AUDITOR GENERAL

WILLIAM O. MONROE, CPA

PINELLAS COUNTY DISTRICT SCHOOL BOARD

OPERATIONAL AUDIT

For the Period July 1, 2004 through June 30, 2005

SUMMARY

This operational audit for the period July 1, 2004, through June 30, 2005, disclosed the following:

Finding No. 1: Inventories – Separation of Duties

The District could enhance its internal control over the maintenance, warehouse, and transportation department inventories by adequately separating asset custody and record keeping responsibilities, and limiting access to inventory storage areas. When such responsibilities are not adequately separated, errors or fraud could occur and not be timely detected.

Finding No. 2: Cash Controls and Disbursements – Separation of Duties

The District could enhance its internal control over on-line wire transfers and vouchering by adequately separating incompatible duties. When such duties are not adequately separated, inappropriate transfers and payments could be made and not be timely detected.

Finding No. 3: Capital Assets – Subsidiary Records

The District did not maintain adequate detailed subsidiary records for its land improvements and buildings and fixed equipment categories. Additionally, the District did not always properly record and report capital and operating expenditures.

Finding No. 4: Payments for Accrued Vacation Leave

The District made terminal vacation leave overpayments totaling $3,057 to eight employees for accrued vacation leave in excess of the amounts allowed by Section 1012.65, Florida Statutes.

Finding No. 5: Overtime Payments

The District's overtime costs have increased during the last three fiscal years. However, the District has not conducted a cost-benefit analysis to study possible alternatives to overtime payments. In addition, the District should enhance its procedures over the monitoring of overtime payments.

Finding No. 6: Construction Administration – Subcontractor Monitoring

The District's administration of construction projects could be enhanced by requiring that copies of subcontractor bid tabulations be provided and maintained and that District records evidence verification of appropriate licensure of project subcontractors.

Finding No. 7: Insurance Commissions

Insurance companies paid a consultant, for the District's health and employee benefits, and brokers, for the District's property and casualty insurance, based on a percent of the premium costs paid by the District to the insurance companies. Considering that the insurance consultant's and brokers' fees were based on a percentage of the premium costs, the District may have limited the consultant's and brokers' incentive to recommend insurance services at the lowest and best price by not separately establishing a fixed-price contract with the insurance consultant and brokers.

Finding No. 8: Information Technology – User Application Access Controls

The District needed improvements in its user application access controls. The District lacked

policies and procedures requiring a periodic review by management of the TERMS user access accounts.

Finding No. 9: Information Technology – Security Controls

Improvements were needed in the District's information technology security controls. Specific details of these improvements are not disclosed in this report to avoid any possibility of compromising the District's information technology resources.

Finding No. 10: Information Technology – Program Change Controls

The District does not always maintain documentation of user approval for program modifications. The absence of adequate controls over program modifications increases the risk that erroneous or unauthorized program changes will be placed into the production environment and not be timely detected.

Finding No. 11: Information Technology – Disaster Preparedness

Improvement was needed in the District's disaster recovery procedures in that the disaster recovery plan had not been recently tested.

Finding No. 12: Charter School Monitoring

Improvements could be made in the District's monitoring of its charter schools to ensure that monthly financial statements are obtained and that the charter schools provide the required insurance coverage.

Finding No. 13: Fingerprinting Requirements

The District did not implement the procedures recommended by the Florida Department of Education during the 2004-05 fiscal year for timely obtaining fingerprints and performing the background screenings required by Sections 1012.56(9) and 1012.465, Florida Statutes, for instructional and noninstructional personnel having direct contact with students.

Finding No. 14: Workforce Education Postsecondary Student Fees

The District transferred from the workforce development program account to its General Fund unrestricted accounts $2,656,153 of workforce education postsecondary student fees contrary to guidance from the Florida Department of Education.

Finding No. 15: Workforce Education Program Funds – Indirect Costs

The District transferred to its General Fund unrestricted accounts $3,033,923 more than was allowable by law from the workforce development program account for reimbursement of indirect costs.

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 Pinellas County. The governing body of the Pinellas County District School Board is composed of seven elected members. The 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 Appendix A.

During the audit period, the District operated 136 elementary, middle, and high schools; exceptional schools; vocational schools; and adult educational centers and reported 112,245 unweighted full-time equivalent students.

The results of our audit of the District's financial statements and Federal awards are presented in report No. 2006-136.

FINDINGS AND RECOMMENDATIONS

Finding No. 1: Inventories – Separation of Duties

The District could enhance its internal control over the maintenance, warehouse, and transportation department inventories by adequately separating asset custody and record keeping responsibilities, and limiting access to inventory storage areas. The maintenance, warehouse, and transportation inventories totaled $1,766,484, $1,016,123, and $868,571, respectively, at June 30, 2005.

Four employees in the maintenance department, two employees in the warehouse department, and four employees in the transportation department had unrestricted physical access to the physical inventory

and maintained the perpetual inventory records. Under these conditions, there is an increased risk that errors or fraud could occur and not be timely detected.

Recommendation: The District should provide for an adequate separation of duties associated with the maintenance, warehouse, and transportation departments' inventories to the extent practicable with existing personnel.

Auditor's Clarification:

In response to Finding No. 1, the District indicates that due to limited staff and budget cuts, it has not been practicable to implement a proper separation of duties. While it is management's responsibility to evaluate the costs and benefits of implementing effective controls to safeguard its assets, when a proper separation of duties is not practicable, the District should evaluate other compensating controls that would reduce the risk and opportunity for fraud. Such compensating controls may include periodic review of inventory purchases and issues by staff independent of the inventory function.

Finding No. 2: Cash Controls and Disbursements - Separation of Duties

Improvements could be made in District procedures to segregate incompatible duties necessary to preclude the inappropriate use of the District's resources in processing on-line wire transfers and disbursements. Our review of cash controls and disbursement processing disclosed the following:

- Three employees, Manager of Cash and Investments, Financial Reporting Analyst, and Supervisor of School Lunch/General Accounting have the capability to initiate and make on-line wire transfers. There is no independent confirmation of the on-line wire transfers from the bank to the District to confirm the transactions. In addition, there is no independent review by a District employee to verify the validity of these transfers in a timely manner.
- Two senior account clerks in the general accounting office and an accounts payable coordinator can make changes to the vendor information in the accounting system, such as adding new vendors and changing mailing addresses, and have vouchering capabilities including initiating payments to vendors. The lack of segregation of these duties could allow payments to be made to fictitious vendors or payments to be diverted to improper mailing addresses.

The failure to segregate the incompatible functions noted above results in an increased risk that inappropriate transfers and payments could be made and not be timely detected.

Recommendation: The District should separate the incompatible duties related to on-line wire transfers and disbursement processing.

Finding No. 3: Capital Assets - Subsidiary Records

Improvements were needed in procedures to provide for accountability for capital assets. Accounting for capital assets should include the maintenance of control accounts for the various capital assets categories to be used as the basis for determining amounts to be reported in the District's financial statements. Detailed subsidiary records provide a means to account for the individual items within a category of assets. Based on our review, we noted the following:

- The District did not establish and maintain detailed subsidiary records for its land improvements and buildings and fixed equipment categories. To determine the balances reported in the financial statements for these categories for June 30, 2005, District personnel added the 2004-05 fiscal year capital outlay expenditures to the balances reported on the financial statements at June 30, 2004. While this procedure may fairly present balances in the District's financial reports, it is not a substitute for establishing and maintaining an adequate record system to account for the District's individual capital assets. Absent complete detailed subsidiary records, the District's ability to properly account for these assets could be adversely affected.
- Our review of the land improvements category disclosed that the District had included as capitalized expenditures items such as labor and materials for reinstalling existing fences, asphalt resurfacing and

resealing and replacement of playcourts. These expenditures are normal repairs and maintenance costs and should be expensed instead of capitalized.

- Our review of the construction in progress category disclosed that a school project totaling $6,379,008 that was completed in August 2002 was included in construction in progress instead of buildings and fixed equipment. In addition, the District incorrectly included $682,399 of rental expenditures for portable buildings in the construction in progress category.

Recommendation: The District should develop detailed subsidiary records for the land improvements and buildings and fixed equipment categories. In addition, the District should enhance its procedures to properly record and report capital expenditures.

Finding No. 4: Payments for Accrued Vacation Leave

Section 1012.65, Florida Statutes, provides that a district school board may establish policies to provide for a lump-sum payment for accrued vacation leave to employees and effective July 1, 2001, terminal pay for accrued vacation leave may not exceed a maximum of 60 days of actual payment. The law further states that for unused vacation leave accumulated before July 1, 2001, terminal payment shall be made pursuant to the district school board's policies, contracts, or rules that are in effect on June 30, 2001. Board policy, 8.11 allows for a maximum of 62 days of accrued vacation leave payments. This policy was in effect at June 30, 2001.

Our test of 19 employees disclosed that the District made terminal vacation leave overpayments totaling $3,057 to 8 employees who had less than 62 days of accrued vacation leave at June 30, 2001. These overpayments ranged from $85 to $728. Overpayments made by the District were due to the District's vacation leave policy that provided for payments which exceeded the threshold established by law.

Recommendation: The District should recover the terminal vacation leave overpayments totaling $3,057. In addition, the District should amend its vacation leave policy to be in compliance with Section 1012.65, Florida Statutes.

Finding No. 5: Overtime Payments

The District's compensation manual provides that employees entitled to overtime that work in excess of the normal 40-hour week are to be paid at the rate of one and one-half times their normal rate of pay. The specific guidelines for overtime are governed by the District's individual bargaining agreements.

The District's overtime costs have increased during the 2002-03, 2003-04, and the 2004-05 fiscal years, with overtime expenditures totaling approximately $4.7, $6.0, and $7.1 million, respectively. Our review of overtime payments made during the 2002-03, 2003-04, and 2004-05 fiscal years disclosed that a significant portion of the overtime payments, $2.3, $3.4, and $3.7 million, respectively, were for the Institutional Services Division. This Division includes the transportation department for which overtime payments increased from $1.9 million in the 2002-03 fiscal year to $3.0 million in the 2004-05 fiscal year. District personnel indicated that transportation overtime costs have increased as a result of the District's school choice plan.

The District's overtime procedures provided for overtime to be approved in advance by supervisory personnel. Reports are generated monthly listing employee names and the related cumulative overtime pay. These reports are monitored at the area superintendent and division head level. There is no monitoring performed at a higher District organizational level, such as the chief business officer. The District has not conducted a cost-benefit analysis to study possible alternatives to overtime payments.

Since overtime is paid at a one and one-half time basis, its extensive and continued use has a negative effect on District operations in that overall salary costs increase significantly without a corresponding increase in the number of hours actually spent on operations.

Consequently, the negative effect of extensive overtime must be balanced against the immediate needs of the District's operations.

Recommendation: The District should conduct a cost-benefit analysis to study possible alternatives to overtime payments. In addition, the District should enhance its monitoring of overtime payments to include a review at a higher organizational level.

Finding No. 6: Construction Administration – Subcontractor Monitoring

The District's administration of construction projects could be enhanced by requiring that copies of subcontractor bid tabulations be provided and maintained and that District records evidence verification of appropriate licensure of project subcontractors. Section 1013.45(1)(c), Florida Statutes, authorizes districts to contract for the construction or renovation of facilities with a construction management entity (CM). Under the CM process, contractor profit and overhead are contractually agreed upon, and the contracted firm is responsible for all scheduling and coordination in both the design and construction phases and is generally responsible for the successful, timely, and economical completion of the construction project. CM firms may also be required to offer a guaranteed maximum price (GMP). The GMP provision allows for the difference between the actual cost of the project and the GMP amount, or the net costs savings, to be returned to the District.

Section 1013.45(1)(c), Florida Statutes, further provides that the CM must consist of, or contract with, licensed or registered professionals for the specific fields or areas of construction to be performed, as required by law. The District's responsibility is to establish monitoring procedures to ensure compliance with the Statute.

The District's Facilities Design and Construction Department is responsible for the administration of the construction program. Our audit included a review of the District's administration of two construction manager (CM) projects.

- The District did not obtain copies of the bid tabulation sheets or bids submitted to the CM by subcontractors or otherwise participate in the bidding process. Without review of bid documentation or participation in the bidding process, the District had limited assurance that the CM complied with the terms of the contract or maximized the District's cost savings.
- District records did not evidence that the District monitored the verification of licensure of the project subcontractors. Chapter 489, Florida Statutes, establishes certain certification requirements for persons engaged in construction contracting, including licensing requirements for specialty contractors such as electrical, air conditioning, plumbing, and roofing contractors. Verification of subcontractor licenses provides the District additional assurance that the subcontractors met the qualifications to perform the work for which they were engaged.

Recommendation: The District should establish procedures to monitor the selection and award of bids to subcontractors and verification of subcontractor licensure.

Auditor's Clarification:

In response to Finding No. 6, the District indicates that while bid tabulation sheets are not obtained, District staff are involved in the bid process on every project. Also, the District indicates that it is the responsibility of the CM to verify licensure of subcontractors. The point of our comment is not to suggest that the District should perform the duties assigned under contract to the CM, rather, that the District should have procedures for monitoring the CM's performance in critical areas such as subcontractors bids and verifying licensure for subcontractors, and document such procedures when performed. Periodically monitoring the CM's performance on large projects would provide additional assurance that the Board's contractual expectations are being met and reduce the risk of errors in payments and work performed by subcontractors who do not meet the qualifications to perform the work.

Finding No. 7: Insurance Commissions

During the 2004-05 fiscal year, the District provided health and employee benefits for its employees and dependents and purchased property and casualty insurance. To assist in making a determination of the best value for such coverage, the District has used an insurance consultant for approximately 20 years as its broker for insurance carriers for health and employee benefits and two brokers for insurance carriers for the property and casualty insurance. According to the District, the insurance consultant for health and employee benefits performs various services such as development and analysis of bid specifications, renewal negotiations, technical assistance, maintenance of the benefits Web site, overseeing open enrollment, and providing one full-time staff in the District's Risk Management Office. The brokers, for the property and casualty insurance, obtain and present to the District proposals from the insurance carriers.

During the 2004 and 2005 calendar years, the insurance consultant received $2,179,870 and $2,333,616, respectively, in commissions paid by insurance carriers for the District's health and employee benefits coverages such as dental, life, and vision. In addition, the brokers for the District's property and casualty insurance received $201,028 and $321,538 in commissions paid by insurance carriers for the 2004 and 2005 calendar years, respectively. District staff indicated that the District did not directly pay the consultant or insurance brokers for the consulting services, but that the consultant and brokers were paid by the selected insurance company based on a percent of the premiums paid by the District to the company.

In March 2005, a corporation, whose business units include the District's insurance consultant for health and employee benefits and its insurance broker for casualty insurance, reached an agreement with five agencies in three states to settle investigations of certain insurance industry practices, including receipt of contingent commissions. The contingent commissions were paid by insurers in connection with the placement of insurance and other risk solutions products by the corporation or its affiliates for the calendar years 2001 through 2004. As part of the settlement, the corporation agreed to send clients an annual statement for compensation received, invoiced, or due from any insurer or third party in connection with the placement, renewal, consultation on, or servicing of each client's policy. The settlement was for $190 million and the District's share of the settlement was $642,283. In January 2006, the District received $337,356 of the settlement. In addition, as of April 2006, there was a proposed class action settlement pending in the Circuit Court of Cook County, Illinois. The class action lawsuit concerns alleged conduct by subsidiaries and affiliates of the corporation and involves the corporation's receiving or eligibility to receive contingent commissions. The lawsuit covers insurance policies purchased for the calendar years 1994 through 2004.

Based on the results of these recent class action lawsuits and considering that the insurance consultant's and brokers' fees were based on a percentage of the premium costs, the District may have limited the incentive to recommend insurance services at the lowest and best price consistent with desired quality by not separately establishing a fixed-price contract with the insurance consultant and brokers. The District on February 22, 2006, initiated a request for proposals for an employee benefits broker/consultant for a fixed-price 5-year contract.

Recommendation: For future services obtained from insurance consultants, the District should continue its efforts to enter into fixed-price contracts for such services, to ensure its process to select insurance companies provides the lowest and best price consistent with desired quality. In addition, the District should obtain a fixed-price contract with the brokers for property and casualty insurance.

Finding No. 8: Information Technology – User Application Access Controls

Management should have a control process in place to periodically review and confirm access rights to help

reduce the risk of errors, fraud, misuse, or unauthorized alteration. The District had developed and implemented user access control procedures that required a department or school's security administrator to complete a User ID Request form to add a new user, change a user's access privileges, or delete a user. However, we noted that the District lacked policies and procedures requiring a periodic review by management of the user access accounts. A similar finding was noted in our report No. 03-194.

Recommendation: To provide increased assurance that the access provided is appropriate and authorized, the District should implement procedures to periodically review all user application access accounts for appropriateness and verify that the access granted is evidenced by a written and approved User ID Request form.

Finding No. 9: Information Technology – Security Controls

Security features are necessary to protect the integrity, confidentiality, and availability of information technology resources. During our audit, we identified improvements that could be made in the District's security procedures. Specific details of these improvements are not disclosed in this report to avoid any possibility of compromising the District's information technology resources. However, appropriate District personnel have been notified of the needed improvements. Without adequate security control features in place, the risk is increased that the District's information technology resources may be subject to improper disclosure or modification. A similar finding was noted in our report No. 03-194.

Recommendation: The District should improve the appropriate control features to enhance security controls over the District's information technology resources.

Finding No. 10: Information Technology – Program Change Controls

Controls over systems development and modification activities are intended to ensure that new systems and system changes are suitably approved, designed, tested, and implemented. Sound program change controls typically include, among other things, adequate user involvement in requesting, testing, and approving program changes; appropriate audit trails, including program change history logs (library management software); information technology and user personnel approval for program changes; and, sufficient documentation of program changes.

Our testing of ten System Service Requests for program modifications disclosed that, in five instances, the District did not maintain documentation of user approval for modifications made. A similar finding was noted in our report No. 03-194.

The absence of adequate controls over program modifications increases the risk that erroneous or unauthorized program changes will be placed into the production environment and not be timely detected.

Recommendation: The District should strengthen procedures to ensure that documentation of user approval for program modifications is obtained.

Finding No. 11: Information Technology – Disaster Preparedness

A basic element of safeguarding computer facilities and data is a well-planned and well-tested back-up and recovery process, incorporating physical facilities; personnel and operating instructions; supplies and forms; applications programs, system software, and related documentation; and data, including machine-readable files or source documents needed to recreate files. The District had developed a Disaster Recovery Plan Procedural Handbook that outlined critical systems and an alternate site for processing in the event of a processing disruption. Section 10.50(2) of the plan handbook provides that the plan be tested at least once each year. We were informed by the Assistant Superintendent of Management Information Systems that the plan has not been tested since 1997. A similar finding was noted in our report No. 03-194.

Recommendation: The District should test its Disaster Recovery Plan at least once a year as provided in Section 10.50(2) of its plan handboook.

Finding No. 12: Charter School Monitoring

During the 2004-05 fiscal year, the District sponsored four charter schools and, pursuant to Section 1002.33(5), Florida Statutes, was required to monitor and review the charter schools in their progress towards the goals established in the charter contracts and to monitor revenues and expenses. As discussed below, District procedures needed improvement for monitoring and reviewing certain activities of the charter schools.

- The District's contracts with two charter schools, The Athenian Academy, Inc., and Plato Academy Charter School, required that the charter schools provide monthly financial statements to the District no later than the tenth and fifteenth day of the following month, respectively. Our review disclosed that for The Athenian Academy, Inc., two monthly financial statements had not been submitted to the District and eight had been submitted from 13 to 36 days late. Plato Academy Charter School did not submit any monthly financial statements to the District. In addition, the contracts for Academie Da Vinci Charter School, Inc., and Pinellas Preparatory Academy, Inc., did not require these charter schools to submit monthly financial statements. Monthly financial statements provide the District with information necessary to properly monitor and review the charter schools' financial condition.
- Charter schools are required to obtain commercial insurance and to list the District as the additional insured on these policies. The contracts with the charter schools provide for specific minimum insurance requirements for the various types of risk coverage. We noted the following deficiencies over District procedures in monitoring insurance coverage of the charter schools:
  - The contracts require that the charter schools obtain insurance from an insurer that is authorized by the Florida Department of Insurance (now the Office of Insurance Regulation, Department of Financial Services), or an eligible surplus lines insurer under Florida Statutes. In addition, the insurer must have a Best's Rating of "A" or better and a Financial Size Category of "VI" or better, according to the latest edition of Best's Key Rating Guide, published by A.M. Best Company. The District could not provide documentation to support that the charter schools had obtained insurance coverage from insurers that met these requirements.
  - The contracts require the charter schools to maintain worker's compensation of $1,000,000 per occurrence and $2,000,000 annual aggregate coverage. One charter school, Academie Da Vinci Charter School, Inc., only carried $100,000 per occurrence for accident and disease and $500,000 of annual aggregate coverage for disease.
  - The charter schools were required to carry property insurance. Documentation of property insurance was not available for two charter schools, The Athenian Academy, Inc., and Plato Academy Charter School.

Without adequate procedures to monitor the charter schools' insurance coverages, there is an increased risk that such coverages may not exist, or may not be sufficient, subjecting the District to potential losses.

Recommendation: The District should enhance its monitoring procedures to ensure that the charter schools are in compliance with the contract provisions regarding monthly financial statements and insurance coverages. In addition, the District should amend the contracts for two of its charter schools to require monthly financial statements.

Finding No. 13: Fingerprinting Requirements

The District should improve its procedures for timely renewal of fingerprints and background checks for staff that have direct contact with students. Sections 1012.56(9) and 1012.465, Florida Statutes (2004), required instructional personnel renewing their teaching certificates and noninstructional personnel

every five years following employment, respectively, to file a complete set of fingerprints and undergo a background screening. Because of the large number of affected employees, in a memorandum dated June 25, 2004, the Florida Department of Education recommended that districts conduct the background screenings over a five-year period in order to have them all completed by July 1, 2009. The recommended procedure was for background screenings to be conducted for certified instructional employees when they renew their teaching certificates, and for noninstructional employees at a rate of approximately 20 percent each year.

Our review disclosed that the District had established a process for performing the required background screenings for newly-hired employees during the 2004-05 fiscal year and, except for newly-hired employees, background screenings were not conducted. When required background screening checks are not timely conducted in the manner recommended by the Florida Department of Education, there is an increased risk that instructional and noninstructional staff may have backgrounds that are not suitable for direct contact with students. Also, the requirements of the Jessica Lunsford Act, which became effective September 1, 2005, further impact the need to enhance procedures for timely obtaining fingerprints and background checks for persons under contract with the District.

Recommendation: The District should enhance its personnel procedures to ensure that required fingerprinting and background checks are performed for instructional and noninstructional staff on a timely basis.

Finding No. 14: Workforce Education Postsecondary Student Fees

Section 1009.22, Florida Statutes, provides the authority for the District to charge fees to students enrolled in workforce education programs. During the 2004-05 fiscal year, the District transferred adult general education and postsecondary vocational course fees totaling $1,450,709 and $1,205,444, for the 2003-04 and 2004-05 fiscal years, respectively, from the workforce development program account to unrestricted accounts in the General Fund. Subsequent to our inquiry for the District's authority to transfer these fees to unrestricted accounts in the General Fund, the District contacted the Florida Department of Education (FDOE) to seek clarification as to whether postsecondary workforce education program student fees may be used for programs other than postsecondary workforce education. FDOE responded that these fees cannot be used for programs other than postsecondary workforce education.

Recommendation: The District should discontinue its practice of transferring student fees from the workforce development program account to the General Fund for unrestricted purposes. In addition, the District should reimburse the fees totaling $2,656,153 to the workforce development program account.

Finding No. 15: Workforce Education Program Funds – Indirect Costs

The District charges certain school and district indirect costs to the workforce education postsecondary program based on the District's annual program cost report. Transfers totaling $1,620,628 and $3,672,072 for the 2003-04 and 2004-05 fiscal years, respectively, from the workforce development program account were made during the 2004-05 fiscal year to reimburse the General Fund for school and district level indirect costs allocable to the postsecondary workforce education program.

Chapter 2004-268, Laws of Florida, Specific Appropriation 122B of the General Appropriations Act, states that workforce development funds provided by this appropriation are not to be used to support K-12 programs or the district K-12 administrative indirect costs. Our review disclosed that, in determining the school and district level indirect costs to be used in the allocation process, District staff included expenditures for secondary programs (grades 6 through 12). Therefore, the

District transferred $3,033,923 more to the General Fund for indirect costs than was allowable by law.

Recommendation: The District should return $3,033,923 to the workforce development program account. In addition, the District should revise its methodology over the allocation of indirect costs to ensure that workforce development funds are not used to support K-12 programs or the district K-12 administrative indirect costs.

OBJECTIVES, SCOPE, AND METHODOLOGY

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

Specifically, our review included management controls related to information technology; strategic planning; monitoring of charter schools; cash and investments; inventories; capital assets; procurement; revenues and cash collections; and expenditures and compensation.

In conducting our audit, we interviewed appropriate District personnel, observed District processes and procedures, and preformed various other audit procedures to test selected management controls.

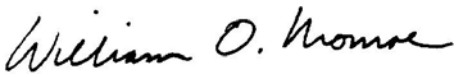
This operational audit was made in accordance with applicable *Governmental Auditing Standards* issued by the Comptroller General of the United States.

PRIOR AUDIT FINDINGS

Our previous audits have addressed the administration of the selected management controls. As part of our current audit, we determined that the District had substantially corrected the deficiencies noted in report No. 03-194, except as noted in findings No. 8, 9, 10, and 11 of this report.

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

MANAGEMENT RESPONSE

In accordance with the provisions of Section 11.45(4)(d), Florida Statutes, a list of audit findings and recommendations was submitted to members of the Pinellas County District School Board and the Superintendent. The Superintendent's written response to the audit findings and recommendations is included in this report, as Appendix B, on pages 12 through 16.

This audit was conducted by Elba M. Guzik, CPA, and supervised by Karen J. Collington, CPA. Please address inquiries regarding this report to David W. Martin, CPA, Audit Manager, via e-mail at davidmartin@aud.state.fl.us or by telephone at (850) 487-9039.

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.

APPENDIX A
PINELLAS COUNTY DISTRICT SCHOOL BOARD MEMBERS

Pinellas County District School Board members and the Superintendents of Schools who served during the 2004-05 fiscal year are shown in the following tabulation:

	District No. (1) 7-1-04	District No. (1) 11-16-04
Lee R. Benjamin to 11-15-04	***1***	
Janet R. Clark, from 11-16-04		***Seat 1 - At-Large***
Linda S. Lerner	***2***	***2***
Carol J. Cook, Vice Chair	***3***	***5 (2)***
Mary Tyus Brown	***4***	***4 (3)***
Nancy Bostock, Chair from 11-16-04	***5***	***5 (3)***
E. Jane Gallucci, Chair to 11-15-04	***At-Large***	***4 (2)***
Mary L. Russell	***At-Large***	***At-Large***

Dr. J. Howard Hinesley, Superintendent to 10-31-04
Dr. Clayton M. Wilcox, Superintendent from 11-01-2004

Note (1): On September 9, 2003, a redistricting plan was approved which revised the number of residence areas and at-large districts. Beginning with the November 2004 election, District No. 1 changed from a residence area district to an at-large seat. In November 2006, District Nos. 2 and 3 will change from residence areas to at-large districts. After the 2006 elections, seats 1, 2, and 3 will be at-large and seats for the redrawn single-member district areas will be seats 4, 5, 6, and 7.

Note (2): Pursuant to the redistricting plan, the geographic area for District No. 3 was redrawn to be included in the new District Nos. 4 and 5. In November 2004, Carol J Cook was elected in new single-member District No. 5 and E. Jane Gallucci was elected in new single-member District No. 4.

Note (3): Seat Nos. 4 and 5 remained under the previous districting plan and will be revised into new single-member District Nos. 6 and 7.

APPENDIX B
MANAGEMENT RESPONSE

PINELLAS COUNTY SCHOOLS

www.pinellas.k12.fl.us

ADMINISTRATION BUILDING
301 Fourth St. SW
P.O. Box 2942
Largo, FL 33779-2942
(727) 586-1818
FAX (727) 588-6202

School Board of Pinellas County, Florida

Chairperson
Carol J. Cook

Vice Chairperson
Mary L. Tyus Brown

Nancy N. Bostock
Janet R. Clark
Jane Gallucci
Linda S. Lerner
Mary L. Russell

Superintendent
Dr. Clayton M. Wilcox

May 23, 2006

William O. Monroe, CPA
Auditor General
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, FL 32399-1450

Dear Mr. Monroe,

The following are the District responses to the preliminary and tentative Audit Findings for the operational audit for fiscal year ended June 30, 2005.

Finding No. 1: Inventories – Separation of duties.

Transportation: Recent budget cuts in Transportation effective 7/1/06 will reduce personnel in the parts/inventory section by (4) positions. Three parts rooms will still experience the same volume and be required to provide coverage for the same hours. This can only be done by overlapping duties. Efficiencies of operations will still remain a primary focus however.

Warehousing: Due to limited staff, the only materiel control clerk in Warehousing has physical access to inventory out of necessity in order to deal with vendor inquiries, cycle count reconciliations, packaging adjustments, damage inspections, etc. The materiel clerk is usually in the presence and in conference with a stock clerk with responsibility for that particular area. The flat organizational structure of the department limits the flexibility of assigning separate and non overlapping duties at this time.

Maintenance: Maintenance has made budgetary requests to address these issues however, the fact that maintenance materials are housed in various locations and technology expenditures (i.e. bar coding) are required, funding has been an issue and higher priorities have prevailed.

Finding No. 2 Cash Controls and Disbursements- Separation of Duties.

- The District has taken steps to ensure that a confirmation of wire transfer transactions is sent to a staff member outside of the Cash Management department. That person will confirm the validity of the wire.

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APPENDIX B
MANAGEMENT RESPONSE (CONTINUED)

The District will take steps so that the Manager, Cash & Investments will no longer have the capability to create repetitive wire transfer templates. The responsibility of creating repetitive wire transfer templates will be given to appropriate personnel outside of the Cash Management department. The Manager, Cash & Investments will retain the capability of sending a repetitive wire using an existing template.

In addition, the Manager, Cash & Investments will retain the capability to create a "free-form", or non-repetitive, wire transfers. However, steps will be taken so that such wires must be approved/released by appropriate personnel outside of the Cash Management department.

- The District has taken steps to require an individual that does not have vouchering capability to enter vendor set up and changes.

Finding No. 3: Capital Asset Subsidiary Records:

- The District's property records department maintains detailed records for fixed taggable equipment categories. All assets purchased by the District with a value of $750.00 or greater are assigned an asset tag which is then inventoried by the property records department staff annually. Additionally, schools and departments are responsible for maintaining inventory of non tagged assets which is also annually inventoried by property records staff. This system does enable the District to identify individual items within a category of assets.

Likewise, the District maintains subsidiary records for its buildings by individual site or location. Building improvements, such as wing additions or roof replacements become chattels of the building and therefore, indistinguishable from the building. As such, it is neither practical nor cost effective to maintain separate records for those improvements that become incorporated as part of the structure as a whole. Individual buildings at any given site are readily identifiable and the District removes such buildings from the subsidiary when it is to be razed and the cost is identifiable. When the facility was originally constructed it is unlikely that the contractor identified costs associated by building; rather the completion price would more likely have been for the facility as a whole. Therefore, it is difficult to determine an accurate value to remove from the subsidiary if only 1 or 2 buildings are razed on a site of multiple buildings. The District has a reasonable process in place for the accountability of its buildings.

The District also maintains subsidiary records for land and site improvements in the aggregate by site. The District does not maintain detailed subsidiary records for individual land or site improvements. Normally, land and site improvements are made to ready a site for use and become part of the total cost of the site. For example, The District does not maintain a separate subsidiary for the value of sod installed at a site.

APPENDIX B
MANAGEMENT RESPONSE (CONTINUED)

The District will however, evaluate the practicality and cost effectiveness of maintaining detailed ledgers for future additions and site improvements.

- The District, in accordance with generally accepted accounting principals (GAAP), capitalizes improvements that serve to increase the useful life of an asset. The major consideration is whether the expenditure benefits more than one year. If a major repair, such as asphalt resurfacing occurs several periods will benefit and the cost should be handled as an addition, improvement or replacement, depending on the type of repair made. Replacement of play courts was also cited in your finding. After investigating the specific expenditures provided by the Auditor General's staff, the District maintains that this expenditure is not normal maintenance. Replacement of such an asset would not, under GAAP, be considered normal maintenance, it would, in fact, be a capitalized expenditure.

- The District will evaluate the method by which a project is deemed complete, and enhance the procedures for moving completed construction projects to the building subsidiary.

Finding No. 4: Payments for Accrued Vacation Leave.

The District will amend Board policy 8.11 to align with state statute.

Finding No. 5: Overtime Payments.

A process will be developed for overtime payments to be monitored at the District level during the 06/07 fiscal year.

Finding No.6: Construction Administration – Subcontractor Monitoring.

- The District has not made it a practice to obtain copies of bid tabulation sheets for subcontractor bids within the project files. We do, however, actively participate in the bidding process on every project. There is constant dialogue throughout this process with team members which include the CM (construction manager), the design team, and PCS staff. The subcontractors are pre-qualified by the CM prior to being invited to bid on each project. The pre-qualification process includes, but is not limited to, verifying work experience, present work load, and proper licensure. There is a possibility that if the District was to follow the recommendations of becoming so involved in the bid process that subcontractors would begin to expect the District represent them in contractual and pricing issues which are currently the purvey of the CM. The current process has not caused any issues since "CM @Risk" has been used by PCS (since 1998).

APPENDIX B
MANAGEMENT RESPONSE (CONTINUED)

- Subcontractor verification of licensure is required by Florida Statutes. This is, however, a requirement in chapter 489 which deals with licensed contractors. Therefore, this is the responsibility and a requirement of the CM firm, which is always a licensed general contractor. Since proper subcontractor licensure is part of the pre-qualification process, we do not feel this is necessary. The current process has not caused any issues since "CM @Risk" has been used by PCS (since 1998).

Finding No. 7: Insurance Commissions.

The District recently issued a request for proposal for a Broker/Consultant agreement which will include a fixed price contract. In addition, the District's 2006/2007 property and casualty insurance programs will include a not to exceed cap on commissions which will serve as a fixed compensation agreement and provide us the opportunity of a reduced premium in the unlikely event of declining market or if we are unable to obtain or cancel a previously purchased insurance.

Finding No. 8: Information Technology – User Application Access Controls.

We will begin sending out a monthly list of user authorization to each departmental security administrator. The security administrator will be asked to note any changes in personnel or access authorization and return a signed copy to the District security administrator

Finding No. 9: Information Technology – Security Controls

Because of the security sensitive nature of this finding, it will be covered in a separate memo.

Finding No. 10: Information Technology – Program Change Controls.

The "move to production process" has been changed to require that a user signed copy of the System Service Request accompany the paperwork initiating the production move.

Finding No. 11: Information Technology – Disaster Preparedness

The MIS department is supplementing the current disaster recovery plan with the District's COOP (Continuity of Operations Plan). As part of this effort we will be considering off site operation locations that would not be effected by local disaster conditions.

APPENDIX B
MANAGEMENT RESPONSE (CONTINUED)

Finding No. 12: Charter School Monitoring.

The District will revise its monitoring procedures to ensure that all charter schools are complying with all contractual provisions especially with regards to financial reports and insurance coverage. As charter contracts are renewed or amended, standardize language will be used that addresses these areas.

Finding No. 13 Fingerprinting Requirements.

The District will form an advisory committee that includes PCTA, schools police, the legal department and the Office of Professional Standards to formulate a protocol and a timeline to complete the requisite fingerprinting. Equipment was purchased during the 2005-06 school year and we will negotiate the payment of the requisite fees with our labor organizations this summer. We will look at those employees who have already been fingerprinted as part of the hiring process over the past four years and those who will be exiting the District prior to the deadline to avoid costly and potentially unnecessary processing.

Finding No. 14: Workforce Education.

The District will not transfer statutorily restricted fees from the workforce development fund to unrestricted accounts in the General Fund. At the request of the Auditor General's staff during the current operational audit, the District inquired of the Florida Department of Education (FDOE) as to the appropriateness of such a transfer. FDOE replied, in general terms, that such transfers are not allowable.

Finding No. 15 Workforce Education Program Funds – Indirect Costs.

The District has reviewed the methodology utilized to calculate and allocate direct/indirect costs applied to the workforce development fund. As result of that review, the District has modified the calculation and allocation of both the direct and indirect costs to ensure that funds are not used to support K-12 programs effective for the 05/06 fiscal year.

Sincerely,

Lansing Johansen, CBO
Pinellas County School Board
727-588-6318