during the 2001-02 fiscal year, necessitating the use of other District funds to temporarily pay Federal costs.

Finding No. 6: Improvements were needed in the District's attendance records. Our review disclosed that attendance records were not always maintained for Grounds Department employees and that supervisory reviews of attendance records were not performed.

Finding No. 7: Improvements were needed regarding the District's monitoring of purchase orders. Our tests of 40 blanket purchase orders disclosed 23 purchase orders, issued in amounts ranging from $600 to $500,000, against which purchases were charged in excess of the purchase order limits, ranging from $465 to $152,939. In addition, we noted that authorization of four blanket purchase order increases were not available for audit.

Finding No. 8: Improvements were needed in the District's bid procedures. Our review disclosed that the District did not require bid tabulations to be signed and dated by the bid opener and did not require someone to witness the opening nor sign and date the tabulation. Our review further disclosed that purchases exceeding the bid limit were not acquired through the competitive bid process. In addition, we noted deficiencies in the bid process over a minor roof repairs bid.

Finding No. 9: Improvements were needed in the Purchasing Department's review procedures to ensure that vendor information forms are submitted and reviewed, and that any indicated conflicts are appropriately followed up prior to

hiring vendors interested in providing goods and services to the District. In the absence of adequate procedures to ensure that all potential District vendors submit the required vendor information forms and the proper review and follow-up of the submitted forms, District management's ability to ensure compliance with its conflict of interest policy is limited.

Finding No. 10: Improvements were needed in the District's preaudit payment procedures. Our review disclosed that the District had not implemented procedures to avoid duplicate payments to vendors and that payments were made to vendors without signatures of District staff evidencing receipt of the goods or services. In addition, bid references were not always included on purchase orders.

Finding No. 11: The District did not timely correct safety and maintenance deficiencies disclosed by annual facility inspections. Our review of annual facility inspection reports indicated many instances in which previously cited maintenance and safety deficiencies remained unresolved for at least seven years. Failure to timely correct facility deficiencies results in an increased risk that facilities could become unsafe for occupancy and could result in additional costs in the future due to further deterioration.

Finding No. 12: Improvements were needed in the maintenance of vehicle utilization records. The District did not have a written policy addressing the use and operation of District-owned and leased vehicles or the preparation of vehicle logs.

Finding No. 13: Improvements could be made in the District's procedures over inventories. We noted there was inadequate segregation of duties over the maintenance of inventories at the Central Maintenance and Grounds Departments. In addition, physical inventory counts were not always conducted at fiscal year-end and the value of the inventories was not reported on the District's financial statements. Under the current system of asset custody and record keeping responsibilities, errors or irregularities, should they occur, may not be detected in a timely manner.

Finding No. 14: The District's review of construction progress payments did not include the review and retention of documentation to ensure that sub-contractor payments were properly supported. In the absence of adequate construction progress payment reviews, the District has limited assurance of realizing potential costs savings as there is an increased risk that overpayments could be made and not be timely detected.

Finding No. 15: Subsequent to a former employee's allegations of the misuse of District funds, the District commissioned a consultant report, and formed a community-based committee to review the report and provide recommendations for operational improvements. The committee recommended the implementation of numerous improvements through specific action plans.

Finding No. 16: The District disbursed $315,000 of restricted capital outlay funds to pay for an investigative report resulting from allegations of the misuse of District funds. Restricted capital outlay funds are required to be expended on specific construction and maintenance projects, rather than reviews of District operations.

Finding No. 17: Improvements were needed in the District's procedures over maintenance work orders. Maintenance work orders demonstrating the need for, and completion of, services provided to District departments were not always certified by an employee independent of the maintenance function. In addition, work orders were not always supported by invoices or other documentation supporting amounts charged. In the absence of supporting documentation and confirmation by someone independent of the maintenance function, the use of District services, materials, and supplies for unauthorized purposes could occur and not be detected in a timely manner.

Finding No. 18: Improvements were needed in the District's security controls over its information technology resources.

Finding No. 19: Technical and staffing problems surrounding a new information technology software system have delayed the District's implementation and go-live timeframes. The District, to date, has taken positive steps to enforce contract provisions relating to software implementation. However, further project slippage and staff shortages could jeopardize a timely implementation of the software and delay the project's intended objectives.

Finding No. 20: On November 21, 2002, the District was served with a United States District

Court, Middle District of Florida Grand Jury Subpoena. The subpoena requested the District to provide certified copies of any and all documents associated with seven companies as it pertains to the Hillsborough County School District Grounds Department during the tenure of the former landscape unit manager. As of the end of December 2002, the requested information had been submitted to the United States District Court, Middle District of Florida for potential consideration of a grand jury investigation. This matter was still subject to consideration by a grand jury as of the end of our fieldwork in May 2003.

Introduction

The Hillsborough County School District is part of the State system of public education under the general direction of the State Board of Education. Geographic boundaries of the District correspond with those of Hillsborough County. The governing body of the District is the Hillsborough County District School Board which is composed of seven elected members, and the appointed Superintendent of Schools is the executive officer of the Board. The Board has direct responsibility for operation, control, and supervision of District schools. Board members and the Superintendent who served during the audit period are as follows:

	District No.
Glenn Barrington	*1*
Ann S. Olson	*2*
Dr. Jack R. Lamb	*3*
Joe E. Newsome, Chairman to 11-19-01	*4*
Doris Ross Reddick, Vice Chairman to 11-19-01, Chairman from 11-20-01	*5*
Carolyn Bricklemyer	*6*
Carol W. Kurdell, Vice Chairman from 11-20-01	*7*

Dr. Earl J. Lennard, Superintendent

During the audit period, the District operated 179 elementary, middle, and high schools and reported 166,210 unweighted full-time equivalent students. In addition to its primary responsibility of providing educational services to students in grades kindergarten through 12, the District also 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. 03-156.

Finding No. 1: Financial Condition

In governmental funds, reserve accounts are used to indicate the portion of the fund balance that is restricted to specific purposes and not available for general appropriation by the Board, while the unreserved fund balance is designed to serve as a measure of net current financial resources available for general appropriation by the Board. The unreserved portion represents the amount that can be used with the most flexibility for emergencies and unforeseen situations.

Our analysis indicated that the District has maintained an unreserved fund balance level in its General Fund, as a percent of revenues, that is significantly less than the average for Florida school districts. For Florida school districts, the average level of General Fund unreserved fund balance, as a percent of revenues, was in excess of 6 percent for the 2000-01 fiscal year. A summary of the unreserved fund balance for the District's General Fund for the past three fiscal years is shown below:

Fiscal Year Ended June 30	Unreserved Fund Balance	Percent of General Fund Revenues
2000	$ 11,318,151.70	1.36%
2001	17,263,299.34	1.93%
2002	19,018,478.81	2.08%

While the level of unreserved fund balance has been increasing, the District still has less resources available for emergencies and unforeseen situations than other comparable school districts. In September 2001, Board Policy 7.01, *Formulation of the District Budget*, was revised to include that it shall be the goal of the District to maintain an unreserved/undesignated operating fund balance for nonrecurring expenses in an amount equal to 3 percent of anticipated total

potential revenue as established by the Legislature through the State appropriation process. The Superintendent shall include this goal in the budget each year in an amount sufficient to attain this goal as soon as practicable. As discussed under the subheadings **Monthly Financial Statements** and **Self-Insurance – Financial Condition**, we have additional recommendations to assist the Board in its procedures for financial monitoring.

Recommendation:

We recommend that the Board and the Superintendent closely monitor the District's budget and take the necessary actions to ensure that an adequate fund balance is maintained in the General Fund.

District's Response:

The School District of Hillsborough County has in place Board Policy 7.01, Formulation of the District Budget, which states:

> *It shall be the goal of the district to maintain an unreserved/undesignated operating fund balance for nonrecurring expenses in an amount equal to three percent (3%) of anticipated total potential revenue as established by the Legislature through the State appropriation process. The superintendent shall include this goal in the budget each year in an amount sufficient to attain this goal as soon as practicable.*

Additionally, the Office of the Auditor General issued Report No. 03-035 "Review of the Financial Trends and Factors Affecting Financial Condition in Florida School Districts – July 1, 1995 – June 30, 2001" which states:

> *With the exception of Section 218.503, Florida Statutes (the Local Government Financial Emergencies Act), there are not statutory provisions that require school districts to maintain minimum levels of fund balance. Section 218.503, Florida Statutes, defines conditions that could be considered a financial emergency.*

On September 23, 2002, the School District received from Standard & Poor's an increase of the Bond rating to 'AA-' from 'A+', as stated:

> *The increase in the 2002 reserves is even more impressive, given the district experiencing a $25 million reduction in state revenue as a result of the overall state and national recessions. The district addressed the state revenue reduction through a combination of $13 million of spending reductions and use of its fiscal 2002 $12 million contingency reserve.*

As of June 25, 2003, the School District of Hillsborough County has an unreserved embargoed contingency balance of $20,371,500. These funds will not be transferred or expended without the authorization of the Superintendent with the consultation of the School Board. Until the School District of Hillsborough County reaches the goal of three percent we will continue to increase the unreserved fund balance.

Finding No. 2: Monthly Financial Statements

Our review disclosed that improvements were needed in both the presentation and usefulness of the financial information presented to the Board. State Board of Education Rule 6A-1.008, Florida Administrative Code, requires that monthly financial statements be prepared and submitted to the Board. Board Policy 7.07, *Financial Records*, provides that the Superintendent shall submit to the Board a financial statement for each month of the school fiscal year in a Board-approved format.

District staff presented to the Board monthly financial statements for the General Fund that included revenues, expenses, budgetary status, and fund balance information; however, the monthly financial statements did not include a balance sheet. In addition, the submitted monthly financial statements did not include the internal service fund used to account for the District's self-insurance programs which currently have net asset deficits as noted under Finding No. 3. Such information may be needed to permit the Board to identify and remedy critical budget shortfalls or to make informed policy decisions concerning planned expenditures and other financial matters.

Recommendation:

We recommend that monthly financial statements be provided to the Board, including practical and complete statements of summary financial information and other information as determined appropriate by the Board to assist the Board in making appropriate financial policy decisions.

District's Response:

The Superintendent shall submit to the Board a financial statement for each month of the fiscal year. The format of the statement shall be approved by the School Board and shall include a cumulative report to date of all receipts and expenditures for the fiscal year.

After the Final Public Hearing on September 9, 2003, approving FY 2003-2004 budget, the Business Division will provide fund information to the School Board through monthly financial statements similar to what is now provided for the Operating Fund.

Finding No. 3: Self-Insurance – Financial Condition

The District administers a self-insurance plan for workers' compensation and automobile and general liability insurance coverage. The District contracted with an insurance administrator to administer these self-insurance plans, including the processing, investigating, and payment of claims. The District contributed specified premium amounts to the workers' compensation and automobile and general liability self-insurance programs on a monthly basis. The premium contributions, along with claims payments and other expenses of these self-insurance programs, are accounted for in the internal service fund.

As noted in prior audits, the District continued to report net asset deficits for these self-insurance programs. As of June 30, 2002, the District reported net asset deficits for workers' compensation and automobile and general liability in the amounts of $10,293,836 and $1,599,798, respectively. During the 2001-02 fiscal year, the workers' compensation net asset deficit decreased by $11,612,243 and the automobile and general liability net asset deficit increased by $119,869. The decrease in the net asset deficit for workers' compensation was largely due to a $10,303,602 decrease in the actuarially determined estimated claims liability for the fiscal year ending June 30, 2002. District personnel indicated that the District has not implemented a formal plan for funding the remaining deficit.

Recommendation:

We recommend that the Board consider available options for funding the internal service fund deficits of the workers' compensation and automobile and general liability programs in future years. The development of a formal plan for monitoring the net assets of the workers' compensation and automobile and general liability programs would provide additional assurance that the District will be able to meet the fiscal demands of the self-insurance programs, and reduce the impact on the District's operation in any one fiscal year in the event of significantly higher claims experience.

District's Response:

The School Board and District are aware of the underfunded actuarially required reserves in the workers compensation and general liability fund, as each audit finding has been reported to the Board. In each response to the audit finding, the District has indicated that the underfunded reserves would be fully funded over a period of years through a combination of premium increases and changes in workers compensation claims administration.

The current estimate allowed for the underfunded reserves in workers compensation to be corrected over an 11-year period beginning in fiscal year 1995/1996 and that full funding would be achieved during the 2005/2006 fiscal year.

It should be noted that the underfunded reserve issue began with the actuarial analysis that required a funded reserve that was tens of millions of dollars over previous estimates. This issue should not and is not taken lightly as the District will fully fund the required reserves as soon as practicable. A portion of the actuarially required reserves include claims for long term injuries which have a very high total cost but are actually paid over decades in significantly reduced annual amounts. While it is prudent and proper to anticipate the future liability, the unfounded reserves can adequately be addressed with a long-term

solution that coincides with other issues that the Board must fund.

It should also be noted that the audit finding indicates that fully funded reserves would preclude an adverse impact on District operations in the event of significantly increased claims experience in any fiscal year. While the District plan to fully fund the actuarially required reserves will be met, it should be understood that while the District reserves are not fully funded there are funded reserves in place. For the year just audited, 2002, the actual amount expended from the workers compensation fund and general liability fund was $13.8 million and the reserves on hand after claims had been paid was $16.4 million. The District currently has adequate reserves to settle a 100% increase in claims.

Finding No. 4: Monitoring of Charter Schools

Section 228.056(4)(g), Florida Statutes, requires the District, as sponsor of 15 charter schools, to monitor and review the charter schools in their progress towards the goals established in their charters. Section 228.056(4)(h), Florida Statutes, further requires the District to monitor the revenues and expenditures of the charter schools. All of the charter school contracts require that quarterly financial statements be submitted to the District no later than one month after the end of the quarter. In addition, audited financial statements are required to be submitted no later than 12 weeks after the schools' fiscal year-end covered by the financial statements.

Our review disclosed that none of the quarterly financial statements for 5 of the 15 charter schools were submitted to the District and, for 8 of the 15 charter schools, selected quarterly financial statements were not submitted. In addition, for 8 of the 15 charter schools, audited financial statements were received from two to four months after the deadline provided in the contract. The quarterly and audited financial statements provide the District with information necessary to properly monitor and review each charter school's financial condition. Timely monitoring of the revenues and expenditures of the District's charter schools is necessary for the District to provide the charter schools with any needed assistance and guidance on a timely basis.

Recommendation:

We recommend that the District establish procedures necessary to obtain the information needed for the timely monitoring of the revenues and expenditures of the charter schools.

District's Response:

The following steps have been implemented regarding the charter schools and the monitoring of their financial statements. The District's Charter School Office will notify the Charter Schools about the following guidelines:

1a – Quarterly financial statements are submitted to Charter School Office no later than one month after the end of the quarter.

July-September Quarter	*Due last business day of October*
October-December Quarter	*Due last business day of January*
January-March Quarter	*Due last business day of April*
April-June Quarter	*Due last business day of July*

1b – The Charter School Office will notify each charter school that has not submitted quarterly financial statements to the district within the prescribed period that they are in non-compliance with their charter and the charter school law. Such notification shall be within one month of non-compliance and every month until compliance is obtained.

1c – All instances of non-compliance will be reported to Chief Academic Officer and the School Board annually.

2a – Audited financial statements are submitted to the Charter School Office no later than 12 weeks after the school's fiscal year end.

2b – The Charter School Office will notify each charter school that has not submitted audited financial statements to the district within the prescribed period that they are in non-compliance with their charter and the charter school law. Such notification shall be within one month of non-compliance.

2c – All instances of non-compliance will be reported to Chief Academic Officer and the School Board for review and action.

Finding No. 5: Cash Management

Our review of the Federal cash advance system used by the District disclosed that advances of cash sufficient to meet expenditures of the programs were not requested in a timely manner. Our analysis of the cash advance system included a comparison of the monthly beginning cash balance plus draws for the month (available cash) to disbursements for that month. The District received funding for certain grants through the Florida Department of Education (FDOE) – Distributive Aid Cash Advance System (DACAS). We noted DACAS cash deficits for seven months, ranging from $2,193,991 to $4,654,962. These cash deficits necessitated the use of other District funds to temporarily pay Federal costs, and, as such, resulted in lost interest earnings for these funds of approximately $43,200. Lost interest is calculated by averaging the beginning and ending monthly deficit balances and multiplying by that month's State Board of Administration interest rate. Subsequent to fiscal year-end, the District amended its method of estimating anticipated disbursements. However, the District's revised procedures resulted in the District maintaining cash surpluses ranging from $884,090 to $2,562,565 for the first six months of the 2002-03 fiscal year.

Recommendation:

We recommend that the District continue its efforts to enhance procedures for requesting and maintaining appropriate levels of Federal cash.

District's Response:

To address the cash needs for more than 85 grants through the cash advance system, the following procedures have been implemented:

Cash is requested based upon need by using the Daily Federal Cash Advance Electronic Request System through Northwest Regional Data Center (NWRDC). This is done several times a month, depending on the cash status of these funds. The cash management accountant informs the special revenue accountant when the funds are low, and what is expected to be paid from accounts payable and payroll. The Special Revenue Accountant then requests the cash online and the wire is received in the district by EFT, within a week's time. The cash management accountant receipts the money and informs special revenue that it has arrived.

A worksheet is maintained in Special Revenue to track expenditures monthly by fund. This report is used to help project the cash needs of these funds and eliminate cash deficit situations that would cost the District interest earnings. In the case of cash surpluses in these funds, the cash is invested and the interest earned is remitted to the Florida Department of Education.

A new worksheet is in the development stage to track expenditures weekly. This should help refine the projection process even further and help eliminate large cash surpluses. We will continue to enhance our efforts to maintain projected cash in these funds as close to our actual needs as possible.

Finding No. 6: Attendance Records

Human resource controls over attendance records provide safeguards to assist in the prevention or detection of deliberate or accidental errors. Effective payroll controls include the maintenance of accurate and complete records, along with supervisory review of time/attendance and work product records. During our audit, we identified certain deficiencies in the District's attendance record procedures.

Grounds Department attendance procedures provide for employees to document their time worked by filling out daily time reports or maintenance requests (work product). These forms were to be signed by personnel at the school and subsequently turned into the Grounds Department office. Our review of the stated procedures disclosed that there were no supervisory reviews of the submitted forms to verify the accuracy of the time worked. Our test of the Grounds Department attendance reports and maintenance requests for 11 employees, for the periods October 15, 2001, through October 19, 2001, and February 18, 2002, through February 21, 2002, disclosed that attendance reports and maintenance requests were not available for 4 employees tested.

We also noted only partial documentation was available for 6 of the employee records tested.

Recommendation:

We recommend that all Grounds Department records documenting time worked be retained for audit and that supervisory approval be documented.

District's Response:

All files were not readily available at the time of the auditor's initial visit. The files had been moved and secured in another location. A subsequent search of the records yielded most of the requested information.

The supervisor hands out job assignments daily. This provides an opportunity for him to view the forms; however, there is no actual sign-off or initialing in place.

Payroll/Attendance Reporting procedures have been developed for all departments within the Facilities Division.

The components of the procedures are outlined below for all to follow:

- *Maintenance personnel reporting directly to their assigned site verify time-in and time-out by time clock or sign-in and sign-out sheets, which are verified by supervisor's signature.*
- *Maintenance personnel reporting directly to district sites other than their assigned site, communicate with supervisor at the start and end of each workday.*
- *Maintenance personnel are required to sign-in and sign-out at each district site.*
- *Maintenance requests (MRs) are used to document and verify work accomplished at each site.*
- *Vacation leave forms are pre-approved by manager, or in his absence the supervisor, prior to submitting district forms.*
- *Sick leave is signed and approved upon return of employee.*
- *Clerical personnel perform payroll functions on a rotating basis.*
- *Authorized managers transmit payroll after verifying based on district leave forms.*

Finding No. 7: Purchasing Practices

Purchase orders serve to document management's authorization to acquire goods and services, provide a basis for controlling the use of appropriated resources, and provide evidence to vendors of their authority to provide goods and services to the ordering agency. When purchases are not controlled within the authority granted by purchase orders, the effectiveness of the purchase order system is diminished. Failure to effectively control purchase authorizations can result in the purchase of unauthorized goods or services, budget overexpenditures, or vendor billing disputes.

Generally, purchase orders should be explicit as to particular goods or services authorized to be purchased, although recurring needs for small purchases of relatively low-cost items are sometimes authorized through the use of continuing or "blanket" purchase orders. Our review indicated that blanket purchase orders generally specified total dollar purchases authorized; however, we noted instances in which maximum purchase authorizations were exceeded. Audit tests disclosed 23 purchase orders (out of 40 tested), issued in amounts ranging from $600 to $500,000, against which purchases were charged in excess of the purchase order limits, ranging from $465 to $152,939. Total charges in excess of purchase order limits in these instances amounted to $464,549. We further noted that the authorizations of four blanket purchase order increases were not available for audit. Similar findings were noted in several prior audit reports, most recently in audit report No. 13590. As a result of the District's failure to adequately control the use of purchase orders, authorization to incur expenditures on behalf of the District was not adequately restricted.

Recommendation:

We again recommend that blanket purchase orders be appropriately restricted, specifying the total authorized purchases and maximum costs per item. We also recommend that documents evidencing blanket purchase order increases be retained for audit.

District's Response:

The District IS Department provides a number of valuable reports to all sites to encourage them to manage their individual budgets and expenditures. A report comparing purchase order amount and amount paid on the purchase order is provided to all sites for review. The Purchasing Department reviews all Blankets to ensure at minimum an expiration date, authorized users and a not to exceed amount is included on all blanket purchase orders.

Any major change in the Purchasing Department other than Lawson implementation would increase the workload on the Department to the extend that many other procurement requirements will suffer. We are confident that great improvement will come about with the issuing, approving and paying of blanket purchase orders once Lawson is implemented. The below are general Lawson guidelines that will assist with alleviating the issue of user departments exceeding blanket purchase order dollar limits.

> *Lawson Accounts Payable requires a "3-way match" before payments are issued. The match is between the purchase order, receiver, and invoice. If an Inconsistency occurs, the purchasing agent responsible for creating the purchase order will be automatically notified. The payment is held until action by the purchasing agent is entered into the system.*

On May 20, 2003, the Board approved moving forward with the recommendation of implementing a review process to ensure payments do not exceed authorized amounts. The approved process will also include an enhanced means of evidencing blanket purchase order increases. The completion date will coincide with the implementation of Lawson. It is the intent of the District to limit the use of blanket purchase orders.

Finding No. 8: Competitive Bid Procedures

State Board of Education Rule 6A-1.012(6), Florida Administrative Code, requires that bids shall be requested from three or more sources for any authorized purchase or contract for services exceeding the amount ($25,000) established in Section 287.017, Florida Statutes. Board Policy 7.14, *Purchasing Policies and Bidding*, enumerates established District bid requirements. Our review of District bid procedures disclosed the following deficiencies:

- District procedures regarding the opening of sealed bids could be improved. Our review disclosed that for the 2001-02 fiscal year, District procedures for opening competitive sealed bids and proposals did not require bid tabulations to be signed and dated by the bid opener. Procedures also did not require someone to witness the opening nor sign and date the tabulation. Signatures of the bid opener and witness would serve as certification of the accuracy of bid tabulations. Certifying the accuracy of bid tabulations documents the fairness of the bid process, promotes competition, and encourages the participation of qualified vendors.

- Our review of Central Maintenance Department expenditures disclosed that purchases of minor roof repairs during the fiscal year ended June 30, 2002, totaling approximately $138,000, were acquired through a competitive bid process. Based on our review of the minor roof repairs bid documents, the following deficiencies were noted:

  - The bid envelope with the date and time stamp for the winning bidder was not available for audit review to document that the proposal was received by the April 3, 2001, bid opening deadline.

  - The bid tabulation documenting the responding vendors bid amounts was not signed and dated by the bid opener nor was the opening of the bids witnessed by another employee.

  - The vendor who was awarded the bid had an error in the placement of a decimal in several listed prices and revised their bid amounts on April 18, 2001, 15 days after the bid opening.

  - The bid specifications required the responding vendors to quote prices that included material and labor costs. However, we noted that the vendor later submitted invoices including labor costs and material in addition to the submitted bid prices.

- Our review of the Grounds Department expenditures disclosed purchases of painting services and insecticide amounting to $77,906 and $33,660, respectively, which were not acquired through the competitive bid process.

Pooling purchases of a similar nature serves to document that the least cost is paid by the District consistent with acceptable quality and performance. Upon audit inquiry, the District provided a letter dated May 2, 2003, from the vendor used for the insecticide purchases documenting that the product was a sole source distribution. However, District records should document sole source items prior to the products being purchased. Additionally, prior Board authorization for such sole-source purchases should be obtained as required by Board Policy 7.14.

Recommendation:

We recommend that District purchases exceeding the bid threshold be obtained pursuant to a request for competitive bid, and that such bids be documented to evidence the fairness of the bid purchasing process. Also, we recommend that the District revise its procedures to specifically address the opening of sealed bids. Procedures should include, at a minimum, the date and time stamping of bid envelopes upon receipt, signatures of at least two employees responsible for bid opening oversight and preparation of the bid tabulation, the disqualification of vendors if errors are found in the submitted bid, and the elimination of bids that do not fully comply with the bid specifications. Additionally, procedures should be strengthened to ensure that Board authorization is obtained for sole source purchases.

District's Response:

We concur with the recommendation that District purchases exceeding the bid threshold be obtained pursuant to a request for competitive bid, and that such bids be documented to evidence the fairness of the bid purchasing process. The Board has authorized a centralized purchasing function to perform in the capacity directed by the Florida Statutes and State Board Rules. To further illustrate the commitment of the Board to a centralized purchasing system, on October 15, 2002 the Board reorganized to department and increased staff to 17 employees.

Notification of purchasing threshold requirement will be provided to end users through the administrative bulletin and district web site. We are confident that great improvement will come about with the solicitation and award of bids once Lawson is implemented. The below are general Lawson guidelines that will assist with strict compliance to bid threshold requirements.

With the use of the new ERP's pricing agreements, costs will be more accurately identified at the time of purchase order issue. All items on bid will be entered in a price agreement and the item cost will automatically fill in on the requisition or purchase order. Requistioners are not required to enter the vendor or price for items on bid.

On May 20, 2003, the Board approved moving forward with the recommendation of tracking and monitoring purchasing threshold limits. The completion date will coincide with the implementation of the new ERP system. It is the intent of the District to utilize bids where required by statute.

We partially concur with the recommendation that the District revise its procedures to specifically address the opening of sealed bids. It should be noted that current procedures do require all bid documents to be date and time stamped on the envelope upon receipt. The procedure is being enhanced to include two employees present at bid openings, and signatures of the two employees on bid tabulation sheets.

We do not concur with the finding regarding a vendor being allowed to revise their bid amount after the bid opening. General Terms and Conditions of the District's bid document allow the Purchasing Manager to ask for clarification of all prices and statements contained in bids. The bidder cost was stated in terms of per 100 square feet instead of cost per square foot. The bid amount was not changed, staff merely received clarification of the bidders cost.

We concur with the recommendation that procedures should be strengthened to ensure that Board authorization is obtained for sole source purchases. Procedures are being developed for sole source purchases to include notification to the Board. End users will be notified by placing an announcement in the District's administrative bulletin.

Finding No. 9: Procurement – Conflict of Interest Policy

To ensure public confidence over procurement practices, it is essential that any and all appearances of a conflict of interest be avoided in order to retain the public's trust. Board Policy 7.14, *Purchasing Policies and Bidding*, states, in part, that no contract for goods or services may be made with any business organization in which the superintendent or school board members

have any financial interest whatsoever or with which a spouse or child of the superintendent or school board members has an employment relationship or material interest as defined by Florida Statute. The policy further provides that any employee who knowingly is in a capacity to influence, approve, or cause the purchase of any item which is required by the school board and who also is in a position to bid, quote, or influence the sale of any item to the school board that can render him or an immediate relative personal gain must immediately disclose that fact. In addition, the policy provides that any violation of these policies by an employee of the school board may be grounds for dismissal.

The District uses a vendor information form to assist the District in obtaining all required vendor information to ensure proper vendor payments. The form requires vendors to answer the question, "Are any Officers, Owners, or Partners listed above employees of the School District of Hillsborough County?" Our review of the Purchasing Department's procedures over the processing of the vendor information forms disclosed the following exceptions:

- Twenty of 54 vendors tested had either not filed the vendor information forms or the District had not retained the forms in District files.
- Three of the vendor information forms filed were dated subsequent to the purchase order date.
- Two of the vendor information forms filed did not respond to the question: "Are any Officers, Owners, or Partners listed above employees of the School District of Hillsborough County?" In addition, two other vendors responded yes to the question; however, in none of these four instances was there any indication of follow-up by the Purchasing Department.

In the absence of adequate procedures to ensure that all potential District vendors submit the required vendor information forms and the proper review and follow-up of the submitted forms, District management's ability to ensure compliance with Board Policy 7.14 is limited.

Recommendation:

We recommend that the Purchasing Department strengthen the submission and review procedures ensuring that the conflict of interest forms are filed and reviewed, and that any indicated conflicts are appropriately followed up prior to hiring vendors interested in providing goods and services to the District.

District's Response:

We concur with the recommendation that the Purchasing Department strengthen the submission and review procedures ensuring that the conflict of interest forms are filed and reviewed and any indicated conflicts are appropriately followed up. On October 15, 2002, the Board authorized the purchase of a vendor notification system. All vendors including existing vendors interested in doing business with the District will be required to register in the system. The application requires vendors to answer the question, "Are any Officers, Owners, or Partners listed above employees of the School District of Hillsborough County?" Completed applications will be scanned and maintained as a part of the vendor notification system. This initiative will allow staff to reconfirm any conflict of interest issues.

The completion date for this project is to coincide with the new ERP implementation.

Finding 10: Preaudit Payment Procedures

Preaudit payment documentation procedures should ensure that invoice prices agree with the appropriate contract or bid terms and conditions, vendor invoices have not been previously paid, and receiving reports are obtained to document the receipt of the goods and services by an authorized district employee. Our review of 60 payments for goods and services indicated that the District's current accounts payable preaudit system lacks several of these controls as noted in the following instances:

- The current system used by accounts payable continues to pay invoices under a purchase order until the purchase order has a final payment or is closed. Also, unless a duplicate payment request is submitted within one week, the system will allow a duplicate payment. For example, on 9-25-01 and

10-02-01, the District made two payments of $15,490 for 19 invoices for the same service to the same company. Our review disclosed that the original invoices were approved for payment by the appropriate grounds department employee, while the duplicate invoices were not approved for payment by a grounds department employee. Upon our inquiry in March 2003, District staff contacted the company and obtained a credit against future services for the double payment; however, procedures had not been implemented to avoid duplicate payments in the future.

- We noted four Central Maintenance Department purchases totaling $2,785 that were paid without signatures of District staff evidencing receipt of the goods or services. Additionally, our test disclosed that three of four purchase orders for bleacher repairs, plumbing repairs, and roof repairs totaling $6,007, though purchased pursuant to competitive bids, contained no reference to the bids evidencing that bid prices were verified prior to the payments. Bid references on purchase orders serve to inform District staff responsible for preauditing invoices that the purchases were subject to the prices included in the bids or state contract.

- We noted ten Grounds Department purchases totaling $81,030 that were paid without signatures of District staff evidencing receipt of the goods or services. Additionally, our test disclosed that 5 of 18 purchase orders for removal of trees, treatment of athletic fields, computer equipment, backboard padding, and signs totaling $113,131, though purchased pursuant to competitive bids, contained no reference to the bids evidencing that bid prices were verified prior to the payments. Bid references on purchase orders serve to inform District staff responsible for preauditing invoices that the purchases were subject to the prices included in the bids or state contract. For example, we noted one purchase of a tractor totaling $46,774 in which, though requested, the District could not provide documentation to demonstrate that the price paid was in accordance with the submitted bid price. In addition, we noted two other purchases of irrigation supplies for sprinkler repairs totaling $26,578 in which the lowest bidder was not used. Documentation supporting the use of other than the lowest bidder was not provided by the District.

Recommendation:

We recommend that preaudit procedures be strengthened to verify that invoices submitted have not been previously paid and that documentation be obtained to evidence the receipt of goods and services prior to payment. In addition, the District should take the appropriate steps to enhance the preaudit process to include denoting bid references on purchase orders, provide assurance that prices paid were in accordance with either the bids or negotiated prices, and that justifications for not purchasing items from the lowest bidder are on file.

District's Response:

Accounts Payable processes an average of 7,000 records each week producing 1,700 to 2,000 checks. Every effort is made to assure that payments are not duplicated. Payments can process that are duplicates if they are not in the same week. Duplicate payments are minimal as problems are usually found in the audit of the checks prior to mailing.

Standard procedures are to review payments when the invoice appears to be a copy of an original to assure the invoice was not paid. This process will be reinforced. If an invoice is duplicated and the vendor has received the payment, Accounts Payable immediately processes a credit memo to recover the overpayment. We will contact the vendor to make them aware of the overpayment and give them the opportunity to send us a check. If a check is not received from them, the payment system will hold future payments until the amount of the overpayment has been recovered.

With the implementation of the new ERP system, the probability for duplication of invoices will be eliminated.

No invoices are processed for payment without receiving information. There are three methods of receiving in the current system. Standard Purchase Orders are received through the on-line purchase order system. This process is controlled by IS security. Blanket Purchase Orders are received either by a copy of a signed delivery ticket, copy of signed invoice, signed original invoice if the company mailed it to the receiving site, or e-mail messages stating the invoices to be paid. E-mail identifies the person authorizing payment. This documentation is included in the backup in the Warrant Files.

Price discrepancies between invoice and purchase order amounts are discussed with the site that ordered the merchandise or service to determine if they authorized the increase, and also with the purchasing department.

Implementation of the ERP system will improve these processes.

Finding No. 11: Annual Safety Inspections

Section 235.06, Florida Statutes, requires that each district school board provide for a periodic inspection of each educational and ancillary plant at least once during each fiscal year to determine compliance with standards of sanitation and casualty safety prescribed in the rules of the Commissioner of Education. Further, firesafety inspections are required to be made annually by persons certified by the Division of State Fire Marshal to be eligible to conduct firesafety inspections in public educational and ancillary plants.

District records indicated that the District provided for the required inspections of its facilities during the 2001-02 fiscal year. The inspector completed a report for each facility which recorded various information for noted deficiencies, such as: a priority code that indicated the type and severity of the deficiencies by building and room number, the estimated costs of correction, the number of times a deficiency has been cited before, and the date a deficiency should be scheduled for correction. Our review of the annual safety inspection reports for 15 District schools and centers during the 2001-02 fiscal year disclosed that the District had provided for the correction of many of the deficiencies in the reports. However, we noted numerous instances in which deficiencies noted in the annual safety inspection reports remained uncorrected from previous years. These deficiencies included such items as inadequate fencing, electrical problems, missing handrails, and missing fire extinguishers and smoke detectors. Some of these deficiencies had been cited in the annual safety inspection reports up to seven previous times (years). Failure to timely correct facility deficiencies results in an increased risk that facilities could become unsafe for occupancy, and could result in additional costs in the future due to further deterioration.

Recommendation:

We recommend the District continue its efforts to provide for the timely correction of facility deficiencies as noted in the annual safety inspection reports.

District's Response:

Any deficiencies reported to Maintenance are evaluated and responded to accordingly. Maintenance requests are generated for regular maintenance repairs. If the request is capital outlay, it is forwarded to the Area Director.

Maintenance items noted on safety reports that are too large for everyday maintenance are placed on the five-year plan.

Upon completion, the request and copy of safety report are faxed to safety manager.

- *Maintenance related items would be corrected so that they will not be duplicated in the following year's report.*
- *The Area Director would send a Capital Outlay Request to the appropriate Maintenance Manager for an estimate. If Area Director approves and funds it, the project would then be completed.*
- *Maintenance places the project on the district's Five Year Plan with an appropriate funding source.*
- *Maintenance will make every attempt to complete all items within three years.*

Finding No. 12: Vehicle Utilization Records

During the 2001-02 fiscal year, the District owned and leased approximately 849 vehicles (cars and trucks) to accomplish various District operations. Our audit included a utilization review of three vehicles assigned to the Grounds Department personnel on a 24-hour basis. The Grounds Department maintained 30 vehicles, other than trailers, five of which were assigned on a 24-hour basis for official District business during the audit period. The effective and efficient use of District equipment should be periodically reviewed by management to ensure that such equipment serves the best interest of the District. Such reviews should serve as a basis for management's decisions to periodically replace, repair, or reassign equipment or provide economical alternatives to accomplish the District's objectives. Our review

disclosed that improvements were needed in the maintenance and review of District vehicle utilization records as follows:

- The District did not have written policies and procedures addressing the assignment of vehicles to employees or guidelines to follow in the preparation of vehicle utilization logs. In the absence of such guidelines and accurate and complete vehicle utilization records, management reviews of effective and efficient vehicle usage may be limited.
- A review of three Grounds Department 24-hour assigned vehicle utilization logs disclosed that three vehicle utilization logs were not available for one week of the two months tested and the logs available were not prepared in sufficient detail to clearly demonstrate vehicle utilization in that beginning and ending odometer readings and supervisory review were not always recorded.

Recommendation:

We recommend that the District establish written policies and procedures regarding the use and operation of District-owned and leased vehicles. Such policies and procedures should include, at a minimum, guidelines for the preparation of vehicle utilization logs, including supervisory review. We further recommend that District management establish a schedule to periodically review the various department vehicle assignments and utilization of District vehicles to ensure the effective and efficient use and assignment of such equipment.

District's Response:

Uniform written policies for vehicles utilization were not in place at the time of the audit. Vehicle utilization records are maintained for all maintenance departments. The logs that were not available were those removed with other Grounds' records.

- *Written procedures have been developed and submitted to the School Board for approval, which addresses the assignment of vehicles to employees.*
- *Vehicle utilization logs are maintained by all maintenance departments. Logs are to be detailed to include odometer readings and must correlate to work assignment. Logs to be reviewed weekly and verified by supervisors.*

As of June 17, 2003, the School Board approved a vehicle utilization plan outlining the criteria of utilization of Board vehicles.

Finding No. 13: Separation of Asset and Record Keeping Responsibilities

The District's internal control over the Central Maintenance and the Grounds Departments could be improved by providing an adequate separation for asset custody and record keeping responsibilities as discussed below:

- We noted that two employees in the Central Maintenance Department had the capability to order and receive repair parts and supplies and were authorized to approve invoices for payment. In addition, two employees had the capability to receive and issue inventory items and maintained the manual perpetual inventory records.
- Restricted access to the Central Maintenance Department inventory and inventory records had not been established in that six employees had access to the storeroom key where inventory and inventory records were maintained.
- Central Maintenance Department personnel maintained manual perpetual inventory records which consisted of index cards maintained for each stock item. These records were not maintained in sufficient detail to account for inventory receipts and issues or the value of the inventory items. For example, inventory stock numbers were not assigned to the inventory items kept in stock; there was no identifying record of receipts and issues, such as a purchase order or maintenance request numbers for inventory receipts and issues, respectively; and transaction dates were not recorded.
- Central Maintenance Department personnel did not conduct a fiscal year-end physical inventory count of the inventory on hand at June 30 and the value of the inventory was not reported on the District's financial statements.
- Two Grounds Department employees maintained perpetual inventory records; however, the records were not maintained in sufficient detail to account for inventory

receipts and issues. For example, there was no record of purchase order and maintenance request numbers respectively, and transaction dates were not recorded. We further noted that these same two employees were responsible for receiving and issuing the inventory, and recording the inventory transactions, while three other employees had keys allowing unsupervised access to the Grounds Department inventory.

- The Grounds Department conducted a fiscal year-end physical inventory and made adjustments to the perpetual records based on these counts. Although the inventory value of $93,855 at June 30 was reported on the District's financial statements, we noted that the inventory count and the subsequent adjustments were made by one of the same employees who maintained the perpetual inventory records.
- In addition to the deficiencies noted above regarding the Central Maintenance and the Grounds Departments, our review disclosed that inventory records were not maintained at the following District sites: East and West Maintenance, Office Machine Repair, Technology Repair, CCTV Lan-closed Circuit TV, Communications & Electronics, Sites & Utilities, and Special Projects. Items were expensed when purchased at these sites. In the absence of inventory records or periodic documented management reviews of inventory quantities on hand, the District's ability to properly report and control these assets is limited.

Under the conditions described above, employees are assigned both custody of the assets and record keeping responsibilities, resulting in an increased risk of errors or fraud.

Recommendation:

We recommend that the District provide for an adequate separation of duties and responsibilities associated with the Central Maintenance and the Grounds Departments' inventories to the extent practicable with existing personnel and limit access to the storeroom and inventory records. We also recommend that the District maintain inventory records in sufficient detail to account for inventory receipts, issues, and balances on hand and that inventory records be maintained for all District sites housing a significant investment of District resources. We further recommend that all physical inventory counts conducted at fiscal year-end be conducted by employees independent of the record keeping function and the inventory values be reported on the District's financial statements.

District's Response:

Procedures are now in place that provide for a system of checks and balances when it comes to ordering and receiving parts and maintaining inventory. Some variations exist due to the area of specialization of the department. Inventory reports and balances are on hand for all departments. Accessing these records electronically is being addressed through the new ERP system.

Finding No. 14: Construction Progress Payment Reviews

During the 2001-02 fiscal year, the District's new construction and remodeling and renovation capital outlay budgets were approximately $382,000,000 and $90,000,000, respectively. To accomplish new construction and remodeling and renovations, the District often enters into contracts for the services of architectural firms and construction managers at risk for facilities construction. The contracts for these services include the following payment provisions:

- The contractor is required to submit to the architect an itemized schedule supported by summary data substantiating the construction manager's right to payment. Based on the architect's evaluation of the pay request, the architect is responsible for certifying the amount due.

- The architect's certification of the request does not represent that the architect has reviewed copies of requisitions received from subcontractors and material suppliers and other detailed data to substantiate the contractor's right to payment. The architect is entitled to rely on the accuracy and completeness of the summary information furnished by the construction manager and shall not be deemed to represent that the architect has made a detailed examination, audit, or arithmetic verification of the documentation submitted.

Management indicated that the District relied on the architect's certification and did not preaudit construction manager's pay requests prior to payment. Further, the District did not maintain the documentation submitted with construction managers' pay requests. Although District management indicated that adjustments to the construction managers' pay requests may be made as a result of bi-weekly meetings held by the construction manager with the architect, major project subcontractors, and the District's inspector, our tests disclosed that this review was not documented by minutes of the bi-weekly meetings or any other corroborating documentation. In the absence of adequate District review and approval of invoices submitted to the District for payment, there is an increased risk that overpayments to construction managers could be made and not be timely detected and the District has limited assurance that it is realizing potential costs savings which may be available under these contracts.

Recommendation:

We recommend that the District provide for a preaudit of construction related invoices to ensure that pay requests are mathematically correct and supported by proper documentation. Such preaudit procedures should include verification that subcontractor payments are in accordance with bid prices, the subcontractor work was in accordance with bid specifications, and cash disbursements have been made by the construction manager that equal or exceed the progress payments already received by the construction manager. Additionally, the District should establish and implement procedures to provide for retaining documentation supporting the pay requests to allow for post audit of the pay requests.

District's Response:

Progress payment applications currently include supporting documentation from subcontractors, architects currently are responsible for verifying that the completed work complies with the contract requirements.

The construction manager certifies with each pay request that previous payments have been properly dispersed.

- *The format of the Schedule of Values, which is the basis for progress payments, has been revised to better reflect subcontracted amounts.*
- *To better insure that progress payments accurately reflect the amounts earned, the project architects will be tasked with verifying that amounts invoiced by the construction manager are supported by subcontractor documentation.*
- *Applications for payment will continue to include a certification that previously received payments have been properly disbursed.*

The District intends to implement a web based project collaboration system. Capabilities include online submission and review of progress payments, including subcontractor invoices.

Subcontractor invoices are presently reviewed at the project site by the construction manager and architect prior to certification of the progress payment to the owner.

- *New procedures will require that all approved subcontractor invoices accompany each application for progress payment. Such materials will be retained for audit purposes.*

Implementation of the web-based on-line project collaboration program will facilitate retention of project documentation.

Finding No. 15: Construction Committee Report

Subsequent to a former employee's allegations of misuse of funds in the District's construction and maintenance departments, the District retained a consulting firm to analyze and evaluate the District's construction and maintenance policies, practices, and procedures. The consultant's report, mailed to Board members in May 2002, included recommendations that were generally concerned with unwise use of District funds. For example, the consulting firm recommended that if the District continued pursuit of the lowest possible initial building cost, the District should implement a preventative maintenance program.

In response to the consulting firm's report, the District formed a community-based committee to review the report and supporting documents. On February 4, 2003, the committee's results and recommendations were presented to the Board. The committee's report recommended implementation of specific actions or determined that the issue had already been addressed by the District. For example, in response to an allegation that roof repairs were necessary because of poor quality of materials or poor installation, the consulting firm noted that the District had not implemented an effective preventative maintenance program. In response, the committee recommended an action plan relative to roof inspection, assessment, and preventative maintenance and the District began implementation of the committee's action plan.

Overall, the committee found that a significant part of the former employee's allegations were in connection with projects constructed during a period when the District was routinely relying on the hard bid construction delivery method rather than construction management at risk, the method currently used by the District.

Recommendation:

We recommend that the District continue its efforts to address the recommendations of the community-based committee to improve the construction operations.

District's Response:

The District is appreciative of the citizen-based advisory committee's efforts. The committee's able assistance in addressing the issues set forth in both the E & Y report and the recent OPPAGA report were especially helpful. The District will continue to engage the committee in periodic reviews of the Facilities Division. We expect the Committee will play central role in the development of the District's long range capital outlay plan.

Finding No. 16: Consultant Report Payment

Accountability for restricted capital outlay funds is normally provided through the capital outlay budgeting process. This process provides for the planned use of capital outlay funds in accordance with applicable restrictions. Our review of District capital outlay expenditures for the 2001-02 fiscal year indicated that the District used restricted capital outlay funds, totaling $315,000, to pay for the cost of the consulting firm investigative report discussed under finding No. 15. Although this investigation may have included the review of restricted capital outlay funds, it also included reviewing General Fund expenditures in the related review areas. Restricted capital outlay funds are required to be expended on specific construction and maintenance projects directly, while investigations and reviews of district operations are considered a General Fund operational expenditure.

Recommendation:

We recommend that the District transfer $315,000 from the General Fund to restore these funds to the appropriate restricted capital outlay fund.

District's Response:

The District will reimburse the capital outlay fund from the operational budget.

Finding No. 17: Maintenance Work Orders

The District uses an automated maintenance work order system to report requests from school sites for maintenance and repairs and to accumulate and report the applicable costs. A maintenance request form is used to document the need for services and to document the services provided. Our test of ten work orders disclosed the following deficiencies:

- The costs of parts and supplies recorded on six work orders that required parts and supplies to accomplish the job were not supported by invoices or other documentation.
- Parts and supplies recorded as used in the system for one of the work orders was not supported by the maintenance request form completed by the maintenance employee performing the work. For another work order, items recorded as used by the maintenance employee were not recorded in the system.
- Labor costs for two of the work orders were not supported by timesheets and four work orders were not certified by a school employee or someone independent of the maintenance function.

In the absence of supporting documentation and confirmation by someone independent of the maintenance function, there is an increased risk that the use of District services, materials, and supplies for unauthorized purposes could occur and not be detected in a timely manner.

Recommendation:

We recommend that the District review the controls over the maintenance function and revise procedures as necessary to ensure that, at a minimum, there is documentation that the services were requested by an employee authorized to request such services and that the services were received by the requestor of the services for each work order that is issued. Additionally, work order records should be maintained in such a manner to ensure that work order documentation is available for services provided by the maintenance function.

District's Response:

A card inventory system has recently been implemented to have an accurate account of purchases for inventory stock. In the past we were not required to have a yearly inventory count.

A maintenance request is to be generated for every job requested. Schools will generate these or authorized personnel at the affected maintenance department. We will have the ability to correlate attendance and work completed along with parts and supplies when the automated system is in place.

Finding No. 18: Information Technology – Access Controls

Access controls over information technology resources provide safeguards to assist in the prevention or detection of deliberate or accidental errors. Errors may be caused by improper use or manipulation of data files, unauthorized or incorrect use of computer programs, or improper use of computer resources. Effective access controls limit access to systems documentation, data files, programs, and computer hardware to authorized persons who require such access in the performance of their duties. During our audit, we identified improvements that could be made in the District's access procedures. Specific details of these improvements are not disclosed in this report to avoid any possibility of compromising District information systems' data and resources. Weaknesses in access controls result in an increased risk that errors or irregularities could occur and not be detected in a timely manner.

Recommendation:

The District should implement the appropriate access control features to enhance the security of District information technology resources.

District's Response:

The District will take the appropriate action necessary to ensure the security controls over its information technology resources. Specific details are available for review by authorized agencies.

Information Technology – Acquisition and Implementation of Lawson ERP Software

Background:

Due to increased demands on administrative systems, field size limitations, and antiquated functions inherent within software dating back to the 1970s, the District initiated efforts in 1999 towards acquiring an Enterprise Resource Planning (ERP) software solution to replace its then current Financial, Human Resources, and Payroll Systems. Following a formal bidding and evaluation process, the District selected Lawson Software, Inc.'s (Lawson) Lawson Software Insight 8 Business Management System (Lawson ERP) for its ERP software on May 15, 2001, and International Business Machines (IBM) Corporation as the implementation consultant on June 19, 2001. The contract between the District and IBM was an agreement, under which both IBM and the District assumed significant responsibilities for the implementation. See Exhibit 1 for a timeline of key events in the acquisition of the software and implementation consultant services.

Lawson ERP applications and environment installed by the District as of May 2002, version 8.02, is a fully web-based system requiring only a standard browser on the client Personal Computer. The District's architecture includes running the DB2 database on the OS/390 mainframe and the application software on IBM's RS 6000 servers under the Advanced Interactive Executive (AIX) operating system. Lawson ERP had not been implemented in a Florida K-12 environment prior to the District's selection.

Lawson ERP was incorporated into the District's initiative known as Project Insight along with imaging, data warehouse, call center system, and facilities and fleet maintenance software. Implementation of the Lawson ERP, including Financials/Procurement and Human Resources-Payroll; imaging; and data warehouse components fall under the IBM implementation consultant contract. The acquisition and implementation of the Project Insight components other than Lawson ERP was not within the scope of our audit. However, we evaluated certain issues surrounding the data warehouse component and the related impact on the Lawson ERP implementation, as noted in Finding No. 19. Additionally, the contract between the District and IBM contained numerous provisions prescribing the responsibilities of the District, as well as numerous provisions prescribing the responsibilities of IBM. Our audit included testing of selected deliverables and compliance with selected provisions of the contract, but did not include verification of compliance with all of the prescribed responsibilities on the part of the District or IBM.

The intended go-live date for the Lawson ERP was July 2002, with February 2002 as the intended go-live date for both the data warehouse and the imaging system. The District's planned total cost for Lawson ERP and IBM implementation consulting services was $10,747,563. Exhibit 2 outlines planned implementation and go-live dates for the systems under IBM contract with subsequent changes. Exhibit 3 outlines the approved costs related to Lawson ERP and IBM's contractual services with adjustments.

Two Project Change Requests (PCR) related to Lawson ERP implementation have resulted in additional contract costs to the District (see Exhibit 3). PCR-001 was signed on October 16, 2001, increasing IBM's contracted change management role from 25 percent to full-time. PCR-002 was executed to extend IBM's services for Human Resources-Payroll from June 30, 2002, to October 1, 2002. The PCR was signed on January 30, 2002, with payment for such extended services to begin in fiscal year 2002-03. Due primarily to training, timing issues, and tax year-end processing, the Executive Steering Committee decided in April 2002 to postpone the actual go-live date for Human Resources-Payroll until January 1, 2003. IBM consultants were scheduled to return in January 2003 for post-implementation support. Additionally, two Contract Change Authorizations were executed which further extended the implementation timeframe for Lawson ERP and resulted in a reduction of contract costs for the District (see Exhibit 3).

On April 18, 2003, in response to our inquiry regarding the current status of the Lawson ERP project, the District indicated that the software had not yet been implemented. The District further indicated that its attorneys had hired consultants to assess the status of the project. The consultants met with the District and IBM on April 28, 2003. The meeting concluded with the understanding that the consultants were scheduled to help redevelop the project plan in order to validate newly proposed go-live dates and IBM would prepare a new draft contract change agreement. The District hopes to resolve any associated issues in an attempt to present the agreement to the School Board no later than June 3, 2003.

Finding No. 19: Lawson ERP Software

Technical and staffing problems have existed in the Lawson ERP software implementation. The technical problems have delayed the District's implementation and go-live timeframes. Under contracts, such as the ERP implementation contract between the District and IBM, the importance of both parties strictly adhering to the terms of the contract is heightened because of the potential for delays and other problems during the implementation and resulting disagreements over which party is at fault. Contract management measures, including problem resolution, non-performance penalties, and continuous review to confirm continued need for the contracted relationship ensure that roles and responsibilities of third parties are clearly defined, adhered to, and continue to satisfy requirements. Contractual terms stated that IBM was to configure, fully prepare for implementation, and implement before June 30, 2002, Lawson ERP, data warehouse, and imaging software. Further, IBM was responsible to the District for assuring the performance of all obligations, including initial warranty obligations, of Lawson. The District's actual go-live dates for the software components were not expressly stated in the contract.

In May 2002, the Lawson ERP environment upgrade to version 8.02 was available and installed by the District. The upgrade was necessary due to performance issues with version 8.01 and resulted in the re-write of end-user screen customizations previously written over the course of the project. Lawson provided resources to assist the District in the re-write task.

In June 2002, the project team noted technical problems with system stability. Specific problems which led to postponing the Financials/Procurement go-live date until October 1, 2002, were a service pack necessary to address issues associated with the 8.02 upgrade not being available until June 26, 2002, and the browser locking up, thus preventing access to the application. Lawson determined the browser locking issue to be a problem between the software and the Windows 98 and 2000 operating systems.

As per the contract, IBM was responsible for the performance of the Lawson ERP software. A Contract Change Authorization was executed on June 26, 2002, to extend IBM's consulting services until the new go-live date at no additional cost to the District. Further, IBM offered the District a deduction of up to $60,000 from the 10 percent monthly retainage payable upon contract completion for expenses incurred related to extending the go-live date. On July 16, 2002, the completion date for IBM's Change Management Services was extended from July 2, 2002, to October 18, 2002.

Lawson and Microsoft identified the browser issue for Windows 98 clients and created a workaround in July 2002. However, a final resolution for Windows 2000 clients did not occur until August 16, 2002, delaying completion of critical tasks dictated by the project plan. As such, on August 29, 2002, the District determined that an October 1, 2002, go-live would not be possible.

The District sent letters to IBM and Lawson declaring an anticipated breach of contract by both parties as a fully implemented, viable system would not be in place by the October 1, 2002, deadline. Following negotiations between the District and IBM, a Contract Change Authorization was approved by the Board on

October 15, 2002, and executed by both parties as of October 24, 2002. The Contract Change Authorization extended the contractual implementation date for Financials/Procurement and Human Resources-Payroll to January 31, 2003, and March 31, 2003, respectively. According to the agreement, these two dates represented the last date, for each respective system, that IBM was to deliver a fully prepared and District-accepted system for implementation, after which, the District would have no obligation to extend the contract and remain partnered with IBM for the Lawson ERP implementation. The actual go-live dates for Financials/Procurement and Human Resources-Payroll were to be determined by December 31, 2002, and January 31, 2003, respectively, with the intention to have both systems live prior to or on July 1, 2003. IBM consultants were to return to the District for a period of two weeks prior to and two weeks after go-live to provide assistance. Provisions for telephone support were outlined as well.

As consideration for the contract extension, the District was to retain the outstanding monthly retainage originally intended to be remitted upon successful completion of the project. Also, the District was to incur no additional travel expenses under the contract after September 30, 2002, which would result in a reduction in the maximum travel cost for which the District was responsible under the contract.

With regard to the data warehouse component, the District released IBM from its contractual obligation under the condition of the District's engagement of Computer Associates (CA) to complete the component of the project. The release stemmed from IBM's acknowledgement of the lack of skilled resources to implement the tools selected by the District for the data warehouse component. As consideration, IBM was to reimburse the District the proposed cost of the data warehouse component, plus an additional contract release fee.

The Contract Change Authorization further waived IBM's rights to any claims of non-compliance on the part of the District with respect to its responsibilities for the software implementation through the date of the Contract Change Authorization. As consideration for IBM's agreement to the no-cost Contract Change Authorization, the District assigned to IBM its rights, per the original contract, to pursue any damages associated with the Contract Change Authorization directly against Lawson.

On April 18, 2003, in response to our inquiry regarding the current status of the Lawson ERP project, the District indicated that the October 2002 Contract Change Authorization became void after the District was unable to reach an agreement by the specified date with CA on the data warehouse component. The District also indicated that the retainage and savings due to the reduction in travel expenses were still agreed upon settlements, with the exception of some pending outstanding travel invoices which could impact the total savings on travel. Further, the data warehouse cost and contract release fees would be up for negotiation, in that IBM would retain those amounts if the District could reach an agreement with IBM on the implementation of the data warehouse component.

Although implementation delays experienced by the District were ultimately attributable to the aforementioned technical problems, we also noted during our audit that problems existed with respect to the provision by the District of adequate and dedicated staffing throughout the project. Our audit did not extend to an evaluation of the adequacy of the contractor's staffing of the project.

Contractual requirements included the District's provision of full-time Human Resources, Payroll, Financials, and Procurement subject matter experts. IBM's Statement of Work for Lawson ERP further stressed the criticality of retaining those key resources from project inception, July 10, 2001, to completion. Although the Board approved the District's core team on July 10, 2001, the initial assignment of the Human

Resources staff as full-time resources did not occur until September 4, 2001. From October 2001 through January 2002, IBM expressed concern in the periodic status reports over the absence of the Financial and Procurement Functional Leads on the project due to their continued support of District activities. Additionally, concern with regard to contractual commitment was raised by IBM over the lack of the Payroll Technical Lead's dedication to the project in light of her continued responsibilities to the legacy system. As of February 22, 2002, the District's Payroll Technical Lead was no longer assigned to the project and remained unassigned to the project until April 2002. Staffing concerns again became a status report issue in June 2002 as team resources were called back to support District activities and legacy systems.

Contractual terms obligated the District to designate a full-time Project Coordinator whose responsibilities included helping to resolve and escalate issues within the District organization; verifying all tasks assigned were performed according to the project plan; and resolving project plan deviations caused by District personnel. As none of the technical resource positions were backfilled, the District's Project Coordinator continued his responsibilities as Manager of Operations Services and Support resulting in the need from the project team as a whole for increased access to his leadership, his management, and his support of the project. Further, issues related to the Human Resources-Payroll go-live date remained undetermined eight months into the project. Additionally, IBM expressed concerns through periodic status reports to the District over a period of two and one-half months regarding staff accountability for assigned project tasks.

The District, to date, has taken positive steps to enforce contract provisions relating to software implementation. However, further project slippage and staff shortages could jeopardize a timely implementation of the software and delay the project's intended objectives.

Recommendation:

The District should continue to monitor project progress, ensure sufficient project staffing, as required, and enforce contract obligations, as necessary, to assure a fully implemented and warranted system. Additionally, in any future contracts such as the one between the District and IBM, the District should ensure and enforce strict compliance with the terms of the contract, both on the part of the District and on the part of the contractor.

District's Response:

On June 17, 2003, the District approved a no charge change authorization with IBM to provide for an estimate "go-live" date of November 1, 2003, for Lawson Finance/Procurement and January 1, 2004, for Lawson HR/Payroll. The authorization also addressed IBM's obligation to "furnish and implement" the School Data Bus software for data warehousing.

Regarding the delays experienced by the district, it should be noted that the "browser hang" issue occurred after the installation of Lawson version 8.02, and lasted from early June through mid-September, 2002, which caused the significant delay in development, testing, and implementation.

It should also be noted that the delay in the placement of the subject area experts was a result of district budget issues, and the district paid IBM for a 3 month extension as a result of that action.

The audit review also discussed the concern regarding the District Project Manager and the fact that he was doing both his old job and the management of the project. The Districts' Project Manager was activated by the U.S. Army during Operation Enduring Freedom for a period of a year from October 2001. He was replaced by the Manager of Technical Support, who did do both jobs during the interim period; however, it needs to be emphasized that had the District had a full time person, the "browser hang" issue would still have caused the project to be off schedule.

The audit stated that it did not review IBM's adequacy on the project. Several issues have been expressed by the District regarding IBM's involvement in the project and were mentioned in the letters cited in the report. We believe the most significant is the fact that IBM's Certified Project Manager left IBM in

March of 2002 and another Certified Project Manager was not assigned to our project until June 2003.

Finally, in regard to the IBM status reports cited in the audit, the District has continually stated those do not constitute notice. The documents were IBM internal communications, and the district did not have the ability to respond, deny, or amend any comments. Had IBM had a concern there was an appropriate vehicle for the 2 Project Managers to address outstanding issues, the IBM status report was not timely, because some reports were 5-6 weeks late in even being generated.

Finding No. 20: Pending Investigation

On November 21, 2002, the District was served with a United States District Court, Middle District of Florida Grand Jury Subpoena. The subpoena requested the District to provide certified copies of any and all documents associated with seven companies as it pertains to the Hillsborough County School District Grounds Department during the tenure of the former landscape unit manager. The documents were to include contracts awarded to each company, whether the same were part of a bidding process or other contractual form; services rendered; requests for proposals prepared or submitted by the companies; payment documentation for services rendered; documentation regarding audits conducted on transactions associated with those companies; and correspondence between the District and companies. As of the end of December 2002, the requested information had been submitted to the United States District Court, Middle District of Florida for potential consideration of a grand jury investigation. This matter was still subject to consideration by a grand jury as of the end of our fieldwork in May 2003.

District's Response:

The District has and will continue to comply with the federal subpoena it has received.

Other Matters – Health Insurance Portability and Accountability Act

The Health Insurance Portability and Accountability Act of 1996 (HIPAA), Public Law 104-191, addresses data interchange, privacy, and information security standards for personal health information. Pursuant to HIPAA, the United States Department of Health and Human Services has published regulations on electronic data interchange standards and privacy, with security regulations not yet published. The final Transaction Rule, which contains electronic data interchange standards, was incorporated as a Federal regulation and has a compliance date of October 16, 2002. The final Privacy Rule was incorporated as a Federal regulation and compliance is required by April 14, 2003. HIPAA also provides for civil and criminal penalties for noncompliance. Because of the significance of these provisions on the handling and transmission of personal health information, the District should continue to evaluate the impact of the HIPAA requirements on the District as new requirements are finalized.

District's Response:

The District and its consultants are keeping informed and up to date regarding all aspects of HIPAA compliance.

Scope, Objectives, and Methodology

The objectives of this operational audit were to determine whether District management controls promoted and encouraged: 1) compliance with applicable laws, administrative rules, and other guidelines; 2) the economic, effective, and efficient operation of the District; 3) the reliability of records and reports; and 4) the safeguarding of District assets.

Specifically, we reviewed management controls over cash, inventories, financial condition, monitoring of charter schools, capital outlay, budgets, expenditures, and information technology.

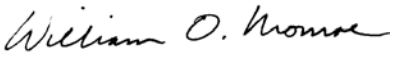
We conducted this audit in accordance with applicable standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Prior Audit Findings

Except as discussed in the preceding paragraphs, the District corrected the deficiencies and exceptions cited in prior audit reports.

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, CPA
Auditor General

Auditee Response

The Superintendent's response letter, dated July 2, 2003, can 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 Elba Guzik, CPA*, and supervised by Karen Collington, 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. The information technology resources portion of this audit was conducted by Heidi Burns, CPA*, CISA, and supervised by Nancy Reeder, CPA*, CISA. Please address inquiries regarding the information technology resources portion of this report to Jonathan E. Ingram, CPA*, CISA, Audit Manager, via e-mail at **joningram@aud.state.fl.us** or by telephone at (850) 488-0840.

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.

*Regulation by the State of Florida

EXHIBIT 1
HILLSBOROUGH COUNTY DISTRICT SCHOOL BOARD
OPERATIONAL AUDIT

Date	Action
February 2000	Board rejects District recommendation to negotiate with SAP for ERP software
June 2000	District established an Industrial Review Committee and Technology Advisory Committee to review the technology needs and initiatives of the District and to draft a Request for Proposal (RFP) for Technology Consultant Services to assist a District project team in evaluating and identifying the best business practices and associated ERP, data warehouse, imaging, and e-mail software systems
September 12, 2000	Board authorized the release of RFP-4070 - Technology Consultant Services
November 14, 2000	Board authorized contract negotiations with Real Enterprise Solutions, Inc. (Real)
December 12, 2000	Board approved contract with Real to assist a core team of District staff representing specific areas of business in defining its processes and needs, ultimately developing functionality matrixes which would be incorporated as a Request for Qualification (RFQ) distributed to software vendors
February 7, 2001	District released RFQ-4112 – ERP System Selection
March 13, 2001	Final Report by Real supporting District's selection of Lawson Insight Business Management Systems
April 17, 2001	Board authorized contract negotiation with Lawson Software and further authorized solicitation through proposal of an ERP implementation integrator
April 20, 2001	District released RFP-4153 for an Implementation Consultant to assist a District project team in configuring and implementing the Lawson ERP system, including facility maintenance, data warehouse, and imaging software
May 15, 2001	Board approved the Lawson Software End-User Agreement for enterprise license of ERP financial, human resources, payroll, and facility maintenance software. Agreement executed on June 5, 2001.
June 5, 2001	Board authorized contract negotiations with IBM Global Services based on proven K-12 Lawson implementation experience and a lower cost proposal than other responding vendors
June 19, 2001	Board approved IBM contract for implementation of the ERP, data warehouse, and imaging system components before June 30, 2002; IBM contracted directly with Lawson and assumed purchase of software; District reimbursed IBM on July 24, 2001, for software cost as negotiated in the End-User Agreement
July 10, 2001	Board approved off-site facility for Project Team
July 10 ,2001	Board approved district core team costs for implementation of Lawson
July 10, 2001	IBM/District Implementation Team Kick-off

EXHIBIT 2
HILLSBOROUGH COUNTY DISTRICT SCHOOL BOARD
OPERATIONAL AUDIT

			Lawson Software			
			Financials/Procurement		Human Resources-Payroll	
	Imaging [1]	Data Warehouse	Implementation	Go-Live	Implementation	Go-Live
Original Contract	February 2002	February 2002	June 30, 2002	July 1, 2002	June 30, 2002	July 1, 2002
Revised as of January 30, 2002					October 1, 2002	October 1, 2002
Revised as of April, 2002						January 1, 2003
Revised as of June 26, 2002		October 1, 2002	October 1, 2002	October 1, 2002		
Revised as of October 24, 2002		To be negotiated with Computer Associates	January 31, 2003	To be determined by December 31, 2002	March 31, 2003	To be determined by January 31, 2003
Anticipated revision pending		To be negotiated with IBM	*	*	*	*

[1] - Imaging component completed March 15, 2002

* - As previously discussed in this report, the project plan is to be redeveloped in order to validate newly proposed dates. IBM is to prepare a new contract change agreement and the District hopes to resolve any associated issues in an attempt to present the agreement to the School Board no later than June 3, 2003.

EXHIBIT 3
HILLSBOROUGH COUNTY DISTRICT SCHOOL BOARD
OPERATIONAL AUDIT

Item	Original Costs	PCR-001 Adjustment October 16, 2001	PCR-002 Adjustment January 30, 2002	Revised Costs After PCRs	Change Authorization Adjustment June 26, 2002	Change Authorization Adjustment October 24, 2002 (5)	Revised Costs After Change Authorization
Real Consulting Services	$ 460,855			$ 460,855			$ 460,855
Lawson Software	$ 2,000,000			$ 2,000,000			$ 2,000,000
IBM Implementation Services (1)	$ 5,000,000	$ 250,000	$ 360,000	$ 5,610,000	$ (60,000)	$ (390,002) (3)	$ 5,159,998
Consultant Travel Allowance	$ 800,000	$ 40,000	$ 30,000	$ 870,000		$ (368,923) (4)	$ 501,077
ERP Computer Database and Hardware	$ 1,500,000			$ 1,500,000			$ 1,500,000
ERP Team Costs (Estimated) (2)	$ 986,708			$ 986,708	$ 140,245		$ 1,126,953
Total	$ 10,747,563	$ 290,000	$ 390,000	$ 11,427,563	$ 80,245	$ (758,925)	$ 10,748,883

1) Includes data warehouse and Imaging Implementation payable over 13 months with $500,000 retained until final acceptance of the project.
2) Includes Project Staff and Back-filled Positions.
3) Includes retainage.
4) Outstanding travel invoices, which total to $87,561, are pending contract negotiations with IBM and not included in this figure.
5) As previously disclosed in Finding No. 19, this Contract Change Authorization became void after the District was unable to reach an agreement with Computer Associates on the data warehouse component. The District indicated that retainage and savings due to the reduction in travel expenses were still agreed upon settlements; however, the data warehouse cost and contract release fees were up for negotiation, in that IBM would retain those amounts if an agreement could be reached regarding IBM implementing the data warehouse component.

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School District of Hillsborough County

Carol W. Kurdell, Chair
Glenn Barrington, Vice Chair
Carolyn Bricklemyer
Jennifer Faliero
Jack R. Lamb, Ed.D.
Candy Olson
Doris Ross Reddick

Superintendent of Schools
Earl J. Lennard, Ph.D.

SCHOOL DISTRICT OF HILLSBOROUGH COUNTY

July 2, 2003

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

Dear Mr. Monroe:

The School District of Hillsborough County, Florida is in receipt of the Preliminary and Tentative Findings for the District's financial audit for the fiscal year ending June 30, 2002. Attached to this letter are our responses.

I would also like to express for the record that we very much appreciate your staff and the work they did on the audit. We take all reviews of our operation very seriously, and will utilize any constructive criticism as a way for us to improve our performance. I would also state that your staff was very professional, and took extra steps in the collection of their data so as not to impede the day-to-day operation of the system.

Should you need additional information, please feel free to contact me or Dr. Michael Bookman, the District's Chief Business Officer.

Sincerely,

Earl J. Lennard
Superintendent

EJL:MKB:jj
14699.doc

Enc.

Raymond O. Shelton School Administrative Center *• 901 East Kennedy Boulevard • Tampa, Florida 33602*
Superintendent's Office: 813-272-4050 • Administrative FAX: 813-272-4510 • School District Main Office: 813-272-4000
P.O. Box 3408 • Tampa, FL 33601-3408
Web Site: www.sdhc.k12.fl.us

* * * * * * * Preliminary & Tentative Findings * * * * * * *

SCHOOL DISTRICT OF HILLSBOROUGH COUNTY
OPERATIONAL AUDIT
FOR THE PERIOD JULY 1, 2001, THROUGH JUNE 30, 2002
AND SELECTED MANAGEMENT ACTIONS TAKEN THROUGH APRIL 30, 2003

SUMMARY

Finding No. 1: The District continued to experience a lower than average financial position during the 2001-02 fiscal year. The District's unreserved fund balance at June 30, 2002, was approximately 2 percent of General Fund revenues for the fiscal year. In these circumstances, the District has minimal resources available for emergencies and unforeseen situations.

District Response: The School District of Hillsborough County has in place Board Policy 7.01, Formulation of the District Budget, which states:

> It shall be the goal of the district to maintain an unreserved/undesignated operating fund balance for nonrecurring expenses in an amount equal to three percent (3%) of anticipated total potential revenue as established by the Legislature through the State appropriation process. The superintendent shall include this goal in the budget each year in an amount sufficient to attain this goal as soon as practicable.

Additionally, the Office of the Auditor General issued Report No. 03-035 "Review of Financial Trends and Factors Affecting Financial Condition in Florida School Districts – July 1, 1995 – June 30, 2001" which states:

> With the exception of Section 218.503, Florida Statutes (the Local Government Financial Emergencies Act), there are not statutory provisions that require school districts to maintain minimum levels of fund balance. Section 218.503, Florida Statutes, defines conditions that could be considered a financial emergency.

On September 23, 2002 the School District received from Standard & Poor's an increase of the Bond rating to 'AA-' from 'A+', as stated:

> The increase in the 2002 reserves is even more impressive, given the district experiencing a $25 million reduction in state revenue as a result of the overall state and national recessions. The district addressed the state revenue reduction through a combination of $13 million of spending reductions and use of its fiscal 2002 $12 million contingency reserve.

As of June 25, 2003 the School District of Hillsborough County has an unreserved embargoed contingency balance of $20,371,500. These funds will not be transferred or expended without the authorization of the Superintendent with the consultation of the School Board. Until the School District of Hillsborough County reaches the goal of three percent we will continue to increase the unreserved fund balance.

Finding No. 2: Improvements were needed in the financial information presented to the Board. The monthly financial statements submitted to the Board did not include balance sheets nor did they include the internal service fund used to account for the District's self-insurance programs that currently has a net asset deficiency.

District Response: The Superintendent shall submit to the Board a financial statement for each month of the fiscal year. The format of the statement shall be approved by the School Board and shall include a cumulative report to date of all receipts and expenditures for the fiscal year.

After the Final Public Hearing on September 9, 2003, approving FY 2003-2004 budget, the Business Division will provide fund information to the School Board through monthly financial statements similar to what is now provided for the Operating Fund.

Finding No. 3: The District continued to experience a net asset deficit totaling $11,893,634 at June 30, 2002, for its workers' compensation and automobile and general liability self-insurance programs. District personnel indicated that the District had not implemented a formal plan for funding the remaining deficit.

District Response: The School Board and District are aware of the underfunded actuarially required reserves in the workers compensation and general liability fund, as each audit finding has been reported to the Board. In each response to the audit finding, the District has indicated that the underfunded reserves would be fully funded over a period of years through a combination of premium increases and changes in workers compensation claims administration.

The current estimate allowed for the underfunded reserves in workers compensation to be corrected over an 11-year period beginning in fiscal year 1995/1996 and that full funding would be achieved during the 2005/2006 fiscal year.

It should be noted that the underfunded reserve issue began with the actuarial analysis that required a funded reserve that was tens of millions of dollars over previous estimates. This issue should not and is not taken lightly as the District will fully fund the required reserves as soon as practicable. A portion of the actuarially required reserves include claims for long term injuries which have a very high total cost but are actually paid over decades in significantly reduced annual amounts. While it is prudent and proper to anticipate the future liability, the unfounded reserves can adequately be addressed with a long-term solution that coincides with other issues that the Board must fund.

It should also be noted that the audit finding indicates that fully funded reserves would preclude an adverse impact on District operations in the event of significantly increased claims experience in any fiscal year. While the District plan to fully fund the actuarially required reserves will be met, it should be understood that while the District reserves are not fully funded there are funded reserves in place. For the year just audited, 2002, the actual amount expended from the workers compensation fund and general liability fund was $13.8 million and the reserves on hand after claims had been paid was $16.4 million. The District currently has adequate reserves to settle a 100% increase in claims.

Finding No. 4: Timely financial information was not always received from the District's charter schools. Five of 15 charter schools did not provide the District any quarterly financial statements and 8 other charter schools did not submit some of the quarterly financial statements. In addition, 8 of the 15 charter schools' audited financial statements were provided to the District two to four months after the deadline provided in the contract.

District Response: The following steps have been implemented regarding the charter schools and the monitoring of their financial statements. The District's Charter School Office will notify the Charter Schools about the following guidelines:

1a - Quarterly financial statements are submitted to Charter School Office no later than one month after the end of the quarter.

July – September Quarter	Due last business day of October
October – December Quarter	Due last business day of January
January – March Quarter	Due last business day of April
April – June Quarter	Due last business day of July

1b - The Charter School Office will notify each charter school that has not submitted quarterly financial statements to the district within the prescribed period that they are in non-compliance with their charter and the charter school law. Such notification shall be within one month of non-compliance and every month until compliance is obtained.

1c – All instances of non-compliance will be reported to Chief Academic Officer and the School Board annually.

2a – Audited financial statements are submitted to the Charter School Office (no later than 12 weeks after the school's fiscal year end.

2b - The Charter School Office will notify each charter school that has not submitted audited financial statements to the district within the prescribed period that they are in non-compliance with their charter and the charter school law. Such notification shall be within one month of non-compliance.

2c – All instances of non-compliance will be reported to Chief Academic Officer and the School Board for review and action.

Finding No. 5: Improvement was needed in the District's management of Federal cash advances. For example, Federal programs funded by the cash advance systems were operated in a deficit cash position for seven months during the 2001-02 fiscal year, necessitating the use of other District funds to temporarily pay Federal costs.

District Response: To address the cash needs for more than 85 grants through the cash advance system, the following procedures have being implemented:

Cash is requested based upon need by using the Daily Federal Cash Advance Electronic Request System through Northwest Regional Data Center (NWRDC). This is done several times a month, depending on the cash status of these funds. The cash management accountant informs the special revenue accountant when the funds are low, and what is expected to be paid from accounts payable and payroll. The Special Revenue Accountant then requests the cash online and the wire is received in the district by EFT, within a week's time. The cash management accountant receipts the money and informs special revenue that it has arrived.

A worksheet is maintained in Special Revenue to track expenditures monthly by fund. This report is used to help project the cash needs of these funds and eliminate cash deficit situations that would cost the District interest earnings. In the case of cash surpluses in these funds, the cash is invested and the interest earned is remitted to the Florida Department of Education.

A new worksheet is in the development stage to track expenditures weekly. This should help refine the projection process even further and help eliminate large cash surpluses. We will continue to enhance our efforts to maintain projected cash in these funds as close to our actual needs as possible.

Finding No. 6: Our review disclosed that attendance records were not always maintained for Grounds Department employees and that supervisory reviews of attendance records were not performed.

District Response: All files were not readily available at the time of the auditor's initial visit. The files had been moved and secured in another location. A subsequent search of the records yielded most of the requested information.

The supervisor hands out job assignments daily. This provides an opportunity for him to view the forms; however, there is no actual sign-off or initialing in place.

Payroll/Attendance Reporting procedures have been developed for all departments within the Facilities Division.
The components of the procedures are outlined below for all to follow:

- Maintenance personnel reporting directly to their assigned site verify time-in and time-out by time clock or sign-in and sign-out sheets, which are verified by supervisor's signature.
- Maintenance personnel reporting directly to district sites other than their assigned site, communicate with supervisor at the start and end of each workday.
- Maintenance personnel are required to sign-in and sign-out at each district site.
- Maintenance requests (MRs) are used to document and verify work accomplished at each site.
- Vacation leave forms are pre-approved by manager, or in his absence the supervisor, prior to submitting district forms.
- Sick leave is signed and approved upon return of employee.
- Clerical personnel perform payroll functions on a rotating basis.
- Authorized managers transmit payroll after verifying based on district leave forms.

Finding No. 7: Improvements were needed regarding the District's monitoring of purchase orders. Our tests of 40 blanket purchase orders disclosed 23 purchase orders, issued in amounts ranging from $600 to $500,000, against which purchases were charged in excess of the purchase order limits, ranging from $465 to $152,939. In addition, we noted that authorization of four blanket purchase order increases were not available for audit.

District Response: The District IS Department provides a number of valuable reports to all sites to encourage them to manage their individual budgets and expenditures. A report comparing purchase order amount and amount paid on the purchase order is provided to all sites for review. The Purchasing Department reviews all Blankets to ensure at minimum an expiration date, authorized users and a not to exceed amount is included on all blanket purchase orders.

Any major change in the Purchasing Department other than Lawson implementation would increase the workload on the Department to the extend that many other procurement requirements will suffer. We are confident that great improvement will come about with the issuing, approving and paying of blanket purchase orders once Lawson is implemented. The below are general Lawson guidelines that will assist with alleviating the issue of user departments exceeding blanket purchase order dollar limits.

> Lawson Accounts Payable requires a "3-way match" before payments are issued. The match is between the purchase order, receiver, and invoice. If an inconsistency occurs, the purchasing agent responsible for creating the purchase order will be automatically notified. The payment is held until action by the purchasing agent is entered into the system.

On May 20, 20003, the Board approved moving forward with the recommendation of implementing a review process to ensure payments do not exceed authorized amounts. The approved process will also

include an enhanced means of evidencing blanket purchase order increases. The completion date will coincide with the implementation of Lawson. It is the intent of the District to limit the use of blanket purchase orders.

Finding No. 8: Improvements were needed in the District's bid procedures. Our review disclosed that the District did not require bid tabulations to be signed and dated by the bid opener and did not require someone to witness the opening nor sign and date the tabulation. Our review further disclosed that purchases exceeding the bid limit were not acquired through the competitive bid process. In addition, we noted deficiencies in the bid process over a minor roof repairs bid.

District Response: We concur with the recommendation that District purchases exceeding the bid threshold be obtained pursuant to a request for competitive bid, and that such bids be documented to evidence the fairness of the bid purchasing process. The Board has authorized a centralized purchasing function to perform in the capacity directed by the Florida Statutes and State Board Rules. To further illustrate the commitment of the Board to a centralized purchasing system, on October 15, 2002 the Board reorganized to department and increased staff to 17 employees.

Notification of purchasing threshold requirement will be provided to end users through the administrative bulletin and district web site. We are confident that great improvement will come about with the solicitation and award of bids once Lawson is implemented. The below are general Lawson guidelines that will assist with strict compliance to bid threshold requirements.

> With the use of the new ERP's pricing agreements, costs will be more accurately identified at the time of purchase order issue. All items on bid will be entered in a price agreement and the item cost will automatically fill in on the requisition or purchase order. Requisitioners are not required to enter the vendor or price for items on bid.

On May 20, 20003, the Board approved moving forward with the recommendation of tracking and monitoring purchasing threshold limits. The completion date will coincide with the implementation of the new ERP system. It is the intent of the District to utilize bids where required by statute.

We partially concur with the recommendation that the District revise its procedures to specifically address the opening of sealed bids. It should be noted that current procedures do require all bid documents to be date and time stamped on the envelop upon receipt. The procedure is being enhanced to include two employees present at bid openings, and signatures of the two employees on bid tabulation sheets.

We do not concur with the finding regarding a vendor being allowed to revise their bid amount after the bid opening. General Terms and Conditions of the District's bid document allow the Purchasing Manager to ask for clarification of all prices and statements contained in bids. The bidder cost was stated in terms of per 100 square feet instead of cost per square foot. The bid amount was not changed, staff merely received clarification of the bidders cost.

We concur with the recommendation that procedures should be strengthened to ensure that Board authorization is obtained for sole source purchases. Procedures are being developed for sole source purchases to include notification to the Board. End users will be notified by placing an announcement in the District's administrative bulletin.

Finding No. 9: Improvements were needed in the Purchasing Department's review procedures to ensure that vendor information forms are submitted and reviewed, and that any indicated conflicts are

appropriately followed up prior to hiring vendors interested in providing goods and services to the District. In the absence of adequate procedures to ensure that all potential District vendors submit the required vendor information forms and the proper review and follow-up of the submitted forms, District management's ability to ensure compliance with its conflict of interest policy is limited.

District Response: We concur with the recommendation that the Purchasing Department strengthen the submission and review procedures ensuring that the conflict of interest forms are filed and reviewed and any indicated conflicts are appropriately followed up. On October 15, 2002, the Board authorized the purchase of a vendor notification system. All vendors including existing vendors interested in doing business with the District will be required to register in the system. The application requires vendors to answer the question, "Are any Officers, Owners, or Partners listed above employees of the School District of Hillsborough County?" Completed applications will be scanned and maintained as a part of the vendor notification system. This initiative will allow staff to reconfirm any conflict of interest issues.

The completion date for this project is to coincide with the new ERP implementation.

Finding No. 10: Improvements were needed in the District's, pre-audit payment procedures. Our review disclosed that the District had not implemented procedures to avoid duplicate payments to vendors and that payments were made to vendors without signatures of District staff evidencing receipt of the goods or services. In addition, bid references were not always included on purchase orders.

District Response: Accounts Payable processes an average of 7,000 records each week producing 1,700 to 2,000 checks. Every effort is made to assure that payments are not duplicated. Payments can process that are duplicates if they are not in the same week. Duplicate payments are minimal as problems are usually found in the audit of the checks prior to mailing.

Standard procedures are to review payments when the invoice appears to be a copy of an original to assure the invoice was not paid. This process will be reinforced. If an invoice is duplicated and the vendor has received the payment, Accounts Payable immediately processes a credit memo to recover the overpayment. We will contact the vendor to make them aware of the overpayment and give them the opportunity to send us a check. If a check is not received from them, the payment system will hold future payments until the amount of the overpayment has been recovered.

With the implementation of the new ERP system, the probability for duplication of invoices will be eliminated.

No invoices are processed for payment without receiving information. There are three methods of receiving in the current system. Standard Purchase Orders are received through the on-line purchase order system. This process is controlled by IS security. Blanket Purchase Orders are received either by a copy of a signed delivery ticket, copy of signed invoice, signed original invoice if the company mailed it to the receiving site, or e-mail messages stating the invoices to be paid. E-mail identifies the person authorizing payment. This documentation is included in the backup in the Warrant Files.

Price discrepancies between invoice and purchase order amounts are discussed with the site that ordered the merchandise or service to determine if they authorized the increase, and also with the purchasing department.

Implementation of the ERP system will improve these processes.

Finding No. 11: The District did not timely correct safety and maintenance deficiencies disclosed by annual facility inspections. Our review of annual facility inspection reports indicated many instances in

which previously cited maintenance and safety deficiencies remained unresolved for at least seven years. Failure to timely correct facility deficiencies results in an increased risk that facilities could become unsafe for occupancy and could result in additional costs in the future due to further deterioration.

District Response: Any deficiencies reported to Maintenance are evaluated and responded to accordingly. Maintenance requests are generated for regular maintenance repairs. If the request is capital outlay, it is forwarded to the Area Director.
Maintenance items noted on safety report that are too large for everyday maintenance are placed on the five-year plan.

Upon completion, the request and copy of safety report are faxed to safety manager.

- Maintenance related items would be corrected so that they will not be duplicated in the following year's report.
- The Area Director would send a Capital Outlay Request to the appropriate Maintenance Manager for an estimate. If Area Director approves and funds it, the project would then be completed.
- Maintenance places the project on the district's Five Year Plan with an appropriate funding source.
- Maintenance will make every attempt to complete all items within three years.

Finding No: 12: Improvements were needed in the maintenance of vehicle utilization records. The District did not have a written policy addressing the use and operation of District-owned and leased vehicles or the preparation of vehicle logs.

District Response: Uniform written policies for vehicles utilization were not in place at the time of the audit. Vehicle utilization records are maintained for all maintenance departments. The logs that were not available were those removed with other Grounds' records.

- Written procedures have been developed and submitted to the School Board for approval, which addresses the assignment of vehicles to employees.
- Vehicle utilization logs are maintained by all maintenance departments. Logs are to be detailed to include odometer readings and must correlate to work assignment. Logs to be reviewed weekly and verified by supervisors

As of June 17, 2003, The School Board approved a vehicle utilization plan outlining the criteria of utilization of Board vehicles.

Finding No. 13: Improvements could be made in the District's procedures over inventories. We noted there was inadequate segregation of duties over the maintenance of inventories at the Central Maintenance and Grounds Departments. In addition, physical inventory counts were not always conducted at fiscal year end and the value of the inventories was not reported on the District's financial statements. Under the current system of asset custody and record keeping responsibilities, errors or irregularities, should they occur, may not be detected in a timely manner.

District Response: Procedures are now in place that provide for a system of checks and balances when it comes to ordering and receiving parts and maintaining inventory. Some variations exist due to the area of specialization of the department. Inventory reports and balances are on hand for all departments. Accessing these records electronically is being addressed through the new ERP system.

Finding No: 14: The District's review of construction progress payments did not include the review and retention of documentation to ensure that subcontractor payments were properly supported. In the

absence of adequate construction progress payment reviews, the District has limited assurance of realizing potential costs savings, as there is an increased risk that overpayments could be made and not be timely detected.

District Response: Progress payment applications currently include supporting documentation from subcontractors, architects currently are responsible for verifying that the completed work complies with the contract requirements.

The construction manager certifies with each pay request that previous payments have been properly dispersed.

- The format of the Schedule of Values, which is the basis for progress payments, has been revised to better reflect subcontracted amounts.
- To better insure that progress payments accurately reflect the amounts earned, the project architects will be tasked with verifying that amounts invoiced by the construction manager are supported by subcontractor documentation.
- Applications for payment will continue to include a certification that previously received payments have been properly disbursed.

The District intends to implement a web based project collaboration system. Capabilities include online submission and review of progress payments, including subcontractor invoices.

Subcontractor invoices are presently reviewed at the project site by the construction manager and architect prior to certification of the progress payment to the owner.

- New procedures will require that all approved subcontractor invoices accompany each application for progress payment. Such materials will be retained by for audit purposes.

Implementation of the web-based on-line project collaboration program will facilitate retention of project documentation.

Finding No. 15: Subsequent to a former employee's allegations of the misuse of District funds, the District commissioned a consultant report, and formed a community-based committee to review the report and provide recommendations for operational improvements. The committee recommended the implementation of numerous improvements through specific action plans.

District Response: The District is appreciative of the citizen-based advisory committee's efforts. The committee's able assistance in addressing the issues set forth in both the E&Y report and the recent OPPAGA report were especially helpful. The District will continue to engage the committee in periodic reviews of the Facilities Division. We expect the Committee will play central role in the development of the District's long range capital outlay plan.

Finding No. 16: The District disbursed $315,000 of restricted capital outlay funds to pay for an investigative report resulting from allegations of the misuse of District funds. Restricted capital outlay funds are required to be expended on specific construction and maintenance projects, rather than reviews over District operations.

District Response: The District will reimburse the capital outlay fund from the operational budget.

Finding No. 17: Improvements were needed in the District's procedures over maintenance work orders. Maintenance work orders demonstrating the need for, and completion of, services provided to District

departments were not always certified by an employee independent of the maintenance function. In addition, work orders were not always supported by invoices or other documentation supporting amounts charged. In the absence of supporting documentation and confirmation by someone independent of the maintenance function, the use of District services, materials, and supplies for unauthorized purposes could occur and not be detected in a timely manner.

District Response: A card inventory system has recently been implemented to have an accurate account of purchases for inventory stock. In the past we were not required to have a yearly inventory count.

A maintenance request is to be generated for every job requested. Schools will generate these or authorized personnel at the affected maintenance department. We will have the ability to correlate attendance and work completed along with parts and supplies when the automated system is in place.

Finding No. 18: Improvements were needed in the District's security controls over its information technology resources.

District Response: The District will take the appropriate action necessary to ensure the security controls over its information technology resources. Specific details are available for review by authorized agencies.

Finding No: 19: Technical and staffing problems surrounding a new information technology software system have delayed the District's implementation and go-live timeframes. The District, to date, has taken positive steps to enforce contract provisions relating to software implementation. However, further project slippage and staff shortages could jeopardize a timely implementation of the software and delay the project's intended objectives.

District Response: On June 17,2003, the District approved a no-charge change authorization with IBM to provide for an estimate "go-live" date of November 1, 2003, for Lawson Finance/Procurement and January 1, 2004, for Lawson HR/Payroll. The authorization also addressed IBM's obligation to "furnish and implement" the School Data Bus software for data warehousing.

Regarding the delays experienced by the district, it should be noted that the "browser hang" issue occurred after the installation of Lawson version 8.02, and lasted from early June through mid-September, 2002, which caused the significant delay in development, testing, and implementation.

It should also be noted that the delay in the placement of the subject area experts was a result of district budget issues, and the district paid IBM for a 3 month extension as a result of that action.

The audit review also discussed the concern regarding the District Project Manager and the fact that he was doing both his old job and the management of the project. The Districts' Project Manager was activated by the U.S. Army during Operation Enduring Freedom for a period of a year from October 2001. He was replaced by the Manager of Technical Support, who did do both jobs during the interim period; however, it needs to be emphasized that had the District had a full time person, the "browser hang" issue would still have caused the project to be off schedule.

The audit stated that it did not review IBM's adequacy on the project. Several issues have been expressed by the District regarding IBM's involvement in the project and were mentioned in the letters cited in the report. We believe the most significant is the fact that IBM's Certified Project Manager left IBM in March of 2002 and another Certified Project Manager was not assigned to our project until June 2003.
Finally, in regard to the IBM status reports cited in the audit, the District has continually stated those do not constitute notice. The documents were IBM internal communications, and the district did not have

the ability to respond, deny, or amend any comments. Had IBM had a concern there was an appropriate vehicle for the 2 Project Managers to address outstanding issues, the IBM status report was not timely, because some reports were 5-6 weeks late in even being generated.

Finding No. 20: On November 21, 2002, the, District was served with a United States District Court, Middle District of Florida Grand Jury Subpoena. The subpoena requested the District to provide certified copies of any and all documents associated with seven companies as it pertains to the Hillsborough County School District Grounds Department during the tenure of, the former landscape unit manager. As of the end of December 2002, the requested information had been submitted to the United States District Court, Middle District of Florida for potential consideration of a grand jury investigation. This matter was still subject to consideration by a grand jury as of the end of our fieldwork in May 2003.

District Response: The District has and will continue to comply with the federal subpoena it has received.

Other Matters - Health Insurance Portability and Accountability Act
The Health Insurance Portability and Accountability Act of 1996 (HIPAA), Public Law 104-191, addresses data interchange, privacy, and information security standards for personal health information. Pursuant to HIPAA, the United States Department of Health and Human Services has published regulations on electronic data interchange standards and privacy, with security regulations not yet published. The final Transaction Rule, which contains electronic data interchange standards, was incorporated as a Federal regulation and has a compliance date of October 16, 2002. The final Privacy Rule was incorporated as a Federal regulation and compliance is required by April 14, 2003. HIPAA also provides for civil and criminal penalties for noncompliance. Because of the significance of these provisions on the handling and transmission of personal health information, the District should continue to evaluate the impact of the HIPAA requirements on the District as new requirements are finalized.

District Response: The District and its consultants are keeping informed and up to date regarding all aspects of HIPPA compliance.