AUDITOR GENERAL

WILLIAM O. MONROE, CPA

LEON 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: Cash Collections – Extended Day Enrichment Program (EDEP)

Improvements were needed in control procedures over EDEP fees collected at various elementary schools to ensure the proper separation of duties, the documentation of transfers of collections between employees, and the documentation of comparisons of attendance data to collections and deposits (fee audits).

Finding No. 2: Cash Collections – Pre-K Programs

Improvements were needed in control procedures over Pre-K program fees collected at various schools to ensure voided receipts are retained, collections are remitted to the District Finance Office for deposit in a timely manner, and restrictive endorsements are placed on checks and money orders immediately upon receipt.

Finding No. 3: Cash Collections – Voluntary Employee Benefit Trust (VEBT)

The VEBT is used to administer the District's employee group health, life, vision, and dental insurance program, as well as the dependent care and medical expense reimbursement programs. Improvements were needed in control procedures over VEBT collections in the Enrollment Services Office to ensure collections are recorded upon initial receipt and transfers of collections between employees are documented.

Finding No. 4: Performance-Pay Plan

The District's performance-pay plans for school administrators and instructional personnel included provisions limiting participation and performance pay awarded, contrary to the intent of Florida Statutes.

Finding No. 5: Self-Insurance Monitoring

Improvements were needed in the District's procedures for monitoring workers' compensation, automotive, and general liability insurance claims payments. The District did not perform a review of the documentation maintained by the third-party administrator supporting claims payments processed during the 2004-05 fiscal year. Reviewing claims documentation, on at least a sample basis, is necessary in order to monitor the third-party administrator's performance in paying claims for eligible charges.

Finding No. 6: Fingerprinting and Background Checks

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 law for instructional and noninstructional personnel having direct contact with students.

Finding No. 7: Terminal Leave Payments

Eight employees were paid a total of $28,246.62 in excess of the amounts allowed by law for vacation leave balances upon termination or retirement. In addition, one employee received two payments for accrued vacation leave, once upon entering the Deferred Retirement Option Program (DROP) and again when exiting DROP, resulting in an overpayment of $25,195.50. Also, one employee with 11 years of experience with the District was paid for 100 percent of accrued sick leave upon termination, but should have been paid for 50

percent of accrued sick leave, resulting in an overpayment of $2,795.92.

Finding No. 8: Contracts with Supervisors and School Principals

For eight supervisors and principals selected for audit tests, as of June 30, 2005, the most recent contracts on file for seven of these eight employees were for a one-year period ending June 30, 2002, and for one of the eight employees, the most recent contract on file was for a one-year period ending June 30, 1989. Section 1012.33(1)(b), Florida Statutes, states that a supervisor or school principal shall receive a written contract for an initial period not to exceed three years, subject to annual review and renewal, and after the first three years, the contract may be renewed for a period not to exceed three years.

Finding No. 9: Cellular Telephone Expenditures

The District should enhance procedures relating to the monitoring of personal use of District cellular telephones to ensure that payment forms, along with any amounts due, are received on a regular basis.

Finding No. 10: Capital Assets – Annual Inventories and Disposals

Improvements were needed in controls over tangible personal property to ensure that missing items noted during the District's annual inventory are investigated and reported to the appropriate law enforcement agency. Additionally, controls should be enhanced to ensure the annual inventory is taken by someone independent of the property custodian and final disposition of property is approved by the Board.

Finding No. 11: Annual Facility Safety Inspections

The District should enhance its procedures to provide for timely correction of facility deficiencies noted on the annual comprehensive safety inspection reports.

Finding No. 12: Rental of District Facilities

The District should enhance its procedures over the rental of District facilities to ensure that rental contracts are executed in accordance with Board policy and all rental activities and fees collected agree with the rental contracts.

Finding No. 13: Ad Valorem Taxation

District records did not evidence that expenditures of capital outlay millage levy funds totaling $662,148.12 met the applicable expenditure restrictions of Section 1011.71, Florida Statutes.

Finding No. 14: Controls Over Food Service Inventories

The District should enhance its procedures to ensure food service inventory records are properly maintained at the various school sites and the central kitchen. Detailed inventory records provide accountability and control over food service inventories.

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 Leon County. The governing body of the Leon County District School Board is composed of five 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 38 elementary, middle, and high schools and 9 special and alternative schools and reported 31,737 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 our report No. 2006-151.

FINDINGS AND RECOMMENDATIONS

Finding No. 1: Cash Collections – Extended Day Enrichment Program

The District operated a fee-supported, school-age child care program that provided before and after school care at 19 elementary schools. Fee collections

of record for the Extended Day Enrichment Program (EDEP) totaled approximately $3,760,000 during the 2004-05 fiscal year.

During our review, we noted that the school principal at each site was responsible for the operation of EDEP and had employees assigned to work in EDEP activities. Proposed fees for each year were determined by the school principal and EDEP staff at each location and presented to the School Board for approval.

Our review of internal controls over EDEP fee collections and deposits at Hartsfield Elementary, W.T. Moore Elementary, Kate Sullivan Elementary, Sabal Palm Elementary, and Ft. Braden Schools disclosed the following deficiencies:

- The EDEP site director at Ft. Braden School was responsible for maintaining attendance records, collecting fee payments from parents, preparing prenumbered receipts, preparing the cash collection reports, recording fee payments, preparing the deposit slips, and making the deposits. Under these conditions, this employee had control over the transaction process in such a manner that errors or fraud, should they occur, may not be detected in a timely manner. Effective internal control requires the separation of the cash collection and record keeping functions.
- Staff members at W.T. Moore Elementary School receive and record collections on a daily basis; however, the transfer of these collections to the EDEP Director for preparation of the deposits was not always evidenced by signed transfer documents. Absent such transfer documentation, the District may be limited in its ability to fix responsibility should a loss of collections occur.
- District records did not evidence that periodic comparisons of manual attendance rosters to computer-generated billings and collections (fee audits) were performed at any of the five schools included in our audit tests. In order to determine that the proper amount of fees have been assessed, collected, and deposited, an employee independent of the cash collection and record keeping functions should determine the amounts that should have been collected, based upon attendance records and approved fee rates, for comparison to the amounts actually collected and deposited. Any discrepancies disclosed by such comparisons should be investigated as to cause and timely resolved.

A similar finding was noted in our report No. 03-197. While our audit tests did not disclose any errors or misappropriations resulting from the above-noted deficiencies, our audit procedures cannot substitute for management's responsibility to implement adequate controls.

Recommendation: The District should improve controls over EDEP fee collections by establishing procedures that provide for a proper separation of duties and documentation to evidence the transfer of collections between employees. Also, the District should conduct periodic fee audits to document comparisons of attendance data with collections and deposits to ensure that fees due are subsequently collected and deposited.

Finding No. 2: Cash Collections – Pre-K Programs

Student fees collected for services related to Pre-K Programs operated at various elementary schools during the 2004-05 fiscal year totaled approximately $592,300. Our review of internal controls over Pre-K Program fee collections and deposits at Hartsfield Elementary, W.T. Moore Elementary, Kate Sullivan Elementary, Sabal Palm Elementary, and Ft. Braden Schools disclosed the following deficiencies:

- Although prenumbered receipts were used to evidence the receipt of collections, voided receipts were not retained at Kate Sullivan Elementary School. When voided receipts are not retained, there is limited assurance that all moneys collected are subsequently deposited.
- Collections remitted to the District Finance Office were not always made in a timely manner at Kate Sullivan Elementary, Sabal Palm Elementary, and Ft. Braden Schools. For example, we noted instances in which collections were remitted to the Finance Office up to 22, 63, and 14 business days, respectively, after the fees were collected.

- Restrictive endorsements were not placed on checks and money orders until remitted to the school bookkeeper at Ft. Braden School. When checks and money orders are not restrictively endorsed immediately upon receipt, there is an increased risk that a loss of collections could occur without being detected on a timely basis.

A similar finding was noted in our report No. 03-197.

Recommendation: The District should improve controls over Pre-K fee collections by establishing procedures to ensure voided receipts are retained, collections are remitted timely to the District Finance Office, and restrictive endorsements are placed on checks and money orders immediately upon receipt.

Finding No. 3: Cash Collections – Voluntary Employee Benefit Trust (VEBT)

The VEBT is used to administer the District's employee group health, life, vision, and dental insurance program, as well as the dependent care and medical expense reimbursement programs. Collections reported for the VEBT totaled approximately $9,800,000 for the 2004-05 fiscal year, of which $1,700,000 was collected in the District's Enrollment Services Office. Our review of internal controls over VEBT collections and deposits by the Enrollment Services Office disclosed the following deficiencies:

- Prenumbered receipts were not always used to evidence receipt of VEBT collections in the District's Enrollment Services Office. Written receipts were issued only when the individual remitting payment requested a receipt.
- All five employees in the Enrollment Services Office receive VEBT collections, and daily cash receipt logs were maintained by one of the five employees. However, the name of the individual that received the collections was not included on the cash receipts logs, and the individual amounts collected were not included on the cash receipts logs maintained for the period September 2004 through June 2005.
- Transfers of collections among employees within the Enrollment Services Office and to the District Finance Office for deposit were not evidenced by signed transfer documents.

In the absence of adequate controls over the recording of moneys collected there is an increased risk of loss and, in the absence of transfer documentation, the District may be limited in its ability to fix responsibility should a loss of collections occur. While our tests did not disclose any errors or misappropriations resulting from the above-noted deficiencies, our audit procedures cannot substitute for management's responsibility to implement adequate controls.

Recommendation: The District should improve controls over VEBT collections by establishing procedures to document the receipt of cash collections at the time collections are received, and to document the transfer of collections between employees.

Finding No. 4: Performance-Pay Plan

Section 1012.22, Florida Statutes, requires that a district school board, in determining the salary schedule for school administrators and instructional personnel, must base a portion of each employee's compensation on performance demonstrated under Section 1012.34, Florida Statutes. The Statute further states that the adopted salary schedule must allow school administrators and instructional personnel who demonstrate outstanding performance under criteria set forth in Section 1012.34, Florida Statutes, to earn a 5 percent supplement in addition to their individual negotiated salary, and that these supplements shall be funded from the performance-pay reserve funds adopted in the salary schedule.

The Board initially adopted a performance-pay plan for school administrators on June 25, 2002, and made subsequent revisions to the plan as needed. The plan limited the performance-pay awards to the school administrators located at the elementary school, middle school, and high/special area school identified with the largest learning gains.

The Board also adopted a performance-pay plan for instructional personnel on June 25, 2002, which has remained relatively unchanged since that time. This

plan limited the number of awards to 5 percent of the number of bargaining unit teachers (approximately 100 teachers), and required teachers wishing to participate to submit a teacher intent to participate form to their principal or site administrator by November 21 of the plan year. In addition, a "Documentation of Significant Student Performance Improvement" form, along with all appropriate documentation, was required to be submitted to the principal or site administrator by June 30 of the plan year.

During the 2004-05 fiscal year, the District paid $238,676.80 in performance-pay supplements to 98 instructional personnel and 9 administrative personnel; however, the restrictions on participation in these performance-pay plans as described above do not appear consistent with the intent of the Statutes.

Recommendation: The District should amend its performance-based pay plans to ensure that awards are made available in amounts set forth by law to any school administrators and instructional personnel who demonstrate outstanding performance.

Finding No. 5: Self-Insurance Monitoring

Pursuant to Section 1011.18(6), Florida Statutes, the District utilized a third-party administrator (TPA) to administer its workers' compensation, automotive, and general liability coverage. The TPA was responsible for evaluating and paying claims and filing excess insurance claims with reinsurers. During the 2004-05 fiscal year, the District remitted approximately $1,595,100 to the TPA for claims payments.

The District obtained TPA reports as described in *Statement on Auditing Standards No. 70* (SAS 70) as well as weekly claim registers showing the amounts and individuals paid each week. However, the District did not perform a review of the documentation maintained by the TPA supporting the claims payments processed during the 2004-05 fiscal year. Reviewing the claims documentation maintained by the TPA is necessary to properly monitor the administrator's performance in paying claims for eligible charges. Our review of claims documentation maintained by the TPA indicated that claims payments were supported; however, our audit tests cannot substitute for management's responsibility to establish and maintain an adequate system of internal control.

Recommendation: The District should implement procedures to effectively monitor, on at least a sample basis, claims documentation maintained by its third-party administrator.

Finding No. 6: Fingerprinting and Background Checks

The District should improve its procedures for timely obtaining fingerprints and background checks for existing 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 undergo a background screening, including a requirement that such staff file a complete set of fingerprints. In a memorandum dated June 25, 2004, the Florida Department of Education recommended that, due to the large number of affected employees, districts conduct background screenings for certified instructional personnel every five years at the time of renewal of their teaching certificates and that background screenings be obtained for approximately 20 percent of the noninstructional employees each year over a five-year period in order to have all background screenings for such staff completed by July 1, 2009.

Our review disclosed that the District had not established a process, during the 2004-05 fiscal year, for performing the required background screenings for existing staff that had direct contact with students. The District began screening existing instructional and noninstructional staff in October 2005, at which time the District developed a four-year schedule to screen existing instructional and noninstructional staff that had been employed by the District more than 5 years. Our review of District records for 30 instructional and noninstructional staff scheduled for screening during

October and November 2005 disclosed that the screenings were performed as scheduled.

Without following the guidance provided by the Florida Department of Education to conduct the required background screening checks on a timely basis, there is an increased risk that existing 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, will 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 continue their efforts to ensure that required fingerprinting and background checks for existing instructional and noninstructional staff are performed on a timely basis.

Finding No. 7: Terminal Leave Payments

Improvements were needed in the District's terminal leave payment procedures, as follows:

- Section 1012.65, Florida Statutes, states that a district school board may establish policies to provide for a lump-sum payment for accrued vacation leave to an employee upon termination of employment or upon retirement. Effective July 1, 2001, terminal pay for accrued vacation leave may not exceed a maximum of 60 days of actual payment. This limit does not impair any contractual agreement established before July 1, 2001, and for any 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.

  Our audit tests disclosed eight instances in which terminal payments for vacation leave exceeded 60 days of actual payment, resulting in overpayments totaling $28,246.62. A review of unused vacation leave accumulated before July 1, 2001, for these eight individuals and a review of school board policies, contracts, and rules in effect on June 30, 2001, disclosed no instances that would allow for terminal payments for vacation leave in excess of 60 days.

- Our audit tests also disclosed an instance in which a retiring employee was paid twice for unused vacation leave. The employee entered the Deferred Retirement Option Program (DROP) in December 2004 and was paid for unused vacation leave at that time. When the employee exited the DROP program at the end of the school year, the payment of accrued vacation leave in December 2004 was not taken into consideration in calculating the final payment to this employee for accrued leave, resulting in the employee being overpaid $25,195.50.

- Section 1012.61(2)(a)4., Florida Statutes, provides that a district school board may establish policies to provide terminal leave pay for accumulated sick leave to instructional and educational support employees of the district school board. This Statute, along with established Board Policy 2.14, *Leaves of Absence*, provides that employees with 13 or more years of service with the District may receive payment of 100 percent of accumulated sick leave hours and employees with between 10 and 12 years of service may receive payment of 50 percent of accumulated sick leave hours. Our audit tests disclosed one employee with 11 years of service that was paid based on 100 percent of the sick leave balance upon entering DROP, instead of 50 percent as required by law and Board policy. Failure to apply the proper payout percentage resulted in an overpayment of $2,795.92.

A similar finding was noted in our report No. 03-197.

Recommendation: The District should enhance its terminal leave procedures to ensure that terminal leave payments are correctly calculated in accordance with applicable laws, Board policies, and contracts. These procedures should provide for an independent review of terminal leave calculations prior to making payments. Also, the District should recover the overpayments noted above totaling $56,238.04.

Finding No. 8: Contracts with Supervisors and School Principals

Section 1012.33(1)(b), Florida Statutes, states that a supervisor or school principal shall be properly

certified and shall receive a written contract. The Statute further states that such contract may be for an initial period not to exceed three years, subject to annual review and renewal, and after the first three years, the contract may be renewed for a period not to exceed three years.

Our tests disclosed that written contracts for the 2004-05 fiscal year were not available for our review for eight supervisors and school principals. As of June 30, 2005, the most recent written contracts on file, for seven of the eight employees, were for a one-year period ending June 30, 2002. For the remaining employee, the most recent written contract on file was for a one-year period ending June 30, 1989. Upon inquiry, District personnel indicated that, based on a review of procedures and records for the 2002-03, 2003-04, and 2004-05 fiscal years, the Personnel Services Department did not issue written contracts to all administrators; however, contracts will be issued to administrative staff.

Recommendation: The District should implement procedures to ensure that current written contracts are on file for all supervisors and school principals of the District for a period not to exceed three years, as required.

Finding No. 9: Cellular Telephone Expenditures

Board Policy 6.12, *Use of Cellular Phones*, in effect during the 2004-05 fiscal year, states, "Except for emergencies, cellular phones shall be used only for school district business and costs incurred for personal use shall be billed to the individual employee." Each month, detailed bills for District-owned cellular phones are reviewed at the individual cost centers for personal calls and related charges prior to submission to the District Finance Office. Personal use and related charges are reported to the Finance Office using a personal payment form. The costs incurred for personal use on District cellular phones were calculated by multiplying $0.08 times the peak minutes used on personal calls plus any additional usage fees such as directory assistance, roaming, or text messaging fees. Off peak calls and mobile-to-mobile minutes were not billed to employees because these were included in the cell phone plans at no extra cost.

Our review of employee cellular phone usage for 20 District cellular phones during the eight-month period of July 2004 through February 2005 indicated that improvements were needed relating to the submission of personal payment forms to the District Finance Office.

Employees responsible for 8 of the 20 cellular phones reviewed did not consistently submit personal payment forms to the District Finance Office. Five employees did not submit personal payment forms for periods ranging from one to seven months. These employees used an average of 454 peak minutes for personal use and incurred $68.49 in usage fees in excess of the monthly service charges during the months for which personal payment forms were submitted. Also, three employees did not submit personal payment forms in any of the eight months reviewed and records did not indicate whether a determination of personal use had been made. These employees' peak minute usage averaged 890, 739, and 399 minutes for the eight months reviewed. In addition, two of these employees had usage fees in excess of their monthly service charges totaling $40.83 during this eight-month period.

When the submission of personal payment forms is not adequately monitored, there is an increased risk of abuse related to personal use of District cellular phones without proper reimbursement by the employee.

A similar finding was noted in our report No. 03-197.

Recommendation: The District should enhance its procedures relating to the monitoring of personal use of District cellular phones to ensure that payment forms along with any payments due are received on a regular basis.

Finding No. 10: Capital Assets – Annual Inventories and Disposals

Improvements were needed in controls over tangible personal property. Section 274.02, Florida Statutes,

and Section 10.480, Rules of the Auditor General, require that a complete physical inventory of tangible personal property be taken annually, that the inventory be compared with tangible personal property records, and all discrepancies be reconciled. The District reported furniture, fixtures, and equipment; motor vehicles; audio visual materials; and computer software, with costs of approximately $22,700,000, net of accumulated depreciation, at June 30, 2005. Our tests of tangible personal property disclosed the following deficiencies:

- The annual inventory records did not provide for the name, title, and signature of the employee or individual that performed the physical inventory count, contrary to Section 10.480, Rules of the Auditor General.
- Our review of the annual inventory records prepared by Property Management Office personnel for four of the District's schools, disclosed 33 items at Raa Middle School and 28 items at Desoto Trail Elementary School, with original costs totaling approximately $58,200 and $44,900, respectively, that were not located during the District's annual inventory conducted during May 2005 and November 2004, respectively. District procedures did not require a timely follow-up investigation of the missing property items and a final resolution of the missing items had not been documented by the Property Management Office, as of April 12, 2006.
- For items noted as stolen or missing on the annual inventory records, reports filed with the appropriate law enforcement agency were not available for our review. Section 10.470, Rules of the Auditor General, requires that items not located during the inventory process be promptly reported which shall cause a thorough investigation to be made. The Rule also states that, if an item is not located as a result of the investigation, the individual property record shall be so noted and a report filed with the appropriate law enforcement agency describing the missing item and the circumstances surrounding its disappearance.
- Improvements were needed in the District's controls over property disposals. Section 274.07, Florida Statutes, provides that authority for the disposal of property shall be recorded in the minutes of the governmental unit. Our review disclosed that during the 2004-05 fiscal year, the District deleted tangible personal property items totaling approximately $156,000 from the detailed property records without Board approval. These deletions were based on information provided by the various schools and departments from May 29, 2003, through February 10, 2005. Upon inquiry, District personnel indicated that the items for one school totaling $11,367.98 were deleted from the property records in error; however, as of April 4, 2006, these items had not been reentered in the District's detailed property records.

A similar finding was noted in our report No. 03-197.

Recommendation: To improve control and accountability for its tangible personal property, the District should review its annual inventory procedures to ensure that missing items are investigated and reported to the appropriate law enforcement agency. In addition, the District should enhance procedures to ensure that the annual inventory at each school and department is taken by someone independent of the property custodian and the final disposition of tangible personal property is approved by the Board.

Finding No. 11: Annual Facility Safety Inspections

Section 1013.12, Florida Statutes, requires that each district school board provide for periodic inspections 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 educational and ancillary plants. The Statute further requires any educational or ancillary plant to be withdrawn from use until unsafe or unsanitary conditions are corrected or removed.

District records indicated that the District provided for the required inspections of its facilities during the 2004-05 fiscal year. For each facility, the inspector completed a comprehensive safety inspection report

that included the types of deficiencies, locations, estimated costs, and the number of times cited. Deficiencies were classified into the following three types: (1) operational deficiencies to be corrected by school personnel; (2) maintenance deficiencies to be corrected by the maintenance department; and (3) capital outlay deficiencies. Our review of the 2004-05 fiscal year safety inspection reports for 10 locations disclosed that 42 of the 434 deficiencies cited for these locations were significant or life threatening deficiencies from the prior year that remained unresolved. All of the unresolved deficiencies were classified as operational deficiencies to be corrected by personnel located at each applicable location. Examples of these deficiencies included blocked exit paths, inoperable exit lighting, and missing or nonfunctional fire extinguishers. The inspection reports indicated that these unresolved deficiencies had been cited in previous inspection reports dating back two to five years. Failure to timely correct facility deficiencies results in an increased risk of facilities remaining unsafe for occupancy.

A similar finding was noted in our report No. 03-197.

Recommendation: The District should enhance its procedures to provide for the timely correction of facility deficiencies noted on the annual comprehensive safety inspection reports.

Finding No. 12: Rental of District Facilities

The Board has established Policy 5.02, *Use of Facilities,* to provide guidelines relating to the use of school property, facilities, and equipment by a group, organization, or individual in the community. Policy 5.02 provides specific guidance and denotes the forms to be completed for determining eligible users of the facilities; the rental and utility fees which should be charged, depending on the facility to be rented; and verification of specified insurance coverage. In addition, Policy 5.02 states that estimated rental and utility charges must be paid at least ten working days in advance of facility use. These fees are to be initially deposited and accounted for in the District's accounts; 80 percent of the rental fees will then be remitted back to the schools for deposit into the school's internal accounts. Policy 5.02 further provides that personnel costs associated with rental activities must be paid not less than ten working days following the scheduled facility use. These payments should be forwarded by the principal or site administrator directly to the District Finance Office.

Our review of six facilities rental contracts and the supporting payment documentation disclosed the following deficiencies:

- Five of the six rental contracts reviewed included rental activities or rental fees not described in District policy. For example, we noted instances in which rental activities exceeded five hours of use; however, District policy did not provide for rental activities exceeding five hours. In addition, we noted instances in which the fees assessed for rental activities, including fees for custodial services and utilities, did not agree with the fees prescribed by District policy.
- Actual payment amounts did not agree with the payment amounts set forth in the facilities rental contracts for two of the six rental contracts reviewed, which resulted in a total underpayment of $4,340.
- Payment for rental and utility fees was not provided at least ten working days in advance of facilities usage for three of the six rental contracts reviewed.
- Funds collected for rental activities totaling $30,480 on three of the six rental contracts reviewed were not submitted to the District Finance Office.

A similar finding was noted in our report No. 03-197.

Recommendation: The District should enhance its procedures over the rental of District facilities to ensure that all rental contracts are executed in accordance with Board policy. In addition, the District should enhance its procedures to ensure that all rental activities and fees collected agree with the rental contracts established.

Finding No. 13: Ad Valorem Taxation

Section 1011.71(2), Florida Statutes, provides that each school board may levy against the taxable value not

more than 2-mills for capital outlay purposes. Section 1011.71(5)(a), Florida Statutes, states that it is the intent of the Legislature that, by July 1, 2003, revenue generated by the capital outlay millage levy should be used only for the costs of construction, renovation, remodeling, maintenance, and repair of the educational plant; for the purchase, lease, or lease-purchase of equipment, educational plants, and construction materials directly related to the delivery of student instruction; for the rental or lease of existing buildings, or space within existing buildings, originally constructed or used for purposes other than education, for conversion to use as educational facilities; for the opening day collection for the library media center of a new school; for the purchase, lease-purchase, or lease of school buses; and for the servicing of payments related to certificates of participation issued for any purpose prior to the effective date of this act.

Section 1011.71(5), Florida Statutes, provides that these restrictions do not apply if a school district certifies to the Commissioner of Education that all of the district's instructional space needs for the next five years can be met from capital outlay sources that the district reasonably expects to receive during the next five years or from alternative scheduling or construction, leasing, rezoning, or technology methodologies that exhibit sound management. The District had not submitted such a certification for the 2004-05 fiscal year.

Our review disclosed certain expenditures totaling $662,148.12 during the 2004-05 fiscal year, that are not allowable expenditures under Section 1011.71(5), Florida Statutes, as follows:

Description	Amount
Gene Cox Football Stadium	$ 83,434.13
Motor Vehicles (other than buses)	$ 572,714.00
Lawn Mower	$ 5,999.99

While these expenditures of capital outlay millage moneys were for District support services, they do not appear to be for purposes directly related to the delivery of student instruction. In accordance with Section 1011.71(5)(d), Florida Statutes, the District is subject to having an equal dollar reduction in Florida Education Finance Program funds appropriated under Section 1011.62, Florida Statutes, in the fiscal year following this audit citation.

A similar finding was noted in our report No. 03-197.

Recommendation: The District should consider the requirements of Section 1011.71, Florida Statutes, when budgeting for expenditures from future millage levies, and establish procedures to timely monitor the District's compliance with these requirements. Additionally, the District should document the allowability of the questioned expenditures totaling $662,148.12 to the Florida Department of Education or these questioned costs should be restored to the capital outlay tax levy fund.

Finding No. 14: Controls Over Food Service Inventories

During the 2004-05 fiscal year, the District maintained food service inventory at various school sites and the District's central kitchen. At June 30, 2005, the District reported food service inventories totaling $201,980.91 at these various locations. To account for food service items at the school sites and the central kitchen, the District used a computerized inventory system, performed monthly physical counts, compared the quantities on hand to the perpetual records and made adjustments, as necessary.

Our review of the amounts reported and detailed lists supporting the reported inventory amounts for three school sites and the central kitchen disclosed the following differences:

Test Location	Reported Inventory	Inventory Per Detailed Lists	Difference
Central Kitchen	$ 110,486.07	$ 100,869.80	$ 9,616.27
Cobb Middle School	$ 1,758.46	$ 1,607.12	$ 151.34
Chiles High School	$ 2,105.42	$ 3,679.03	$ (1,573.61)
Leon High School	$ 808.32	$ 1,586.77	$ (778.45)

In addition, our review disclosed that the detailed inventory lists provided for the three school sites reviewed did not agree with the District's physical

counts performed at fiscal year-end. For example, quantities shown on the detailed list provided for Leon High School did not agree with fiscal year-end counts for 9 of 15 items reviewed. The detailed list showed zero quantities on hand for 6 of these 9 items.

Detailed inventory records provide accountability and control over food service inventories at the various school sites and the central kitchen. District staff stated that the inability to accurately support the reported amounts was the result of the District's computerized food service inventory system, which was old and difficult to use and update.

Recommendation: The District should enhance its procedures to ensure food service inventory records are properly maintained at the various school sites and the District's central kitchen.

PRIOR AUDIT FINDINGS

Our previous audits have addressed the administration of management controls in place over food service inventories; capital outlay expenditures; terminal leave payments; controls over cash collections; purchasing card expenditures; capital assets; rental of District facilities; annual facility safety inspections; and the internal audit function. As part of our current audit, we determined that the District had not substantially corrected the deficiencies noted in our report No. 03-197, as noted in finding Nos. 1, 2, 7, 9, 10, 11, 12, and 13 of this report.

OBJECTIVES, SCOPE, AND METHODOLOGY

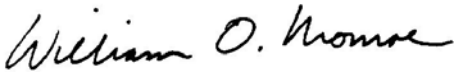
The objectives of this operational audit were to determine whether District management controls promoted and encouraged: 1) compliance with applicable laws, administrative rules, and other guidelines; 2) the economic, effective, and efficient operation of the District; 3) the reliability of records and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

Specifically, our review included management controls related to the monitoring of charter schools; the internal audit function; food service inventories; capital assets and capital outlay transactions; use of restricted capital outlay money; evidence of insurance by architects and construction contractors; annual facility inspections; rental of District facilities; adequacy of property insurance coverage; controls over cash collections; expenditures; employee compensation; terminal leave payments; performance-pay plans; purchasing card transactions; cellular phone expenditures; and fingerprinting and background screening requirements.

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

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 Leon County District School Board and the Superintendent. The Superintendent's written response to the audit findings and recommendations is included in Appendix B.

This audit was conducted by Derek W. Buchanan, CPA, and supervised by Karen L. Revell, 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 report and other audit reports prepared by the Auditor General can be obtained on our Web site at www.state.fl.us/audgen; by telephone (850) 487-9024; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

APPENDIX A
LEON COUNTY DISTRICT SCHOOL BOARD

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

	District No.
Sheila Costigan, Vice Chair to 11-15-04, Chair from 11-16-04	*1*
Dee Crumpler	*2*
Maggie B. Lewis	*3*
H. Fred Varn, Vice Chair from 11-16-04	*4*
Georgia M. "Joy" Bowen, Chair to 11-15-04	*5*

William J. Montford, III, Superintendent

APPENDIX B
MANAGEMENT RESPONSE

BOARD CHAIRMAN
H. Fred Varn

BOARD VICE-CHAIR
Maggie B. Lewis

LEON COUNTY SCHOOLS

BOARD MEMBERS
Georgia "Joy" Bowen
Sheila Costigan
Dee Crumpler

SUPERINTENDENT
William J. Montford, III

June 5, 2006

Mr. William O. Monroe, CPA
Auditor General
P.O. Box 1735
111 West Madison Street
Tallahassee, FL 32302

Dear Mr. Monroe:

Enclosed is the written response of explanation regarding the tentative findings reflected in the Preliminary and Tentative Audit Report for the Operational Audit of Leon County District School Board for the fiscal year 2004-2005.

We would like to thank you for this opportunity to respond to audit findings. Your recommendations will enable us to better address issues raised in the audit and improve the District's ability to provide better services to students. Should you need any further clarification or information, please feel free to contact us.

Sincerely,

William J. Montford, III
Superintendent

Attachment

Cc: All School Board Members
School Board Attorney
Assistant Superintendents
Internal Auditing

2757 West Pensacola Street * Tallahassee, Florida 32304-2998 * Phone (850) 487-7100* Fax (850) 487-7141* www.leon.k12.fl.us

Building the Future Together
Affirmative Action/Equal Opportunity Employer (850) 487-7105

APPENDIX B
MANAGEMENT RESPONSE (CONTINUED)

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RESPONSE TO FINDINGS AND RECOMMENDATIONS

Finding No. 1: Cash Collections – Extended Day Enrichment Program

Since the audit was conducted, the Supervisor for Budget/FTE has assumed the responsibility of working with Extended Day Programs. The Extended Day Programs manual will be updated by July 30, 2006. All sites shall follow the same procedures. The exceptions noted in the audit will be addressed with the individual sites and corrected.

Finding No. 2: Cash Collections – Pre- K Programs

The Early Childhood Programs Office and the accountant from Staffing Services will hold Regional Trainings for cash collections with the teachers and bookkeepers during preplanning in August, 2006. Specific instructions to be covered will include:

(1) How to handle voided receipts;
(2) A new procedure to be implemented that will require the notification of the date of remittance of collections to the district Finance office;
(3) The necessity to stamp all checks and money orders immediately upon receipt; and
(4) A new procedure to be implemented that will serve to verify endorsements.

Following the training sessions, the Early Childhood office will:

1) Monitor all receipt books as they are returned to them throughout the year to insure proper receipting procedures are being followed; and
2) Insure that timely remittance procedures are being followed.

Finding No. 3: Cash Collections – Voluntary Employee Benefit Trust (VEBT)

The District has established a position to centralize collection of funds at the district office. The collection of the VEBT funds will be migrated to this position by July 30, 2006. This change is intended to improve control procedures.

Finding No. 4: Performance-Pay Plan

The Leon County Schools' Performance-Pay Plan was collectively bargained and approved by the School Board and the Florida Department of Education (FDOE) prior to implementation as called for in Section 1012.22, Florida Statutes. The plan was deemed by FDOE

APPENDIX B
MANAGEMENT RESPONSE (CONTINUED)

Mr. William O. Monroe, CPA
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June 5, 2006
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to have met all the requirements of s. 1012.34 F.S. in 2003.

Finding No. 5: Self-Insurance Monitoring

In the past when the district used a local third party administrator (TPA) for claims handling, on-site reviews were performed monthly for monitoring the TPA's staff and the accuracy of the files. Since the current TPA is located in Lake Mary, Florida, the office has not been visited to inspect the files regularly.

The TPA is audited internally, by excess insurance carriers, and also by an independent auditing firm for accuracy then the report is sent for Risk Management to review and comment. As of this date, Risk Management has not found any discrepancies in records or files that warranted on-site evaluations. Risk Management receives a medical batch notification e-mail from the Department of Financial Services on a monthly basis to inform us of any penalties for the month that would be accessed if medical bills were not paid timely. With this notification, Risk Management used the information to evaluate the promptness of the staff meeting the required deadlines and overall service with the TPA.

For the fiscal year 06/07, there are plans to travel on-site to the TPA's office to review the respective documents quarterly. Steps involved for on-site TPA review of documents will be to match the medical bills, and indemnity benefits, to the payment registers and ensure payments were made within the timeframe required by Section 440, Florida Statutes. Records will be reviewed in files for proper filing of notice of injuries, petition for benefits responses, and authorization for medical treatment per Section 440, Florida Statutes. Any exceptions will be noted and follow up procedures will be done.

Finding No. 6: Fingerprinting and Background Checks

The District implemented re-fingerprinting procedures following the best information available from the Florida Department of Education. Based upon that information the District has developed a multi-year schedule of employees to be re-fingerprinted which meets the timelines in statute.

Finding No. 7: Terminal Leave Payments

The District is correcting the duplicate DROP payment and incorrect service credit payments.

The District believes it has acted appropriately with respect to the payment of terminal leave for these staff. We understand and acknowledge that the Statute in question provides a degree of ambiguity. Therefore the District has determined it is in best interest of all parties to change School Board Policy to restrict the payment of annual leave to no more than sixty (60) days for all future situations.

APPENDIX B
MANAGEMENT RESPONSE (CONTINUED)

Mr. William O. Monroe, CPA
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June 5, 2006
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Finding No. 8: Contracts with Supervisors and School Principals

Contracts have already been issued to all administrators not previously issued a contract for all years. These will be retained appropriately.

Finding No. 9: Cellular Telephone Expenditures

Effective for FY 2006-2007, the Finance Department will enhance established procedures regarding tracking of payments for cellular telephone use. The Finance Department will send reminder payment notices to employees with copies sent to their supervisor when responses have not been received within 30 calendar days of the date the initial statement was sent. A second reminder notice will be sent to the employee with copies routed to the appropriate supervisor and executive director/assistant superintendent if a response has not been received within 14 calendar days after the second notice has been issued.

As an enhancement to these established procedures, a periodic monitoring of the status of payments in progress will be performed to promote timely handling of the payments. Any exceptions noted during this monitoring process will be handled by directly contacting the employee's supervisor regarding recommendations for appropriate corrective and/or disciplinary actions to be taken for employees who fail to follow the established procedures by failing to pay within the timelines described above.

Finding No. 10: Capital Assets – Annual Inventories and Disposals

To improve control and accountability for its tangible personal property, the District has reviewed its annual inventory procedures. Upon completion of the annual inventory, the District will forward a record of all items listed as missing or lost to the District Safety Officer. The District Safety Officer will either complete a disposition report or refer the inventory discrepancy to the appropriate law enforcement agency. In addition, the District has revised the "End-of-Year Inventory Close-Out" letter to emphasize to property custodians that the person actually conducting the inventory is required to sign the PC #10 Form (Inventory Certification). The Property Management Department has revised its internal departmental processes to require an additional review on all write-offs of inventory going to the School Board for approval to ensure that all items are included on the "Fixed Asset Write-Off" spreadsheet and that no items are deleted from the Master Files without proper School Board approval.

Finding No. 11: Annual Facility Safety Inspections

Audit findings recognize that the district conducts the required comprehensive

APPENDIX B
MANAGEMENT RESPONSE (CONTINUED)

Mr. William O. Monroe, CPA
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June 5, 2006
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safety inspections for each site annually. Work orders are automatically generated for any item requiring a Maintenance Department response. Letters are sent to each site administrator with specific instructions on how to respond to the deficiencies noted and who to notify once all deficiencies are corrected.

In most of the cases cited, the site administrator verified the correction had been made, but subsequently the violation recurred prior to the next inspection. However, changes to procedures to assure compliance will include the following:

(1) A copy of the saftey report and site administrator letter will be sent to the appropriate executive director for handling;
(2) A copy of the site administrator corrective action response will be provided to the executive director;
(3) Site administrators will be provided reminders to issue to staff the most frequent safety-to-life problems (i.e. blocked exits, moved fire extinguishers, etc.); and
(4) Safety and follow-up reports will be reviewed as part of site managers' annual personnel evaluation.

Finding No. 12: Rental of District Facilities

The Budget Department will work with the Executive Directors to establish a procedure effective FY 2006-2007 in which the contracts will be reviewed for exceptions to the rental policy. Any exceptions to the policies must be approved in writing by the appropriate Executive Director.

Finding No. 13: Ad Valorem Taxation

Expenditures totaling $662,148.12 made from advertised and approved capital outlay millage were identified by the audit team as not allowable under Section 1011.71(5), Florida Statutes. Of that amount $552,714.00 was for maintenance vehicles. When budgeting capital outlay millage the District was operating under a ruling that had been received in 2003 from the Florida Department of Education that stated: "Maintenance vehicles are an integral part of performing the function of maintenance which is authorized by s.1011.71(2)(b) and (5)(a)." We understand a subsequent memo was issued to another District which contradicted the ruling Leon County Schools received. Leon County Schools was not privy to that ruling until this finding from the Auditor General. The district has been informed that maintenance vehicles may be purchased from PECO funds. The general fund incurred expenditures that would have been eligible capital outlay millage expenditures in excess of the ineligible amount cited of $662,148.12, so a transfer of expenditures from Capital Projects to the General Fund and a corresponding transfer of expenditures from the General Fund to Capital Projects could have occurred.

APPENDIX B
MANAGEMENT RESPONSE (CONTINUED)

Mr. William O. Monroe, CPA
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The district will consider the reinterpretation of the requirements of Section 1011.71, Florida Statutes in budgeting future millage levies and has established procedures to timely monitor the District's compliance.

Finding No. 14: Controls Over Food Service Inventories

The Nutrition Services Department has acquired a new, user-friendly computerized market order and inventory system. All market orders are now placed via the internet and all monthly inventory reports are submitted via email. This helps reduce the chance of human error in the inventory reporting process by producing an exact report of the orders to be used for verification purposes. A random check of the reports are made each month and the central office will conduct a 100% check of all inventory reports issued at the end of the school year. These two actions should greatly enhance the established procedures for tracking food inventories.

As a second check, the monthly inventories will be compared to the previous month and checked to ensure the food inventory used during that month does not exceed 40% of total monthly revenue. Food industry standards suggest this is an effective indicator to monitor costs and actual inventories.

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