AUDITOR GENERAL

WILLIAM O. MONROE, CPA

BROWARD COUNTY DISTRICT SCHOOL BOARD

OPERATIONAL AUDIT

For the Period July 1, 2002, through June 30, 2003, and Selected Management Actions through April 2004

SUMMARY

Finding No. 1: Internal Audit Function

To enhance independence, Board policies should allow the District's internal auditor to independently report instances of suspected fraud, abuse, and improper acts and expenditures to the appropriate law enforcement agencies.

Finding No. 2: Audits of School Internal Accounts

The District should enhance procedures to ensure that the required annual audits of the District's school internal accounts are completed and presented timely to the Board.

Finding No. 3: Monitoring of Charter Schools

The District should enhance procedures to provide for timely monitoring and reviewing of the financial and insurance information required to be submitted by its charter schools.

Finding No. 4: Agency Fund Transactions

Some Department operating activities were reported as agency funds in the financial statements, although the resources for these activities were not being held under custodial arrangements. Accumulated resources for the accounts reviewed ranged from approximately $248,000 to $884,000 at June 30, 2003.

Finding No. 5: Annual Facility Inspections

The District had not corrected many deficiencies cited during previous years' annual facility safety inspections. Some deficiencies had been cited up to 12 previous times (years) and many involved fire violations.

Finding No. 6: Capital Outlay – Day-Labor Project Inspections

District procedures for inspections of day-labor projects could be enhanced by documenting those instances in which inspections are determined not to be necessary. Also, the District should consider the benefits of implementing an automated inspection tracking system.

Finding No. 7: Site Selection and Acquisition

The District could enhance policies and procedures for site selection and acquisitions of real property.

Finding No. 8: Tangible Personal Property

The District should strengthen procedures to provide for complete annual physical inventories, timely and proper marking of property items as property of the District, and updating of property records to reflect an accurate listing of property items for current locations.

Finding No. 9: Energy Savings Contracts

The District did not independently verify the energy savings representations made by energy conservation contractors and verified by project managers, whose positions are funded by the contractors. Also, no written guidelines have been developed to establish the time frame for measuring and verifying significant contract items and the documentation necessary to evidence the project managers' review process.

Finding No. 10: Construction Change Orders – Consultant Errors

The District records did not evidence whether change orders ($1.8 million) identified as consultant errors were the result of consultants' negligence which would be subject to reimbursement to the District.

Finding No. 11: Construction Warranty Process

An automated warranty administration system was not in place to track and monitor project warranties. Also, the District should develop written guidelines defining the duties of school/facility staff, project managers, Maintenance Department personnel, and contractors during the warranty process.

Finding No. 12: Monitoring of Construction Managers

The District should enhance procedures to document the monitoring of the construction managers' subcontractor selection. The procedures should also provide for monitoring the verification of subcontractor licensure by the construction managers.

Finding No. 13: Strategic Planning

The District should improve its strategic plan to include projected costs and funding sources for the established goals and objectives and to correlate its budget to strategic plan goals and objectives.

Finding No. 14: Florida School Recognition Program Expenditures

The District should enhance its procedures to ensure that Florida School Recognition Program funds are distributed in accordance with program requirements.

Finding No. 15: Purchasing Practices

Procedures could be enhanced by rotating assignments for employees with buying responsibilities within the Purchasing Department. Also, District records should document that purchases are made in accordance with applicable bid terms and conditions, at the lowest and best price, and consistent with product quality and performance, including those made from catalog discount bids.

Finding No. 16: Verification of Work Experience

The verification of work experience was not documented for five employees in the Facilities and Construction Management Division. Also, the District verified only 1.4 years of work experience for an employee whose position required five years of work experience. In another instance, the verification of employment was made 15 months after the appointment date.

Finding No. 17: Salary Overpayments

The District should strengthen procedures to enhance the efficiency and effectiveness of the payroll processing function and reduce the risk of future salary overpayments.

Finding No. 18: Overtime Payment Monitoring

From July 2001 through June 2003, the District's payroll application system was not able to generate reliable reports that would allow overtime payments to be summarized, compared, and analyzed. Although some overtime reports have been generated effective July 2003, additional procedural enhancements should be made to control overtime payments.

BACKGROUND

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

During the audit period, the District operated 216 elementary, middle, and high schools; adult/vocational schools; and educational centers and reported 262,704 unweighted full-time equivalent students. In addition to its primary responsibility of providing educational services to students in grades kindergarten through 12, the District provided post-secondary vocational training.

The results of our audit of the District's financial statements and Federal awards are presented in audit report No. 2004-173.

FINDINGS AND RECOMMENDATIONS

Finding No. 1: Internal Audit Function

Section 1001.42(10)(l), Florida Statutes, provides that a school board may employ an internal auditor to perform ongoing financial verification of the financial records of the school district and provides that the internal auditor shall report directly to the school board or its designee. The Office of Management/Facility Audits (OMFA) is responsible for the District's internal audit function. Pursuant to Board Policy 1002.1, the Executive Director of the OMFA reports administratively to the Superintendent. However, an audit committee has oversight responsibility over the District's internal audit function. Completed OMFA reports are first presented to the audit committee and then submitted to the Board and the Superintendent simultaneously.

According to the above policy, instances of suspected fraud, abuse, and improper or illegal acts and expenditures noted by the OMFA are to be brought to the attention of the Superintendent. Upon receiving the Superintendent's approval, the OMFA is responsible for making the necessary referrals to the District's Special Investigative Unit (SIU) and the appropriate law enforcement agencies. We recognize that it may be desirable for the OMFA to discuss significant audit findings (e.g., suspected fraud, abuse, and improper or illegal acts) with management before referring District employees to the appropriate law enforcement agencies. However, requiring that the OMFA obtain the Superintendent's approval prior to taking action on these items may place the OMFA in a position where its independence and objectivity may be compromised, in fact or in appearance.

Recommendation: To further enhance the independence of the internal audit function, and to avoid placing OMFA in a position where its independence and objectivity may be compromised, in fact or in appearance, we recommend that Board policies be revised to allow the OMFA to independently report instances of suspected fraud, abuse, and improper or illegal acts and expenditures to the appropriate law enforcement agencies without the required approval by the Superintendent.

Finding No. 2: Audits of School Internal Accounts

State Board of Education Rule 6A-1.087(2), Florida Administrative Code, requires that the Board provide for annual audits of school internal accounts and that reports be presented to the Board and filed as a part of the public records. Board Policy 1002.1 provides that the Office of Management/Facility Audits (OMFA) is responsible for auditing the school internal accounts for all locations in the District.

On July 15, 2003, the OMFA presented to the Board a summary report of audit activities for the 2002-03 fiscal year. The report indicated that 58 school internal accounts audits had not been completed for the 2001-02 fiscal year. Our review disclosed that 26 of the audits were presented to the Board in January and February 2004. The remaining 32 audits had not been presented to the Board as of March 2004. The OMFA Executive Director stated that the delays resulted primarily from not receiving timely responses from the auditees and not having enough audits completed, by area, to present to the audit committee. When audits are not completed and presented timely to the Board, there is limited accountability and an increased risk that operating deficiencies will not be promptly detected and corrected.

Recommendation: We recommend that procedures be enhanced to ensure a more timely completion of school internal accounts audits. Such procedural enhancement would allow the Board a more timely assessment of any deficiencies in internal controls that may exist.

Finding No. 3: Monitoring of Charter Schools

Section 1002.33(5), Florida Statutes, requires the District to monitor and review the operations of sponsored charter schools. As of March 2004, the District sponsored 25 charter schools in Broward County. Board Policy 1163, requires the Superintendent to monitor charter school contracts and make recommendations to the Board for contract renewal, modifications, or non-renewal/termination. The recommendations should be based on the charter school's documented progress toward meeting student performance goals, as well as acceptable standards of fiscal management and compliance with Federal and State law and School Board policy. District procedures should be enhanced to document the timely monitoring of charter school activities, as noted below:

- Charter schools are required to provide quarterly financial schedules to the District within 30 days after the close of each quarter. The reporting periods are the quarters ended in September, December, March, and June. We noted that the quarterly financial schedules for 14 of the charter schools were not always submitted to, and approved by, the Board on a timely basis. For example, financial schedules submitted for the quarters ended September 30, 2002, and June 30, 2003, were not approved by the Board until February 18, 2003, and January 20, 2004, respectively.
- Charter schools are required to provide the District with evidence of specified insurance coverage, such as workers' compensation and general, auto, and professional liability, prior to the opening of the school. Evidence of renewal or replacement of insurance is to be furnished no less than 30 days before the expiration or termination of the required insurance. For 16 charter schools operating during the 2003-04 fiscal year, District records did not evidence the required proof of insurance as of March 2004. Subsequent to our inquiries, certificates of insurance were provided for 15 of the schools.

Timely monitoring of the charter schools' fiscal activities and insurance coverage by the District is needed so that, if necessary, the information obtained can be timely acted upon by the Board.

Recommendation: We recommend that the District enhance its procedures to document the timely monitoring and reviewing of the required financial and insurance information submitted by the charter schools.

Finding No. 4: Agency Fund Transactions

State Board of Education Rule 6A-1.001, Florida Administrative Code, provides that each school district is responsible for keeping adequate records and accounts of all financial transactions in the manner prescribed by the Commissioner in the publication titled *Financial and Program Cost Accounting and Reporting for Florida Schools*. This publication establishes a uniform structure for reporting fiscal data and identifies and defines the fund types that are to be used to record the District's activities. For example, agency funds are to be used to account and report resources held in a purely trustee or custodial capacity for others.

The District reported approximately $15 million in total assets and liabilities for its agency funds at June 30, 2003. This amount included approximately $12.7 million of resources from the schools' internal accounts and $2.3 million related to activities of various departments. Our review of selected department activity accounts included in the agency funds disclosed that these resources were not being held in a trustee or custodial capacity. Consequently, the related resources should not have been reported as part of the agency funds. We also noted that some of these accounts accumulated significant amounts of resources (fund balances) at June 30, 2003. Department activities should be reported in the

appropriate budgetary funds or internal service funds. When department operating activities are not accounted for and reported as part of the District's operations subject to the District's established budgetary controls, there is an increased risk of abuse, waste, or otherwise improper use of restricted resources. A description of selected department activities which were reported in the agency funds is shown in the following table:

Account Title	Purpose of Department Account	Revenue Sources	Expenses	Fund Balance or Excess of Revenues Over Expenditures at 6-30-2003
Research Services Department (Acct. 67155)	To account for grant research services provided to other District Departments.	Transfers of funds from grant accounts.	Payments to outside consultants and a District employee for services related to specific grants.	$ 248,353.82
Insurance Company Administrative Support (Acct. 67201)	To account for funds received from health care insurance companies for administrative supports and promotions.	Receipts from health insurance care vendors.	Payments to District employees for administrative support services and to outside vendors for promotional materials and services.	$ 577,236.57
BECON School Services (Acct. 67340)	To account for telecommunication services and repairs provided to District departments and outside organizations.	Receipts from third-party customers and transfers from other District departments.	Payments to outside vendors for goods and services.	$ 883,736.82

Recommendation: We recommend that the District perform a detailed review of all departments' account activities which are reported in the agency funds to determine the appropriate reporting for these accounts. For the three department accounts described above, the District should consider the following revisions to its current accounting and reporting:

Research Services Department - Since the revenue for this account originated from restricted sources (i.e., grants) and the expenditures were primarily related to grant research services, accounting and reporting for these activities in the Special Revenue Funds appears more appropriate.

Insurance Company Administrative Support - Since the revenue for this account originated from health care insurance vendors and the expenditures were primarily related to administrative support services and promotion of the insurance program, accounting and reporting for these activities in the Internal Service Funds (Proprietary Funds) appears more appropriate.

BECON School Services - Since revenue for this account originated from fee charges for services that were predominantly provided to other District departments, and expenditures were for payments to vendors for goods and services, accounting and reporting these activities in the Internal Service Funds (Proprietary Funds) appears more appropriate.

Finding No. 5: Annual Facility Inspections

Section 1013.12, Florida Statutes, requires that each district school board provide for 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 State Board of Education. In addition, 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 and ancillary plants.

The District provided for the required inspections of its facilities by qualified inspectors during the 2002-03 fiscal year. For each facility, the inspector completed a comprehensive safety inspection report that indicated the types of deficiencies, locations, estimated costs, and prioritization. We reviewed safety inspection reports issued for 15 schools during the 2002-03 fiscal year. We noted that uncorrected deficiencies cited in previous years ranged from 4 to 231. The largest number of these deficiencies, totaling 110 and 231, were cited on the inspection reports of Coconut Creek High School and Piper High School, respectively. Some of the deficiencies had been cited in the annual inspection reports up to 12 previous times (years), and many involved fire code violations. The deficiencies included exit obstructions, missing signs for emergency escapes, missing smoke or heat detectors, missing battery lighting, and broken exhaust fans. A similar finding was noted in audit report No. 01-133. Failure to timely correct deficiencies results in an increased risk that facilities could become unsafe for occupancy and could result in additional costs in the future.

Recommendation: We again recommend that the District enhance its efforts to provide for the timely correction of facility deficiencies noted in the annual comprehensive safety inspection reports.

Finding No. 6: Capital Outlay – Day-Labor Project Inspections

Section 1013.38(1), Florida Statutes, requires district school boards to ensure that all new construction, renovation, remodeling, day-labor, and maintenance projects conform to applicable building codes and life safety codes. Section 4.1(5) of the Florida Department of Education's publication, *State Requirements for Educational Facilities*, describes day-labor projects as construction projects costing less than $200,000 that are constructed using authorized employees of a district school board. Section 1013.37(2)(c), Florida Statutes, provides that verification of compliance for non-occupancy projects may be certified by the architect or engineer of record and, for other projects, may be by an inspector, certified by the Florida Department of Education, or certified pursuant to Chapter 468, Florida Statutes, who is not the architect or engineer of record.

Our review of 14 day-labor projects performed by District personnel during the 2002-03 fiscal year disclosed that the District did not obtain inspections for 5 of these projects. The costs incurred on these projects ranged from approximately $34,000 to $141,000, and the work performed included repairing and rebuilding air conditioning (chiller) systems, ductwork, and reinstalling electrical fire alarms at various schools. The Director of Maintenance informed us that the above projects did not require inspections. However, based on the description of the work performed, the District's inspection guidelines, and our inquiries of District inspection personnel, these projects appeared to be subject to inspections to ensure compliance with building codes and life safety codes. Also, we noted that the department performing the projects (e.g., Maintenance) is responsible for requesting the inspections and that an automated inspection tracking system is not in place to monitor and document the status of the required inspections for the day-labor and maintenance projects. A similar finding was noted in prior audits, most recently in audit report No. 01-133.

Recommendation: To help protect the health and safety of the students, staff, and public occupying the District's educational facilities, we again recommend that the District strengthen its procedures to provide for the required inspections of day-labor projects. The reasons for not performing inspections should be documented in the District's public records. We also recommend that management perform a cost-benefit analysis to determine whether the District may benefit from the implementation of an automated inspection tracking system. Such a system would provide information on the status of the inspections and enhance the coordination effort between maintenance and inspection personnel to ensure that the required inspections of day-labor and maintenance projects are performed timely.

Finding No. 7: Site Selection and Acquisition

Board policies and procedures have been established to control the District's site selection and acquisition process. The policies require that potential sites be reviewed by a Superintendent's Site Review Committee, prior to recommending a site to the School Board for purchase. The policies also require that offers for the purchase of land be determined by a Negotiation Parameters Committee. Facility Management, Planning and Site Acquisition Department procedures (FM Operating Procedure 1-1) provide written guidelines on the implementation of these policies. Real Estate and Environmental Planning (REEP) personnel are responsible for taking the appropriate steps to assure compliance with appropriate laws, regulations, and Board policies during the site selection and acquisition process. REEP personnel review acquisition requests, identify potential sites, and present potential sites to the Superintendent's Site Review Committee. Upon Board approval of a designated site, REEP personnel perform due diligence procedures, which include requesting a survey of the property, an environmental audit, two appraisals, and a geotechnical survey. Using the appraisal value and due diligence reports, the Negotiations Parameters Committee is responsible for setting up the parameters of the offer.

District personnel indicated that the negotiating procedures provide for the maximum offer on a given site not to exceed 10 percent above the highest appraisal amount. Our tests of purchases of real estate made by the District during the 2002-03 fiscal year disclosed that the District generally followed the above policies and procedures. The required appraisals were requested and the sites were purchased at amounts that did not exceed 10 percent of the higher appraisal.

The site selection and acquisition process has the potential to significantly impact both the District and its stakeholders. We identified certain enhancements that could be made to the site selection and acquisition policies and procedures to promote accountability and oversight of these transactions and further ensure compliance with Chapter 1013, Florida Statutes, and the continued confidence of its Broward County stakeholders. We noted that the above policies and procedures do not include information on the membership and terms of appointment of the

Superintendent's Site Review Committee. Also, while the members of the Negotiation Parameters Committee are designated in the policies, terms of appointment have not been established. In addition, the District's policies and procedures did not address actions to be taken by committee members in the event they are contacted by a lobbyist regarding matters to come before the committee. Also, Board policies and procedures did not address guidelines to be followed in the event that eminent domain proceedings are needed.

Recommendation: We recommend the following policy and procedural enhancements in the area of site selection and acquisition:

- **Board policies and procedures should include complete information on the membership and terms of appointment of those serving on the Superintendent's Site Review Committee and the Negotiation Parameters Committee.**
- **Board policies and procedures should address what action is to be taken when any member of the above standing committees is contacted directly by a lobbyist in connection with any matter that may foreseeably come before the committees for action.**
- **When two appraisals are required (for purchases in excess of $500,000), policies and procedures could be enhanced to address those instances where a significant variance exist between the two appraisals. The District should consider obtaining a review appraiser's certification to explain the basis for the recommended or approved value and to provide the Board relevant information for decision making.**
- **Board policies and procedures should include guidelines to be followed in the event that negotiations for the voluntary sale of a site for a reasonable price are unsuccessful and the acquisition involves eminent domain proceedings, as authorized by Section 1013.24, Florida Statutes.**

Finding No. 8: Tangible Personal Property

The District reported approximately $397.4 million in tangible personal property at June 30, 2003. The Office of Management/Facility Audits (OMFA) performs significant management functions in the area of tangible personal property. OMFA personnel are responsible for performing the annual physical inventories of all tangible personal property, reconciling the physical inventory with the property records, and permanently marking property items. District property records contain adequate information on each item, such as the description, location, cost, property/serial number, and a condition code that designates whether the item has been tagged or marked. Our review disclosed the following deficiencies:

- Chapter 274, Florida Statutes, and Section 10.480, Rules of the Auditor General, require that tangible personal property be inventoried annually, that the inventory be compared with the tangible personal property records, and that all discrepancies be reconciled. During the 2002-03 fiscal year, physical inventories of the District's tangible personal property were completed for approximately $178.9 million of the total $397.4 million tangible personal property. Upon our audit inquiry, OMFA personnel cited lack of staffing as the reason for the District's inability to comply with the annual inventories requirements.
- Section 10.460, Rules of the Auditor General, requires that each item of property is to be permanently marked to establish its identity and ownership by the District. The District's property records showed approximately $79.4 million of tangible personal property that was coded as "not tagged" at June 30, 2003. Approximately $42 million related to items purchased during the 2002-03 fiscal year. OMFA personnel indicated that this amount consisted primarily of items purchased in May and June 2003 and items purchased and stored in a private warehouse for five schools that were under construction during the 2002-03 fiscal year. Property purchases made for schools under construction are stored untagged, for up to one year, prior to the expected date of opening. These items are

not tagged or marked by OMFA personnel until the school or location is audited. We selected 20 items coded as "not tagged" on the property records for physical observation. The property records showed that these items were primarily computer equipment purchased from 1988 through 2003. Thirteen items, with costs totaling approximately $1.4 million, were not located for our observation. Twelve of these items were purchased prior to May 2003. According to OMFA personnel, seven of the items had been transferred to other locations or were incorrectly recorded on the property records.

In the absence of complete annual physical inventories, timely and proper tagging or marking of new property items, and accurate property records, there is an increased likelihood that losses of property could occur and not be detected.

Recommendation: The District should strengthen procedures to provide for complete annual physical inventories, including items stored in private warehouses. The District should review and update its property records to ensure that it reflects an accurate listing of property items for current locations. Furthermore, the District should evaluate its practice of purchasing and storing large quantities of tangible personal property. It may be prudent for the District to establish time limits for the storage of some property items, such as certain audio visual and technology-related items, whose value may be lost over a relatively short period of time.

Finding No. 9: Energy Savings Contracts

Under the provisions of Section 1013.23, Florida Statutes, the District entered into guaranteed energy savings agreements with four private contractors in September 2000 whereby certain energy conservation measures were undertaken at a cost of approximately $13.2 million. The energy savings guaranteed by the contractors over a ten-year period totaled approximately $16.5 million. The contractors provide the District with monthly reports comparing the actual energy and utility consumption level to a baseline period and showing the projected consumption levels for each facility. The contractors use commercial software to generate the energy and utility savings reports. The contractors proportionally share the expense incurred by the District in hiring two project managers to monitor the reasonableness of the energy cost savings. Each contractor ensures that the project cash flow generates an additional $33,750 a year, (escalation of 5 percent per year), for the entire length of the project to fund project management.

The project managers review the monthly energy and utility savings reports to determine the reasonableness of reported savings. However, because of the complexity of the measurement process, they do not recalculate the amount of savings reported by the contractors. Project managers informed us that they rely on their knowledge of the contractors' software and use the guidelines and methods developed by the United States Department of Energy, Office of Energy Efficiency and Renewable Energy, for measuring and verifying the savings associated with the agreements. Baseline period adjustments are either verified through an independent review or their impact is negotiated with the contractor. Periodically, a comparison is made of the raw utility data used by the contractors' measurement and verification software to the District's utility bills. Although some documentation was maintained to evidence the verification and approval of the contractors' adjustments and the periodic comparison of utility bills, written guidelines were not in place to establish the time frame for performing these procedures and the documentation required to evidence the project managers' review.

Recommendation: Given the financial impact of the energy savings agreements and the contractors' funding of the project managers' positions, the District should independently review the reasonableness of the savings represented by the contractors and verified by the project managers, at least periodically. Written guidelines should be developed establishing the time frame for measuring and verifying significant items that impact on the reported savings, (e.g., contractors' adjustments, utility bills), and the documentation standards that should be used by the project managers to evidence the project managers' review process.

Finding No. 10: Construction Change Orders – Consultant Errors

Pursuant to Section 1013.48, Florida Statutes, the Board may, at its option and by written policy duly adopted and entered in its official minutes, authorize the Superintendent or other designated individual to approve change orders in the name of the Board for preestablished amounts. Approvals shall be for the purpose of expediting the work in progress and shall be reported to the Board and entered in its official minutes. For accountability, the school district shall monitor and report the impact of change orders on its district educational facilities plan pursuant to Section 1013.35, Florida Statutes.

We selected four construction projects, totaling approximately $72.2 million, which were substantially completed as of June 30, 2003, to review change orders. As of March 23, 2004, change orders approved by the Board for these projects totaled approximately $4.1 million. Of this amount, approximately $1.8 million (44 percent) was identified in the District's records as resulting from consultant errors. The remaining amount resulted from unforeseen conditions and owner requests. District records indicated that the majority of the work provided for under the consultant error change orders was required to satisfy construction code provisions. Some examples included adding and relocating fire alarms, strobes, and heat detectors and adding stairs between buildings. However, the records did not evidence whether the change orders ($1.8 million) that were identified as consultant errors resulted from the consultants' negligence, which would be subject to reimbursement to the District.

Recommendation: We recommend that the District implement procedures for identifying of record the amount of consultant errors resulting from negligence and the action deemed necessary for recovering the appropriate amount from the consultants.

Finding No. 11: Construction Warranty Process

The District's Facilities and Construction Management Division is charged with overseeing and managing the District's capital construction program, including new construction and major building improvements. District records indicated that total expenditures in these areas totaled approximately $197.4 million during the 2002-03 fiscal year. The District requires that every construction or renovation project have a one-year warranty period, during which the contractor must rectify any malfunction or deficiency in the performance of a facility. In addition, manufacturers provide longer warranty periods for such items as roofing, paint, and mechanical equipment. According to District records and personnel, the warranty period essentially begins on the date the project is determined to be substantially completed.

The District does not have an automated warranty administration system in place to track and monitor warranties. The procedures for warranty monitoring and tracking generally consist of project managers informing the contractors, in writing, of any defects and deficiencies noted and repairs needed during the warranty period. Prior to the warranty expiration date, meetings are conducted between the project managers, school/facility staff, and Maintenance Department personnel to discuss and determine facility defects and deficiencies. The project managers also perform a final walk-through of the facilities and warranty items are reported to the contractor. Our review disclosed a significant amount of work performed by Maintenance Department personnel to

correct deficiencies for substantially completed projects. However, the records (i.e., work orders) did not evidence the District's determination of whether a particular item was covered under the warranty. When warranties are not routinely tracked and monitored, there is increased risk that expenditures are made for building and equipment repairs that may otherwise be covered by warranties. In addition, maintenance work performed by District personnel to correct project defects/deficiencies may result in warranties being voided, causing fiscal waste and costly litigation.

Recommendation: Given the size of the capital construction program, the District should consider the benefits of an automated warranty administration system. For each completed project, the system would provide management with warranty monitoring and tracking information, such as warranty coverage, contact persons, warranty beginning and ending dates, and tracking of reported problems and resolutions. In addition, to enhance the efficiency of warranty administration, the District should develop written guidelines defining the duties of school/facility staff, project managers, Maintenance Department personnel, and contractors during the warranty process. The guidelines should require that adequate documentation be maintained to evidence that expenditures made on substantially completed projects are not for building and equipment repairs that may otherwise be covered by warranties.

Finding No. 12: Monitoring of Construction Managers

Section 1013.45(1)(c), Florida Statutes, authorizes district school boards to contract for the construction or renovation of facilities with a construction manager. The construction manager is responsible for all scheduling and coordination in both design and construction phases, and is generally responsible for the successful, timely, and economical completion of the construction project. The Statute further provides that the construction manager may be required to offer a guaranteed maximum price (GMP). The Board entered into several agreements for construction management services whereby the construction managers were responsible for engaging subcontractors, including the advertising, solicitation, and bid opening procedures and awarding the lowest responsive bids. In addition, the construction managers were responsible for providing all labor, materials, equipment, and services necessary to complete the projects.

Our review disclosed two construction contracts for which the construction managers did not submit to the District the bid tabulations to document that the subcontractors with the lowest and best bid were selected. Also, there was no documentation to evidence that the District monitored the verification by the construction managers of the appropriate licensure for subcontractors who performed work on the projects. District records indicated that the estimated costs for these two projects were approximately $15.9 million and $35 million, respectively, and expenditures incurred during the 2002-03 fiscal year were approximately $4.3 million and $18.2 million, respectively.

In the absence of documented monitoring of the subcontractor selection process, the District had limited assurance that the construction managers complied with the terms of the contract in the handling and awarding of subcontractor bids. Verification of the applicable licenses of subcontractors provides assurance to the District that the subcontractors met the qualifications to perform the work for which they were engaged.

Recommendation: We recommend that the District enhance procedures to document the monitoring of the construction managers' subcontractor selection. The procedures should also provide for monitoring the verification of subcontractor licensure by the construction managers.

Auditor's Clarification:

In response to Finding 12 (See Exhibit 2), the District indicates that it prefers to leave the responsibility to pre-qualify and verify licensure of subcontractors with the general contractor. It is

not our intent to suggest that the District should assume the responsibility for pre-qualifying subcontractors, rather, that the District should monitor the general contractor's selection process to ensure that subcontractors that work on District projects are qualified and licensed.

Finding No. 13: Strategic Planning

Board Policy 1101 provides for the establishment of a strategic planning process that results in focusing the District's shared vision and values. The process guidelines require the development of goals and operational plans designed to implement the strategies identified to attain the goals.

The District developed a five-year strategic plan in 2000 for the period 2000 through 2005. The plan includes a mission statement, 4 broad goals, and 12 objectives. Our review disclosed that the plan did not include the estimated costs and proposed funding sources for the established goals and objectives. The financial effects of long-term and short-term (annual) goals and priorities, including the projected costs and funding sources for meeting those objectives, are important so that District staff developing the budget can ensure that planned expenditures are for activities that meet the Board's strategic plan objectives.

District personnel indicated that the Budget Office sets the budget allocations based upon the priorities identified in the five-year strategic plan and that, when the budget plan is approved by the Board, the objectives in the five-year strategic plan drive the decisions. However, there was no documentation correlating the District's budget to the strategic plan goals and objectives.

Recommendation: We recommend that the District enhance its strategic plan to include financial information to assist with budgeting for the established goals and objectives.

Finding No. 14: Florida School Recognition Program Expenditures

Pursuant to Section 1008.36, Florida Statutes, during the 2002-03 fiscal year, 104 District schools were awarded a total of approximately $12.8 million in Florida School Recognition (FSR) Program moneys. As specified in Section 1008.36, Florida Statutes, schools must use their awards on nonrecurring faculty and staff bonuses, nonrecurring expenditures for educational equipment and materials, or temporary personnel to assist in maintaining or improving student performance. In addition, the use of the funds must be determined jointly by the school's staff and school advisory council. If school staff and the school advisory council cannot reach agreement by November 1, the funds must be equally distributed to all classroom teachers currently teaching in the school.

The District generally complied with the requirements governing the use of FSR Program moneys. However, contrary to Statute, at 5 of 20 schools tested, the agreements determining how to use the FSR Program moneys were not reached until after the November 1 deadline and the funds were not equally distributed to all current classroom teachers.

Recommendation: We recommend that the District enhance its procedures to ensure that Florida School Recognition Program funds are distributed in accordance with Program requirements.

Finding No. 15: Purchasing Practices

Competitive bidding assures the public that the Board's purchases will be made without favoritism and as economically as possible, consistent with an adequate standard of quality. State Board of Education Rule 6A-1.012(6), Florida Administrative Code, requires that, except as authorized by law or rule, bids shall be requested from three or more sources for any authorized purchase or contract for services exceeding $25,000. Board Policy 3320 provides general purchasing guidelines and includes

the procedures that should be followed for the procurement of goods and services in the areas of facilities and construction management, food and nutrition, risk management and benefits, and technology. The Purchasing Department is responsible for the competitive procurement of goods and services. During the 2002-03 fiscal year, goods and services purchased through the Purchasing Department totaled approximately $731.6 million. Our review and tests of the District's procurement practices disclosed that improvements could be made in some areas as noted below:

- Policies and procedures were not in place to require the rotation of assignments for the eight employees with buying responsibilities within the Purchasing Department. The Director of Purchasing indicated that buyers are not routinely rotated due to their knowledge, training, and expertise in their respective buying areas. However, rotating responsibilities of employees would provide valuable cross-training opportunities, reduce the risk of errors and fraud, and enhance the integrity of the District's procurement system.
- Our test of expenditures from 15 bids, disclosed six instances (two catalog bids) in which the records did not contain sufficient documentation to correlate the amounts paid to the bid prices. We also noted that the invoices did not separately show the vendor discounts for the items purchased. The District paid approximately $475,000 for these items, which consisted primarily of computer equipment. Under these conditions, the District has limited assurance that amounts billed and paid agree to those stipulated in the approved bids.

Catalog discount bids were used by the District to purchase items that were high in volume, such as classroom supplies, office products, auto parts, and network components. Catalog discount bids awarded during the 2002-03 fiscal year totaled approximately $67 million and the awarded amounts were generally for multiple years.

Our review included five bids that were catalog discount bids. The District's procedures provide that such catalog discount bids be awarded to all vendors who meet the specifications, with the largest volume of purchases going to the vendors that provide the lowest net cost. Principals or department heads are responsible for ensuring that catalog purchases are made from the appropriate vendor based on items such as discounts, installation and assembly fee, and minimum order amount. When the desired item is not available from the vendor offering the lowest net cost, the reason for vendor selection is to be retained with the order information for audit purposes.

Our review and testing of catalog discount bids and the related purchases from vendors awarded such purchases disclosed the following:

- Vendor discounts were required to remain constant during the catalog bid contract period, but the catalog prices were allowed to change. Procedures were not in place to adequately monitor the effect of price changes on the net cost of the awarded vendors.
- Several vendors were awarded the catalog discount bid for office supplies and equipment with base discounts of up to 72.5 percent and separate exclusions and charges for items such as installation and assembly. Purchases made on the bid from May 2003 through March 2004 totaled approximately $5.2 million. Of this amount, the largest volume (approximately $2.1 million) was purchased from a vendor that did not appear to be offering the lowest net cost. A Purchasing Department analysis of 25 office supply items of generally equal value showed that similar items were available from six other awarded vendors at lower net costs. We selected 25 catalog purchases from five schools to review the documentation that supported the vendor selection. The items tested were purchased from the same largest volume vendor. Some of the items in our tests were determined to be available from other vendors at lower costs, according to the Purchasing Department analysis. However, contrary to established procedures, documentation was not maintained at the schools to evidence that the items were not available from other vendors. Customer satisfaction was cited as the justification for the vendor selection.

Without adequate procedures to monitor and document that purchases made from catalog discount bids are from the vendor offering the lowest net cost, the benefit of the competitive bidding process is not realized.

Recommendation: Given the volume of purchases processed by the District, its purchasing function plays a strategic role in ensuring the efficient spending of the District's limited resources. Accordingly, we recommend that procedures be enhanced, as follows:

- **Purchasing Department staff should be periodically rotated into other buying areas.**
- **District records should document that purchases are made in accordance with applicable bid terms and conditions, and obtained at the lowest and best price consistent with product quality and performance.**
- **All catalogs and descriptive price lists, including revisions, should be kept in the bid files and a historical record should be maintained of all revised catalogs to provide documentation that the correct prices were charged by the vendor.**
- **When awarding future catalog bids, the Board should consider designating primary and secondary vendors in the bid awards. This would ensure that purchases are generally made from the vendors offering the lowest net cost. When catalog discount bid purchases are made from the secondary vendor, procedures should be enhanced to document the justification for not making the purchases from the vendor that bid the lowest net cost.**
- **Periodically, the Purchasing Department should monitor and reevaluate the effect of price changes made by awarded catalog discount vendors to ensure that purchases are being made from the vendors with the lowest net costs.**

Finding No. 16: Verification of Work Experience

The District's Administrative Procedures Department provides support for the hiring of administrative, supervisory, professional, and technical positions. The Department is responsible for completing reference check forms for job applicants that are scheduled for interviews. The reference check form is used to verify relevant employment information from the applicant's prior employers, including work experience.

Our tests of 31 employees from the Facilities and Construction Management Division disclosed five instances in which the District did not document the verification of work experience. We also noted an instance in which the District verified only 1.4 years of work experience, although the employee's position required five years of work experience in the construction area. In another instance, the verification of employment was made 15 months after the appointment date for the purpose of earning experience credit in the District. Based on the District's established requirements for these positions, work experience was a determining factor that qualified the employees for the positions. These seven instances involved employees appointed to positions between October 1998 and June 2003, and included one facilities engineer, three project managers, one building inspector, one senior capital project planner, and a planning analyst. In the above circumstances, District records did not evidence that the above employees were qualified for their positions at the time of appointment.

Recommendation: We recommend that the District enhance its procedures to adequately document the verification of the work experience reported by job applicants.

Finding No. 17: Salary Overpayments

On July 1, 2001, the District implemented a Human Resource Management System (HRMS), which is used for both Human Resource and Payroll functions, including payroll processing. As noted in the following paragraphs, certain policies and procedures created excessive complexity in the District's payroll processing functions with regard to the HRMS,

resulting in additional payroll workload and payroll exception potential.

The District's salary expenditures for the 2002-03 fiscal year totaled approximately $1 billion. Payroll exceptions resulted from errors associated with employee terminations, leaves of absences, changes in pay, and deletion of hours. Various payroll reports were generated weekly and used to analyze the exceptions, identify salary overpayments, and initiate collection efforts when necessary. District records indicated that the majority of payroll exceptions result in salary overpayments. As of April 2004, cumulative payroll exceptions analyzed and determined to be salary overpayments totaled approximately $5.3 million. District employees had agreed to repay (settlements) approximately $4.3 million. Of the amount scheduled for repayment (settled), the District has collected approximately $3.4 million. Consequently, approximately $1.9 million remains uncollected. Although the District is committed to resolve payroll exceptions and salary overpayments, existing bargaining unit agreements play a significant role in the process of collecting overpayments. For example, the bargaining agreement with the teachers' union specifies that no repayment shall exceed $200 per paycheck. For retired or terminated employees, overpayment notices are mailed and settlements and repayment schedules are established. Former employees that fail to take action on the notices have their accounts forwarded to a collection agency or the Board's attorney for legal action.

From a listing of payroll exceptions, we selected five individuals who received salary overpayments to review the circumstances that resulted in the overpayment and to determine the action taken to collect amounts due. The overpayments disbursed to these individuals ranged from approximately $10,500 to $44,300, and resulted when their terminations were not timely recorded in the HRMS. Consequently, the system continued to generate salary payments and the funds were deposited into these individuals' bank accounts. Delays in recording the termination of these employees in the HRMS system ranged from 4 to 13 months after their last date of employment, and the overpayments occurred from July 2001 through March 2003. The Board's attorney is in the process of collecting the overpayments from four of the employees. The remaining employee is making payments and is scheduled to satisfy the debt by February 2005.

The District has provided training to its staff and revised payroll procedures to facilitate the implementation of the HRMS system. The revised procedures include the designation of an individual, known as "payroll contact," at each location/department to enter the employees' work/leave hours into the HRMS and time management and earnings reports are generated for the supervisors to verify and approve the employees' pay. Personal Action Forms (PAFs) are electronically prepared by the payroll contacts and approved by the supervisors when changes are made to an employee's status, e.g., terminations. The payroll contacts are also responsible for returning unclaimed paychecks or pay stubs (in the case of direct deposit) to the Payroll Department. These control procedures, if properly followed, would reduce the risk of salary overpayments. However, as demonstrated by the amount of payroll exceptions and the results of our tests, these procedures were not consistently and effectively applied.

Recommendation: To enhance the efficiency and effectiveness of the payroll processing function and reduce the risk of future salary overpayments, we recommend that procedures be strengthened, as follows:

- **Management should take appropriate steps to ensure that the payroll processing procedures are consistently and effectively applied. The District should continue its training of payroll contacts and supervisors to reduce the amount of payroll exceptions.**
- **The PAFs should be prepared timely by the payroll contacts. Supervisors should ensure the timely and proper execution of PAFs to reduce the risk of paying employees who have terminated employment. Unclaimed paychecks or pay stubs should be returned timely to the Payroll Department, but under no circumstances, later than the next scheduled pay date.**
- **Until the payroll exception error rate is at an acceptable level, surprise payroll observations should be performed at selected locations to ensure that individuals receiving salary payments are active District employees. These procedures could be coordinated with the work performed by the Office of Management/Facility Audits.**
- **The District should continue its efforts in collecting salary overpayments. Since the amounts and repayment period for salary overpayments are affected by bargaining agreement provisions, the District should work with its bargaining units to modify the language in future agreements, as appropriate, to facilitate the collection and settlement of the salary overpayments.**

Finding No. 18: Overtime Payment Monitoring

In July 2003, the District's Office of Management/Facility Audits (OMFA) presented a report to the Board on its review of payroll processes and overtime. The OMFA noted that overtime paid by the District for the 1999-2000 and 2000-01 fiscal years totaled approximately $13.6 million and $15.1 million, respectively. From July 2001 through June 2003, the District's payroll application system (SAP/R3 HR) was not able to generate reliable reports that would allow overtime payments to be summarized, compared, and analyzed. As a result, the OMFA was not able to make any specific statements regarding the amounts of overtime paid by the District for this period. The OMFA report recommended that management request the appropriate reports from the District's SAP Support Center to monitor the reasonableness and accuracy of overtime payment made to all employees.

Effective July 1, 2003, some enhancements were made to the District's reporting system to allow overtime payments to be shown separately from regular payroll payments. District records indicated that overtime paid for the period July 1, 2003, through April 14, 2004, totaled approximately $12.8 million. Overtime summary reports are generated monthly and provided to the department heads to review the accuracy of overtime payments made to employees. Department heads can also review the employee's overtime activity in detail on-line. Although some improvements have been made in overtime reporting, given the amount of overtime expenditures incurred, management controls in this area should be further enhanced. When overtime is not effectively monitored, there is an increased risk that errors, waste, or fraud may occur and not be timely detected.

Recommendation: We recommend that the following procedures be implemented to strengthen controls in the area of overtime payments:

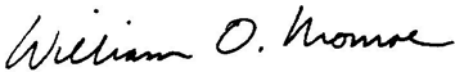
- **An edit report showing those employees that exceed specific overtime parameters (e.g., number of hours worked) should be provided to department heads and OMFA each pay period to trigger overtime follow-up.**
- **Summarized reports showing overtime totals and patterns by departments and positions should be provided to management periodically for review and evaluation of the reasonableness of District staffing and personnel utilization.**
- **Using the above reports, OMFA should consider performing focus audits of overtime payments for those departments and positions with substantial amounts of overtime-related expenditures.**

SCOPE, OBJECTIVES, AND METHODOLOGY

The objectives of this operational audit were to obtain an understanding and make overall judgments as to whether District management controls promoted and encouraged compliance with applicable laws, regulations, and provisions of contracts or grant agreements; the economic, effective, and efficient operation of the District; the reliability of records and reports; and the safeguarding of assets. Specifically, we reviewed management controls over the internal audit function, annual audits of school internal accounts, financial condition and reporting, monitoring of charter schools, agency funds transactions, cash and investments, annual facility inspections, day-labor project inspections, site selection and acquisition, tangible personal property, use of restricted capital outlay moneys, energy savings contracts, construction change orders, construction warranty process, monitoring of construction managers, strategic planning, Florida School Recognition Program, use of Workforce Development funds, purchasing practices, verification of new employee qualifications, verification of work experience, salary overpayments, and overtime payment monitoring, for the period July 1, 2002, through June 30, 2003, and selected management activities through April 2004.

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

PRIOR AUDIT FINDINGS

We found that the District substantially corrected the deficiencies noted in audit report No. 01-133, except as discussed in Finding Nos. 5 and 6.

AUDITEE RESPONSE

The District's response is included as Exhibit 2.

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 Sik-Kui Tang, CPA, and supervised by Agustin Silva, CPA. Please address inquiries regarding this report to David W. Martin, CPA, Audit Manager, via e-mail at davidmartin@aud.state.fl.us or by telephone at (850) 487-9039.

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

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

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

	District No.
Carole L. Andrews, Vice-Chair from 11-19-02	*1*
Beverly A. Gallagher	*2*
Judie S. Budnick, Vice-Chair to 11-18-02	*3*
Stephanie Arma Kraft, Esq.	*4*
Benjamin J. Williams	*5*
Paul D. Eichner to 11-18-02	*6*
Martin Rubinstein from 11-19-02	*6*
Dr. Robert D. Parks, Chair to 11-18-02	*7*
Darla L.Carter	*Countywide*
Lois Wexler, Chair from 11-19-02	*Countywide*

Dr. Franklin L. Till, Jr., Superintendent

EXHIBIT 2
BROWARD COUNTY DISTRICT SCHOOL BOARD
RESPONSE TO AUDIT FINDINGS

THE SCHOOL BOARD OF BROWARD COUNTY, FLORIDA
600 SOUTHEAST THIRD AVENUE • FORT LAUDERDALE, FLORIDA 33301-3125 • TEL 754-321-2600 FAX 754-321-2701

DR. FRANK TILL
Superintendent of Schools

SCHOOL BOARD

Chair CAROLE L. ANDREWS
Vice Chair STEPHANIE ARMA KRAFT, ESQ
JUDIE S. BUDNICK
DARLA L. CARTER
BEVERLY A. GALLAGHER
ROBERT D. PARKS, Ed.D
MARTY RUBINSTEIN
LOIS WEXLER
BENJAMIN J. WILLIAMS

July 7, 2004

Mr. William O. Monroe, CPA
Auditor General
Room 412C
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450

Dear Mr. Monroe:

We have received the preliminary and tentative findings and recommendations from the following operational audit of the:

Broward County District School Board
For the Period July 1, 2002 through June 30, 2003

Your findings and our related responses are enumerated below:

Finding No. 1: Internal Audit Function

Recommendation: To further enhance the independence of the internal audit function, and to avoid placing OMFA in a position where its independence and objectivity may be compromised, in fact or in appearance, we recommend that Board policies be revised to allow the OMFA to independently report instances of suspected fraud, abuse, and improper or illegal acts and expenditures to the appropriate law enforcement agencies without the required approval by the Superintendent.

Management Response

We agree that enhancing audit independence is essential for the Internal Audit function. Currently, the notification and approval by the Superintendent to formally begin an investigation for possible fraud, abuse or improper or illegal acts is a check and balance procedure that has been employed to ensue that the Office of Management/Facility Audits (as of July 1, 2004 renamed the Office of the Chief Auditor) has provided the Superintendent preliminary information on investigations identified during an audit that should be pursued. In addition, the audit staff works closely with the

Transforming Education: One Student at A Time
Broward County Public Schools Is An Equal Opportunity/Equal Access Employer

EXHIBIT 2 (CONTINUED)
BROWARD COUNTY DISTRICT SCHOOL BOARD
RESPONSE TO AUDIT FINDINGS

Finding No. 1: Internal Audit Function (Continued)

District's Special Investigative Unit when instances of fraud, abuse or improper or illegal acts and expenditures have occurred.

In accordance with School Board Policy 1002.1, the Office of the Chief Auditor will present all fraud cases to the appropriate law enforcement agencies for possible criminal prosecution. The current reporting structure provides the proper check and balance needed to operate effectively. However, the Internal Audit function will be modified as needed in order to maintain independence and objectivity regarding all aspects of the audit process.

Finding No. 2: Audits of School Internal Accounts

Recommendation: We recommend that procedures be enhanced to ensure a more timely completion of school internal accounts audits. Such procedural enhancement would allow the Board a more timely assessment of any deficiencies in internal controls that may exist.

Management Response

The school internal accounts audits are completed and reported by Area. However, any completed school audit that contains audit exceptions is presented to the Audit Committee and to the School Board in order to expedite corrective action of any deficiencies in internal controls that may exist by the school administration.

The organizational structure of the Office of the Chief Auditor allowed for the deployment of Internal Auditors to work with the Director II, Operational Audits in conducting the operational audits as well as unplanned audits that needed to be performed during 2002-03 fiscal year. This delayed the timely completion of several of the school internal account audits identified in this finding.

The Office of the Chief Auditor understands the significance of completing the school internal accounts audits on an annual basis and will continue to strive to complete all school audits in conjunction with the planned operational audits, construction audits and unplanned audits requested by the District's Administrators.

Finding No. 3: Monitoring of Charter Schools

Recommendation: We recommend that the District enhance its procedures to document the timely monitoring and reviewing of the required financial and insurance information submitted by the charter schools.

Management Response

To ensure timely monitoring and reviewing of charter school financial and insurance information, the Charter School Coordinator, will implement the following action steps immediately:

- Unaudited Quarterly Financial Reports will be Time and Date stamped upon receipt;
- Unaudited Quarterly Financial Reports will placed upon the School Board Agenda in a more expeditious manner; and
- The Charter School Department will coordinate collection of insurance information with Aston Henry, Supervisor, Risk Management.

EXHIBIT 2 (CONTINUED)
BROWARD COUNTY DISTRICT SCHOOL BOARD
RESPONSE TO AUDIT FINDINGS

Finding No. 4: Agency Fund Transactions

Recommendation: We recommend that the District perform a detailed review of all departments' account activities which are reported in the agency funds to determine the appropriate reporting for these accounts. For the three department accounts described above, the District should consider the following revisions to its current accounting and reporting:

Research Services Department - Since the revenue for this account originated from restricted sources (i.e., grants) and the expenditures were primarily related to grant research services, accounting and reporting for these activities in the Special Revenue Funds appears more appropriate.

Insurance Company Administrative Support - Since the revenue for this account originated from health care insurance vendors and the expenditures were primarily related to administrative support services and promotion of the insurance program, accounting and reporting for these activities in the Internal Service Funds (Proprietary Funds) appears more appropriate.

BECON School Services - Since revenue for this account originated from fee charges for services that were predominantly provided to other District departments, and expenditures were for payments to vendors for goods and services, accounting and reporting these activities in the Internal Service Funds (Proprietary Funds) appears more appropriate.

Management Response

We agree with the recommendation. During the fiscal year 2004, the three department accounts listed in the recommendation that comprise 74% of the department accounts were transferred out of the agency funds. The Financial Reporting Department will perform a review of the remaining department account activities that are reported in the agency funds within 90 days to determine if reclassification is appropriate. The accounts transferred were as follows:

Research Services Department – This account was set up as an Internal Service Fund because it provides services to grants on a cost-reimbursement basis.

Insurance Company Administrative Support – This account was consolidated with the Benefits Department budget in Fund 100. It could not be set up as an Internal Service Fund because it does not provide services to other departments on a cost-reimbursement basis.

BECON School Services – This account was transferred to a new fund (102) within the General Fund. The operations of the Broward Education Communication Network (BECON) in Fund 100 are being consolidated into this fund for the 2005 fiscal year to satisfy accounting and reporting requirements.

Finding No. 5: Annual Facility Inspection

We again recommend that the District enhance its efforts to provide for the timely correction of facility deficiencies noted in the annual comprehensive safety inspection reports.

Management Response

Department records indicate that the current number of open safety violations at Coconut Creek and Piper High Schools are 25 and 78, respectively. The most serious of the violations have been addressed.

All remaining open violations, for these facilities, excluding those requiring Design Services and permitting, will be completed within the next 90 days.

EXHIBIT 2 (CONTINUED)
BROWARD COUNTY DISTRICT SCHOOL BOARD
RESPONSE TO AUDIT FINDINGS

The Department agrees with the Audit findings. The timely correction of all safety violations is essential. Correcting these violations is of the highest priority for the department. Presently, the Maintenance Department is undergoing a structure change. This re-organization will allow for an increase in manpower and an opportunity to adjust work schedules for maximum productivity and efficiency. The Department anticipates this additional manpower will be on board and trained by the third quarter of 2004-05.

These additional resources will improve the Department's response time in correcting safety violations.

Finding No. 6: Capital Outlay - Day-Labor Project Inspections
Recommendation: To help protect the health and safety of the students, staff, and public occupying the District's educational facilities, we again recommend that the District strengthen its procedures to provide for the required inspections of day-labor projects. The reasons for not performing inspections should be documented in the District's public records. We also recommend that management perform a cost-benefit analysis to determine whether the District may benefit from the implementation of an automated inspection tracking system. Such a system would provide information on the status of the inspections and enhance the coordination effort between maintenance and inspection personnel to ensure that the required inspections of day-labor and maintenance projects are performed timely.

Management Response

The five Day-Labor projects that are in question for not obtaining Inspection reports are as follows:

Location	Scope of Work Performed
Blanche Ely High School Taravela High School Martin Luther King Elementary	Environmental remediation of microbicidal growth by chemical cleaning and servicing the air handling equipment. This process is a part of the Department's Preventative Maintenance program, and strictly focuses on maintenance and repairs. No alteration or modification of the equipment takes place during this process. Currently, there are approximately 6,500 air-handling units throughout the District.
Plantation High School	This project was a repair of a chiller unit by an authorized manufacture representative. The work included the replacement of the unit motor shaft, bearing, and rotor assembly with repairs in kind factory authorized parts. No changes or modifications were made to the equipment.
Nova Middle School	Replaced and repaired soiled ceiling tile and damaged grids, repaired and repainted interior walls, installed vinyl tile on existing floor, replaced some damaged ductwork with like kind, pressure cleaned and painted ramps with non-skid paint.

EXHIBIT 2 (CONTINUED)
BROWARD COUNTY DISTRICT SCHOOL BOARD
RESPONSE TO AUDIT FINDINGS

A review of the Day Labor projects for Blanche Ely High, Taravella High, Martin Luther King Elementary, and Plantation High reveals that Maintenance's staff followed the appropriate procedures as it relates to inspection requirements. According to page three of the attached inspection guidelines received from the Building Department.

(HVAC/Mechanical section), inspections are required only if the system has been enlarged, altered, moved, install, or changed. None of the mentioned criteria occurred in these projects. The Maintenance Department disagrees with the finding.

However, the Day Labor project preformed at Nova Middle School indicates evidence of non-compliance for inspection requirements.

Under architectural/structural inspection guidelines, the following inspection was not requested:

Inspections are required for substrate, priming, and caulking/sealing of any surface.

The Maintenance Department agrees with the finding and will implement corrective action immediately. The corrective action will be requesting future inspections, as required, for substrate, priming, and caulking/sealing of any surface.

Finding No. 7: Site Selection and Acquisition

Recommendation: We recommend the following policy and procedural enhancements in the area of site selection and acquisition:

Board policies and procedures should include complete information on the membership and terms of appointment of those serving on the Superintendent's Site Review Committee and the Negotiation Parameters Committee.

Management Response

Site Review Committee
The policy and procedures for the Superintendent's Site Review Committee consists of the following categories of membership.

a. Board Staff Members Alternative Recommendation School Board Staff members are appointed based upon position. In this case, the staff member will remain on the committee as long as the member is in the position or the Superintendent elects to make a change. We recommend that this should be clarified in the policy and formal appointments made.

b. Community Members Agreed Complete information on the Community Members and terms of appointment should be provided along with appointment letters

c. Based on Current Interlocal Agreement Disagree The municipal members are not standing members and are designated, and participate only when the site will affect the local government in which a new school facility will be located.

Negotiation Parameters Committee
Alternative Recommendation. The members of the Negotiation Parameters committee consist entirely of staff positions and remain as member s unless the superintendent elects to change the make up of the committee. Formal appointments can be made consistent with the position and clarified in policy.

EXHIBIT 2 (CONTINUED)
BROWARD COUNTY DISTRICT SCHOOL BOARD
RESPONSE TO AUDIT FINDINGS

Responsible Party. The Director, Real Estate and Environmental Planning will be responsible for reviewing the current policy and developing proposed changes for review and subsequent presentation to the Board.

Timeline. Recommended changes will be prepared and submitted for appropriate legal and other staff review within 90 days from the date of response and agreement. Upon approval, the policy and procedures will be submitted for Board approval within 90 days.

Board policies and procedures should address what action is to be taken when any member of the above standing committees is contacted directly by a lobbyist in connection with any matter that may foreseeably come before the committees for action.

Management Response

Responsible Party Director, Real Estate and Environmental Planning will be responsible for presenting the findings to the Board Attorney and developing the appropriate procedures to incorporate into School Board Policies or procedures.

Timeline - Recommended changes will be prepared and submitted for appropriate legal and other staff review within 90 days from the date of response and agreement. Upon approval, the policy and procedures will be submitted for Board approval within 90 days.

When two appraisals are required (for purchases in excess of $500,000), policies and procedures could be enhanced to address those instances where a significant variance exist between the two appraisals. The District should consider obtaining a review appraiser's certification to explain the basis for the recommended or approved value and to provide the Board relevant information for decision making.

Management Response

Current procedures indicates a third review can be obtained and is done so at the direction of the Negotiation Parameters Committee.

Board policies and procedures should include guidelines to be followed in the event that negotiations for the voluntary sale of a site for a reasonable price are unsuccessful and the acquisition involves eminent domain proceedings, as authorized by Section 1013.24, Florida Statutes.

Management Responses

Current policies and statues dictate the School Board's power of eminent domain and the steps that must be followed. The decision to pursue eminent domain is included as part of the Negotiation Parameter Committee deliberations.

Finding No. 8: Tangible Personal Property

Recommendation: The District should strengthen procedures to provide for complete annual physical inventories, including items stored in private warehouses. The District should review and update its property records to ensure that it reflects an accurate listing of property items for current locations. Furthermore, the District should evaluate its practice of purchasing and storing large quantities of tangible personal property. It may be prudent for the District to establish time limits for the storage of some property items, such as certain audio visual and technology-related items, whose value may be lost over a relatively short period of time.

EXHIBIT 2 (CONTINUED)
BROWARD COUNTY DISTRICT SCHOOL BOARD
RESPONSE TO AUDIT FINDINGS

Management Response

We agree that procedures over tangible personal property must be maintained to ensure that asses are properly safeguarded. Over the last two (2) years the Office of the Chief Auditor has been implementing a bar coded inventory system. This system was selected as it provides the schools and departments a method of tracking and monitoring their own inventory. By involving the schools and departments in the tracking and monitoring of their own inventory, it is believed that the time spent performing property audits will eventually be decreased. However, the implementation requires that more time be expended to ensure that all property on the premises is accurate, that all the information contained in the District's records is accurate and that the items receive a bar code.

Items are purchased for new schools and placed into storage, when it is not feasible to have the items directly delivered to the new school location because of lead time requirements for producing the asset, or for security reasons if the site is not able to properly secure an asset prior to a certain date. Due to the number of schools, classroom additions and portables added to the District on an annual basis, a method must be used to handle the number of assets needed for the opening of schools. In an effort to determine whether any assets may be missing or have not been properly delivered, the Office of the Chief Auditor is conducting a test on one of the new schools that will be opening for 2004-2005 fiscal year. The Office of the Chief Auditor will conduct an inventory of all the assets delivered to the school prior to teachers and students entering the school. This inventory will then be compared to District records to determine whether the assets have been properly recorded and accounted for upon delivery. We will then study this process and make improvements as needed. We believe that this process will assist the District in ensuring that the assets held in storage were delivered properly and will allow the new locations to know what assets are on the premises prior to opening its doors.

The last recommendation, regarding the loss of the value of an asset due to placing the asset in storage for an extended period of time. While it is true that many technology related items are updated in an expeditious fashion the use of the items in storage is not hindered by the time that the items are in storage. It is not a common practice for the District to purchase computers that far in advance that they remain in storage for any period of time.

The storage location is not a climate controlled facility, and therefore the storage of technology related items would not be a prudent business practice. Many of the stored items are desks, chairs and other larger type of capital assets which require substantial lead time in delivery of the quantities being order.

Finding No. 9: Energy Savings Contracts

Recommendation: Given the financial impact of the energy savings agreements and the contractors' funding of the project managers' positions, the District should independently review the reasonableness of the savings represented by the contractors and verified by the project managers, at least periodically. Written guidelines should be developed establishing the time frame for measuring and verifying significant items that impact on the reported savings, (e.g., contractors' adjustments, utility bills), and the documentation standards that should be used by the project managers to evidence the project managers' review process.

Management Response

Agree. The SBBC's Project Mangers are not funded by the contractors and, therefore, are looking after the best interest of the District. The Request for Proposal stated that the savings generated by the energy conservation measures should be sufficient to cover the cost of the measures, financing of the measures, maintenance of the measures and the salaries of two project managers. This is not to be interpreted that the contractors fund salaries. As part of the district's audit plan, this project will be periodically audited, hence, an independent check/balance.

EXHIBIT 2 (CONTINUED)
BROWARD COUNTY DISTRICT SCHOOL BOARD
RESPONSE TO AUDIT FINDINGS

Finding No: 10: Construction Change Orders – Consultant Errors

Recommendation: We recommend that the District implement procedures for identifying of record the amount of consultant errors resulting from negligence and the action deemed necessary for recovering the appropriate amount from the consultants.

Management Response

The Facilities and Construction Management Division has been identifying the excess costs attributable to change orders resulting from consultant errors as an on-going process for several years. Based upon the data collected as a result of this process, and criteria determined based upon best business practices, projects have been identified for further investigation by experts and legal counsel to determine the feasibility and economics for recovery of such excess costs. The experts and legal counsel are currently investigating the identified projects and will advise what actions should be taken to recover excess costs on a case-by-case basis.

The excess cost data can be obtained through, Senior Project Management Staff, Contracts Staff and a customized database.

Finding No. 11: Construction Warranty Process

Recommendation: Given the size of the capital construction program, the District should consider the benefits of an automated warranty administration system. For each completed project, the system would provide management with warranty monitoring and tracking information, such as warranty coverage, contact persons, warranty beginning and ending dates, and tracking of reported problems and resolutions. In addition, to enhance the efficiency of warranty administration, the District should develop written guidelines defining the duties of school/facility staff, project managers, Maintenance Department personnel, and contractors during the warranty process. The guidelines should require that adequate documentation be maintained to evidence that expenditures made on substantially completed projects are not for building and equipment repairs that may otherwise be covered by warranties.

Management Response

The District agrees with this recommendation and will add the information regarding warranties, contact persons, etc. to its close-out matrix which is developed by the architect for each project. The District will work on written guidelines for the various Departments and take it to the Policy Review Committee by December 31, 2004.

Finding No. 12: Monitoring of Construction Managers

Recommendation: We recommend that the District enhance procedures to document the monitoring of the construction managers' subcontractor selection. The procedures should also provide for monitoring the verification of subcontractor licensure by the construction managers.

Management Response

On the advice of the District's legal counsel, the District neither pre-qualifies subcontractors nor verifies their licensure. This is clearly the responsibility, per contract, of the general contractor. Legal counsel for the District, as well as, outside legal consultants, have reiterated, on several occasions, that we wish to leave this responsibility with the general contractor, with whom we have a contractual relationship.

EXHIBIT 2 (CONTINUED)
BROWARD COUNTY DISTRICT SCHOOL BOARD
RESPONSE TO AUDIT FINDINGS

Finding No. 13: Strategic Planning

Recommendation: We recommend that the District enhance its strategic plan to include financial information to assist with budgeting for the established goals and objectives.

Management Response

We agree with Finding No. 13: Strategic Planning. Chief Financial Officer is responsible for preparing the budget. All Budget requests must include, as part of the rationale, the specific goal and objective of the District Strategic Plan that the request supports. Starting with school year 2003-04 and ongoing, each department is responsible for developing its own strategic plan to support the District plan. As part of the implementation of their plans, each department creates one-year operational plans that incorporate details about what resources will be necessary, including budgetary amounts. The Superintendent of Schools approves these plans.

The District has developed a strategic plan to run through 2010. Departments are updating their operational plans for school year 2005-2006. These plans are due to the Superintendent of Schools in October 2004. These documents will assist the District to have the financial information necessary to determine the costs of meeting the established goals and objectives.

Finding No. 14: Florida School Recognition Program Expenditures

Recommendation: We recommend that the District enhance its procedures to ensure that Florida School Recognition Program funds are distributed in accordance with Program requirements.

Management Response

We agree with the recommendation. As part of the scheduled summer workshop for the opening of schools, a review of the procedures to be followed for the distribution of the monies received for the Florida School Recognition Program funds will be provided to School Administrators to ensure that funds are distributed in accordance with program requirements.

Finding No. 15: Purchasing Practices

Recommendation: Given the volume of purchases processed by the District, its purchasing function plays a strategic role in ensuring the efficient spending of the District's limited resources. Accordingly, we recommend that procedures be enhanced, as follows:

Purchasing Department staff should be periodically rotated into other buying areas.

Management Response

If all things were equal, it would be a good idea to periodically rotate buying responsibilities. However, each buyer possesses different expertise, which makes their contribution unique to the buying process. This level of expertise is acquired over time and through experience. It is necessary to maintain an ongoing level of competency regarding specific products and services, bid and contract development, supplier availability and performance, and customer response and assistance.

The decision not to rotate buyers is historically based. In 1996, the Purchasing Department underwent a complete buyer rotation. Although well-intentioned, the results were less than desirable. Learning curves ranged from one year to three years, during which time, buyers as well as buyer assistants, had to routinely rely on their predecessors for direction and input regarding the day to day operation of their new buying responsibilities. This compounded the adjustments because the time spent assisting with prior responsibilities, prolonged the acclimation to the new areas.

EXHIBIT 2 (CONTINUED)
BROWARD COUNTY DISTRICT SCHOOL BOARD
RESPONSE TO AUDIT FINDINGS

However, as an alternative to buyer rotations, each buyer has been teamed with another buyer with similar buying responsibilities. This is done to provide a degree of continuity during vacations and other absences from office. Additionally, various commodities and services, have been transferred from one buyer to another. This practice will continue on a periodic basis.

District records should document that purchases are made in accordance with applicable bid terms and conditions, and obtained at the lowest and best price consistent with product quality and performance.

Management Response

All bids are awarded to the lowest responsible, responsive bidder, as required by Florida Statute, State Board Rule and School Board policy. In instances where it is necessary to award to other than the lowest responsible, responsive bidder, such an award recommendation is noted in the School Board agenda item, which is a public record. Purchases are also made pursuant to the bid awards. However, effective immediately, all purchase orders created from bid awards, will include the following statement, as recommended by the State Auditors.

> All purchases are made in accordance with applicable bid terms and conditions, at the lowest and best price, and consistent with product quality and performance, including those made from catalog discount bids.

All catalogs and descriptive price lists, including revisions, should be kept in the bid files and a historical record should be maintained of all revised catalogs to provide documentation that the correct prices were charged by the vendor.

Management Responses

Buyers currently maintain records of catalog discount price lists and price revisions. However, buyers have been reminded to ensure that all catalog discount price lists and price revisions are filed with the master bid file.

When awarding future catalog bids, the Board should consider designating primary and secondary vendors in the bid awards. This would ensure that purchases are generally made from the vendors offering the lowest net cost. When catalog discount bid purchases are made from the secondary vendor, procedures should be enhanced to document the justification for not making the purchases from the vendor that bid the lowest net cost.

Management Responses

SBBC utilizes two standard catalog discount pricing scenarios.

i.e.:

Entire Catalog Discount

Currently, all bidders are awarded this type of contract in order to meet the needs of the school system. It is not recommended that a primary and secondary awardee format be utilized in every case for several reasons such as: M/WBE vendors, product preference, product diversity, proprietary products, product availability, etc. However, staff will review each entire catalog discount bid to determine if there are suitable cases for primary and secondary awardee recommendations.

EXHIBIT 2 (CONTINUED)
BROWARD COUNTY DISTRICT SCHOOL BOARD
RESPONSE TO AUDIT FINDINGS

Specific Item Discount by Manufacturer

Currently, specific items are bid and awarded by manufacturer to a primary vendor and an alternate vendor in order to meet the needs of the school system. In some cases, multiple alternates are awarded in the interest of ensuring delivery of the specified product, should the primary vendor be unable to meet delivery requirements. For this type of discount bid, the primary and secondary awardee formats will be continued.

Periodically, the Purchasing Department should monitor and reevaluate the effect of price changes made by awarded catalog discount vendors to ensure that purchases are being made from the vendors with the lowest net costs.

Management Response

Entire Catalog Discount

Since the discounts for entire catalog awards are not specifically designed for primary and secondary awardees, it is not recommended that schools and departments be monitored to verify utilization of the vendor with the lowest net cost. However, schools and departments are currently advised by memorandum to utilize the vendor with the lowest net cost in situations where it is appropriate. There will be times when the lowest net cost vendor may not be utilized for the reasons stated in item d.

Specific Item Discount

Since specific item discount bids are awarded to primary and secondary vendors, the primary and lowest net cost vendor should always be utilized. The secondary vendor should be used when the primary vendor cannot deliver, and such cases should be documented with the purchase order. Currently, purchase orders are only issued to the primary vendor with exception of Maintenance Stockroom replenishment orders. Secondary vendor orders will be issued in situations where the primary vendor is unable to fulfill contract requirements. Each catalog discount buyer will review five random purchase orders per month to ensure that the primary vendor is being utilized.

Finding No. 16: Verification of Work Experience

Recommendation: We recommend that the District enhance its procedures to adequately document the verification of the work experience reported by job applicants.

Management Response

The Administration agrees with this recommendation and has taken measures to correct this process. A multi-level process of review by both staff and managers has been instituted to make certain requirements listed on job postings are evidence by selected candidates.

In addition, manager will provide random review of employment records to maintain consistency with employment requirements.

Finding No. 17: Salary Overpayments

Recommendation: To enhance the efficiency and effectiveness of the payroll processing function and reduce the risk of future salary overpayments, we recommend that procedures be strengthened, as follows:

Management should take appropriate steps to ensure that the payroll processing procedures are consistently and effectively applied. The District should continue its training of payroll contacts and supervisors to reduce the amount of payroll exceptions.

EXHIBIT 2 (CONTINUED)
BROWARD COUNTY DISTRICT SCHOOL BOARD
RESPONSE TO AUDIT FINDINGS

Management Response

We agree with this recommendation. The Accounting/Payroll department will continue to provide the SAP support training team with payroll exception/overpayment data. This data will be communicated and provided to trainers so that meaningful training will be provided to the District's payroll contacts. We will continue to work with SAP Support personnel and the Human Resource group to improve efficiency and effectiveness of payroll procedures used in our District. Improved processes/procedures will undoubtedly reduce the amount of salary overpayments.
Implementation: On-going

The PAFs should be prepared timely by the payroll contacts. Supervisors should ensure the timely and proper execution of PAFs to reduce the risk of paying employees who have terminated employment. Unclaimed paychecks or pay stubs should be returned timely to the Payroll Department, but under no circumstances, later than the next scheduled pay date.

Management Response

We agree with this recommendation. The Accounting/Payroll department will continue to provide the SAP Support training team with payroll exception/overpayment data that specifically addresses terminated employees. Exception data related to terminations will be communicated and provided to trainers so that meaningful training information is offered to District payroll contacts. The Accounting/Payroll department will advise all location payroll contacts to immediately return unclaimed paychecks and/or check advices to the Payroll department if received for a terminated employee. We will notify location administrators of non-compliance with this procedure.
Implementation: Notification for return of unclaimed checks- *immediately* Items for training- *On-going*

Until the payroll exception error rate is at an acceptable level, surprise payroll observations should be performed at selected locations to ensure that individuals receiving salary payments are active District employees. These procedures could be coordinated with the work performed by the Office of Management/Facility Audits.

Management Response

We agree with this recommendation. Staff of the Accounting/Payroll department will conduct payroll observations at selected locations throughout the District. We will determine if only active employees are receiving paychecks. We will notify location administrators of terminated employees receiving paychecks and communicate findings to the Office of Management/Facility Audits.
Implementation: October 2004

The District should continue its efforts in collecting salary overpayments. Since the amounts and repayment period for salary overpayments are affected by bargaining agreement provisions, the District should work with its bargaining units to modify the language in future agreements, as appropriate, to facilitate the collection and settlement of the salary overpayments.

Management Response

We agree with this recommendation. The Accounting/Payroll department will spearhead discussions with personnel in the Employee Relations department. These discussions will take place on an annual basis well before the negotiation process begins.
Implementation: November 2004

EXHIBIT 2 (CONTINUED)
BROWARD COUNTY DISTRICT SCHOOL BOARD
RESPONSE TO AUDIT FINDINGS

Finding No. 18: Overtime Payment Monitoring

Recommendation: We recommend that the following procedures be implemented to strengthen controls in the area of overtime payments:

An edit report showing those employees that exceed specific overtime parameters (e.g., number of hours worked) should be provided to department heads and OMFA each pay period to trigger overtime follow-up.

Management Response

We agree with the recommendation. The Office of the Chief Auditor is working with the SAP Support Center to develop overtime reports based upon overtime parameters designed and requested by the Audit staff. The reports are scheduled to be completed by August 2004.

Summarized reports showing overtime totals and patterns by departments and positions should be provided to management periodically for review and evaluation of the reasonableness of District staffing and personnel utilization.

Management Response

Currently, overtime reports are available by location or individual employee. In addition, the reports can be summarized by individual payroll period or multiple payroll periods.

Using the above reports, OMFA should consider performing focus audits of overtime payments for those departments and positions with substantial amounts of overtime-related expenditures.

Management Response

The Audit Plan for the 2004-05 fiscal year includes a current status review of the payroll process which will focus on overtime payments for locations with substantial amounts of overtime related expenditures.

Sincerely,

Frank Till
Superintendent of Schools

FT/PR:jcb