



# AUDITOR GENERAL

## WILLIAM O. MONROE, CPA



### LEE COUNTY DISTRICT SCHOOL BOARD

### OPERATIONAL AUDIT

For the Period July 1, 2004, through June 30, 2005, and Selected  
Transactions through March 31, 2006

#### SUMMARY

This operational audit for the period July 1, 2004, through June 30, 2005, and selected transactions through March 31, 2006, disclosed the following:

**Finding No. 1:** The District should enhance procedures to ensure that school advisory councils' memberships are representative of the ethnic and racial communities served by the schools.

**Finding No. 2:** Educational Enhancement Trust Fund (lottery) moneys allocated to several individual school advisory councils should be expended in a more timely manner.

**Finding No. 3:** The District's employee health self-insurance fund has net assets of approximately \$9,330,000 at June, 30, 2005, which, because the District no longer self-insures its employees' health, should be returned to, or otherwise used by, the funds (including Federal programs) that contributed to this fund.

**Finding No. 4:** Improvements were needed in the internal controls over cash collections and fee allocations at the Trade Extension School.

**Finding No. 5:** Our tests indicated that authorization of record for overtime worked by several District employees was granted up to several weeks after the work was actually performed, contrary to the instructions on the District forms used for such authorizations. Also, substantial amounts of overtime were paid to individual employees and overtime expenditures for the District increased significantly during the 2004-05 fiscal year indicating that District

procedures regarding overtime should be reviewed.

**Finding No. 6:** Improvements were needed in procedures for timely obtaining fingerprints and background checks for staff that have direct contact with students.

**Finding No. 7:** Improvements were needed in the District's timely resolution of various payroll deduction and withholding account transactions.

**Finding No. 8:** Improvements were needed in the timeliness of corrective actions for serious safety deficiencies noted in the District's annual facilities inspection reports.

**Finding No. 9:** Change orders issued on the District's construction contracts were not submitted to the Board and entered into the official minutes although required by Section 1013.48, Florida Statutes, and Board policy.

**Finding No. 10:** The District's Strategic Plan, generally, did not contain cost estimates for its goals and action steps to be completed in future years to serve as a guide in developing budgets and in making spending decisions.

**Finding No. 11:** Procedural enhancements should be made in the District's monitoring of its charter schools to ensure that the schools provide the insurance coverages required by the contracts.

#### 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 Lee County.

The governing body of the District is the Lee County District School Board which is composed of five members. The appointed Superintendent of Schools is the executive officer of the School Board. The Board members and Superintendent who served during the audit period are listed in Appendix A.

During the audit period, the District operated 39 elementary schools, 15 middle schools, 10 high schools, and 6 specialized schools and reported approximately 70,850 unweighted full-time equivalent students. In addition, the District sponsored 7 charter schools.

The results of our audit of the District’s financial statements and Federal awards are presented in our report No. 2006-100.

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**FINDINGS AND RECOMMENDATIONS**

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**Finding No. 1: Composition of School Advisory Councils**

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Section 1001.452(1)(a), Florida Statutes, requires that each school advisory council (SAC) shall be composed of the principal and an appropriately balanced number of teachers, education support employees, students, parents, and other business and community citizens who are representative of the ethnic, racial, and economic community served by the school. Further, the district school board shall review the membership composition of each advisory council. If the district school board determines that the membership is not representative of the ethnic, racial, and economic community served by the school, it shall appoint additional members to achieve proper representation.

Our review of the SAC rosters approved by the Board for six schools indicated that at each of three schools one ethnic or racial population was underrepresented on the SAC by two members. This disparity may have resulted from the District’s policy which established a 15 percent tolerance for differences between school minority populations and SAC minority membership.

Under the District’s policy, all ethnic and racial minorities were grouped together when evaluating

compliance with the requirement for representative membership on the SAC. The District’s policy used an example of the minority population of a school being 30 percent and its SAC members from all minorities making up 15 percent of the SAC. This was considered an allowable tolerance. However, in the District’s policy example, if the SAC had 16 members, the 15 percent tolerance would allow under representation of minorities by 2 members and could be higher for a specific minority population.

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**Recommendation: The District should amend its policy to more accurately reflect the intent of Section 1001.452, Florida Statutes. Consideration should be given to limiting percentage tolerances to individual ethnic or racial populations.**

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**Finding No. 2: Educational Enhancement Trust Fund Appropriation**

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Section 24.121(5)(c), Florida Statutes, requires school districts to allocate a portion of their annual Educational Enhancement Trust Fund appropriation (lottery funds), as determined by the General Appropriations Act, to each school in an equal amount for each student enrolled. These moneys are to be spent only on programs or projects selected by the school’s advisory council (SAC), provided that these moneys may not be used for capital improvements or for programs or projects that have durations of more than one year.

The District allocated \$1,192,689.41 in lottery revenues to schools and special centers during the 2004-05 fiscal year. Including lottery funds carried over from previous years, District schools spent a total of \$618,681.56 during the 2004-05 fiscal year. The unencumbered balance carried forward into the 2005-06 school year was \$533,053.15 for all schools. Of the 12 individual schools that we reviewed, we noted that 4 of the schools collectively carried forward, into the 2005-06 fiscal year, over \$54,000, representing amounts ranging from approximately 115 to 139 percent of the lottery revenues made available to their SACs during the 2004-05 fiscal year. Although the SACs are given broad discretion on how they use

the lottery revenues allocated to their schools, carrying forward significant amounts is not consistent with the legislative intent that these revenues be spent in the fiscal year appropriated.

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**Recommendation:** The District should encourage all the school advisory councils to expend the lottery proceeds for school improvement in a more timely manner.

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**Finding No. 3: Health Self-Insurance – Internal Service Fund**

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Internal service funds are used to account for activities that serve various other funds, programs, and activities. The District's internal service funds include the Health Self-Insurance Fund which was established several years ago to separately account for the District's self-insurance program for employees, retirees, and their dependents. In April 2003, the District terminated its self-insurance program and purchased a group health insurance policy for its employees, retirees, and their dependents. Substantially all of the outstanding claims remaining from the District's self-insurance program have been paid from the resources of the fund. The remaining unrestricted net assets of this fund at June 30, 2005, totaled \$9,332,200. Expenditures from the fund for the fiscal year ended June 30, 2005, totaled approximately \$166,000 and related primarily to payments for an employee wellness program.

The unrestricted net assets remaining in the Health Self-Insurance Fund were derived from premium contributions to this fund over several years from the General Fund, Special Revenue Funds including Federal grants, and District employees and retirees. District staff indicated that the fund is being maintained in the event that the District returns to a self-insured health program for its employees, retirees, and their dependents. However, it was not apparent that such a decision by the Board was being considered in the near future. We did note that the union contracts between the District and its various employee groups stated that self-insurance fund

reserves were not to be transferred out without the recommendation of the Insurance Task Force.

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**Recommendation:** Considering that the health self-insurance plan has been terminated, the Board, in consultation with the Insurance Task Force, should consider liquidating the Health Self-Insurance Fund and utilizing these excess moneys to equitably offset health insurance costs of the Federal and non-Federal programs. An internal service fund should not be used to hold or accumulate fund reserves for activities or programs not accounted for in the internal service funds.

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**Finding No. 4: Student Fees – Trade Extension School**

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The District provides workforce-related training at its Trade Extension School, including public service related courses such as firefighting, criminal justice and police academy, and numerous business trades such as nail technician, welding, and plumbing. Student fees are assessed on a per contact hour basis in accordance with legislative intent and Florida Department of Education guidelines, and approved by the School Board. Fees include an amount per contact hour for tuition, a separate amount for capital improvement, and a separate amount for financial aid. During the 2004-05 fiscal year, the Trade Extension School collected approximately \$597,000 in fees. Our review of operating procedures at this school disclosed the following deficiencies.

The District's Internal Funds Procedures Manual requires cash receipts to be substantiated by a Report of Moneys Collected form and submitted to the school's bookkeeper on the same day, but not later than the next business day. The bookkeeper is then required to verify the amount collected, assign a cash receipt number, and prepare a deposit slip. The manual requires moneys to be deposited within five business days after receipt. We noted that student fees collected for the various business trade courses were held in a safe for up to one month prior to being deposited and included checks, money orders, and cash. A single report of moneys collected was prepared by program personnel for all of the fees

collected (over a period of several weeks) for a course and then given to the school’s bookkeeper who would assign a single cash receipt number. The form used for these courses did not indicate the actual receipt date of moneys collected from each student. This appears to be contrary to District policy which requires that a separate report of moneys collected be prepared for each day’s receipts which would then be given to the school’s bookkeeper.

Also, our review disclosed that fees for some public service courses were allocated and coded to the tuition and capital improvement revenue accounts, but not to the financial aid account. For other courses, the allocation of fees was made to these three accounts, but not in the correct per contact hour amounts for each fee type. These errors resulted in an approximate \$6,100 excessive allocation to the capital improvement account, an approximate \$4,200 deficient allocation to the tuition account, and an approximate \$1,900 deficient allocation to the financial aid account. The District’s Internal Audit Department does not audit the allocation of fee revenues in its annual audit of the Trade Extension School.

We also noted that the proposed fee schedule sent to the Board for approval did not show a breakdown of student fees among the three fee components and, in some cases, showed a potential range of total per contact hour fees that could be charged rather than the specific amount proposed per contact hour.

**Recommendation: Procedures over cash collections and deposits at the Trade Extension School should be reviewed and revised as needed to ensure that moneys are promptly deposited and coded to the correct revenue accounts. Also, the District should consider including a review of the allocation of fee revenue in the annual audit of the Trade Extension School and other vocational schools performed by the District’s Internal Audit Department. Further, the annual student fees proposed for Board approval should denote the specific amounts per contact hour to be charged for tuition, capital improvements, and financial aid.**

**Finding No. 5: Overtime Controls**

The District complies with the Federal Fair Labor Standards Act and compensates eligible employees who work in excess of 40 hours per week at the rate of one and one-half times their regular rate of pay. If an employee’s scheduled hours are less than 40 hours per week, the employee is compensated at the regular rate of pay for any additional or extra hours up through the 40<sup>th</sup> hour worked. The specific guidelines for overtime are governed by the District’s two collective bargaining agreements (teachers; support personnel) and its annual salary schedule for supervisory, technical, and confidential employees.

Overtime pay requests are supported by the completion and submission of an extra hours/overtime form. According to the form’s instructions, extra and overtime hours must be approved in writing prior to the work being performed. In the event of an emergency, telephone approval of the additional hours may be obtained and so noted on the form. In addition, all forms are submitted to the Budget Department for a review and approval of fund availability.

We reviewed payroll records for five employees who each were paid for at least four hundred extra or overtime hours during the 2004-05 fiscal year as summarized in the table below:

POSITION	EXTRA & OVERTIME HOURS	EXTRA & OVERTIME WAGES	REGULAR WAGES	TOTAL WAGES
Custodian	476.5	\$ 7,330	\$ 21,338	\$ 28,668
Garage Supervisor	933.0	\$ 33,306	\$ 53,648	\$ 86,954
Jr. Accountant	776.5	\$ 22,762	\$ 42,514	\$ 65,276
Air Quality Supervisor	1,025.5	\$ 38,360	\$ 50,516	\$ 88,976
IT Project Manager	829.8	\$ 29,357	\$ 49,167	\$ 78,524

We noted that approval, including budgetary approval, was not obtained for any of the additional hours worked during the year by these employees prior to the work being done. Approval of the forms was not accomplished until several days to several weeks after the forms were submitted by the employee. In one instance, additional hours worked during August and

September of 2004 were not approved until February 2005. One of the above employees worked 72 out of the 104 weekend days during the year, and his additional hours ranged from 17.5 to 20 hours on most weekends that he worked. We noted similar recurring extra and overtime work patterns for the other four employees. Additional hours recorded in the 2005-06 fiscal year were at similar levels for most of these five employees.

On a district-wide basis, extra and overtime hours for the 2004-05 fiscal year had increased over the previous fiscal year as shown in the following table:

	2003-04 Fiscal Year	2004-05 Fiscal Year	Percent Increase
<b>SCHOOLS:</b>			
Hours	32,307	34,176	5.8
Cost	\$ 440,911	\$ 505,397	14.6
<b>TRANSPORTATION:</b>			
Hours	157,426	176,872	12.4
Cost	\$ 3,094,674	\$ 3,605,688	16.5
<b>OTHER DEPARTMENTS:</b>			
Hours	28,393	37,638	32.6
Cost	\$ 661,157	\$ 898,978	36.0
<b>DISTRICT TOTALS:</b>			
Hours	218,126	248,686	14.0
Cost	\$ 4,196,742	\$ 5,010,063	19.4

The above data was provided by the District Payroll Department and shows overtime hours and related costs in the fiscal year when paid.

Although District personnel provided explanations of overtime usage for the five employees tested above, and indicated that overtime usage is periodically evaluated and discussed with management, it appears that overtime controls may not be operating effectively. 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 and benefits costs increase significantly without a corresponding increase in the number of hours actually spent on operations. Excessive overtime usage may indicate that staffing levels in certain departments are not adequate and that recruitment efforts to fill vacant positions may need to be strengthened. In addition, in view of the absence

of timely approval of extra and overtime hours, and the recurring patterns of overtime noted above, there is an increased risk that overtime hours reported may not reflect actual hours worked.

**Recommendation:** The District should review its policies and procedures relative to overtime usage, staffing levels, and recruitment and amend as necessary to improve the District's utilization of human resources at the lowest possible cost. This should include adherence to the District's established policies and procedures that require pre-approval of extra and overtime hours.

**Finding No. 6: Fingerprinting and Background Checks**

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 (FDOE) recommended that, due to the large number of affected employees, districts should conduct the background screenings for certified instructional employees 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.

While our review disclosed that the District acquired fingerprints and performed background checks on instructional and noninstructional personnel hired during the 2004-05 fiscal year, District staff indicated that they have not yet implemented the recommendations of FDOE regarding background screenings for instructional staff renewing their certifications and 20 percent of the noninstructional workforce. The District staff also indicated that efforts were being made to update District policies and procedures to address FDOE recommendations. Under these circumstances, there is an increased risk

that instructional and noninstructional staff may have backgrounds that are not suitable for direct contact with students or for having access to or control over District funds. Also, the requirements of the Jessica Lunsford Act which became effective September 1, 2005, with regard to persons under contract with the District, will further impact the need to enhance procedures for timely obtaining fingerprints and background checks.

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**Recommendation:** The District should implement, as soon as possible, the recommendation of FDOE regarding fingerprinting and background screenings for instructional and noninstructional staff to provide timely protection for students and staff.

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**Finding No. 7: Payroll Deductions and Withholding**

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In our report No. 2004-002, we noted that the District uses several liability accounts to record payroll deductions and payroll-related activities. At June 30, 2005, these accounts had an aggregate net balance of \$146,014.79. Included in this net balance were several old balances which indicated that funds were owed to the District and several old balances which indicated that funds were owed by the District. Approximately \$18,300 related to funds that may be owed to the District dating back as far as the year 2000. Other transactions over two years old reflected amounts that may be owed by the District totaling approximately \$7,000. Not promptly resolving such transactions by either collecting or paying the appropriate amounts results in funds due the District not being received timely and obligations of the District not being settled promptly. Also, such items may relate to amounts which are unclaimed by the rightful owner and are subject to be sent to the State's Unclaimed Property Trust Fund pursuant to Chapter 717, Florida Statutes.

Upon making audit inquiries regarding the unresolved items, District staff investigated the older items and took action to resolve the majority of the items.

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**Recommendation:** The District should analyze and settle, in a more timely manner, the transactions included in the payroll-related liability accounts.

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**Finding No. 8: Capital Outlay - Safety and Sanitation Inspections**

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Section 1013.12, Florida Statutes, requires that each district school board provide for periodic inspection of each educational and ancillary plant at least once during each fiscal year to determine compliance with standards of sanitation and casualty safety prescribed in the rules of the Commissioner of Education. Furthermore, firesafety inspections are required to be made annually by persons certified by the Division of State Fire Marshal to conduct firesafety inspections in public educational and ancillary plants. Section 4.4 of the Florida Department of Education's publication *State Requirements for Educational Facilities - 1999* (SREF) requires that the Board conduct at least one firesafety, casualty safety, and sanitation inspection annually for each educational and ancillary plant and adopt a plan of action and schedule for the correction of each deficiency. Section 4.4, SREF, states that serious life safety hazards require prompt corrective action by the Board or withdrawal of the educational or ancillary facility from use until corrected.

The District conducted the required annual inspections of each of its facilities. The inspection reports identified the deficiencies as Category A – Fire Safety or Category B – Casualty Safety and Sanitation, and also rated the deficiencies within five priorities: Priority 1 – Serious, 2 - High, 3 – Moderate, 4 – Low, or 5 – Minimal.

Our review of the annual inspection reports for the 2004-05 fiscal year for five facilities disclosed that three had “serious” and “high” deficiencies cited for three or more years. Four high priority deficiencies at Lehigh High School were cited in inspection reports for three or more years. These citations included items such as “emergency exit window blocked by students and desks” and “emergency window needs adjustment”. Four serious deficiencies at Lee Middle

School were cited in inspection reports for three or more years. These citations included items such as “refrigerator gasket is dirty with assumed biological contaminate on it” and “paper cutter missing finger guard”. One serious deficiency at Villas Elementary School was cited in inspection reports for three or more years. This citation was due to “exhaust fan non-functional”. Failure to correct such deficiencies in a timely manner may increase the risk of injury or illness to students and staff. A similar finding was noted in our report No. 2004-002.

**Recommendation:** To help limit the District’s exposure to the various risks related to safety and sanitation, the District should increase its efforts to timely address the deficiencies identified in the annual firesafety, casualty safety, and sanitation reports.

**Finding No. 9: Construction Contract – Change Orders**

Pursuant to Section 1013.48, Florida Statutes, the Board may, at its option and by written policy duly adopted and entered in its official minutes, authorize the Superintendent or other designated individual to approve construction contract change orders in the name of the Board for preestablished amounts. Approvals shall be for the purpose of expediting the work in progress and shall be reported to the Board and entered in its official minutes.

District Policy 4.42, Change Orders, states that “the Superintendent or designee shall have authority to approve change orders in the name of the School Board of Lee County in an amount less than \$10,500 or for an adjustment in the contract price. Any such order shall be reported to the School Board of Lee County and entered in its official minutes.” It is not apparent what the phrase “or for an adjustment in the contract price” means in the above policy since it is preceded by a specific dollar limit.

Our review of District procedures related to change orders issued during the 2004-05 fiscal year disclosed that the staff in the Construction and Facilities Department approved all change orders including

those that increased the contract price by more than \$10,500. Our review of Board minutes indicated that generally change orders approved by District staff were not reported to the Board and entered in its official minutes.

**Recommendation:** The Board should ensure that all change orders are reported to the Board and entered in its official minutes as required by Section 1013.48, Florida Statutes. Additionally, the Board should consider the reasonableness of the dollar limit and clarify the intent of its present policy for delegating approval of change orders.

**Finding No. 10: Strategic Plan**

On June 18, 2002, the Board approved the District’s Strategic Plan for a five-year period. On July 12, 2005, the Board approved a revised Strategic Plan for the District for a five-year period. The plan document delineates goals and action steps, department/person responsible, fiscal impact, timeframe, and progress updates. In addition, the District has developed forms which provide for individual departments and schools to identify goals and cost estimates to achieve their goals. However, few of the goals and action steps shown in the Strategic Plan projected to be completed in future years contained fiscal impacts or cost estimates. The assignment of cost estimates, where practical, to the Board’s goals and actions steps in its strategic plan would provide guidance in the development of annual budgets and assist the Board and administrators when making both current and long-term financial decisions. A similar finding was noted in report No. 2004-002.

**Recommendation:** The Board should continue its efforts to implement a strategic plan that includes cost estimates of its goals and action steps to serve as a guide in developing the budget and in making spending decisions.

**Finding No. 11: Monitoring of Charter Schools**

During the 2004-05 fiscal year, the District sponsored seven charter schools. The District’s contracts with the charter schools required the charter schools to provide evidence of minimum amounts of per

occurrence and annual aggregate coverage for commercial liability, errors and omissions, and workers' compensation/employer's liability insurance as well as hazard insurance. As discussed below, improvements were needed in District monitoring and review of contractual insurance requirements and provisions of the charter schools contracts.

The various contracts with the charter schools required minimum commercial liability and workers' compensation insurance coverage of \$1 million per occurrence and \$3 million of annual aggregate claims and errors and omissions insurance coverage of either \$1 million per occurrence and \$5 million annual aggregate claims or \$3 million per occurrence and \$3 million annual aggregate claims. Additionally, the contracts required hazard insurance to be maintained for buildings and property owned by the charter schools. For example, both Cape Coral Charter School and Gateway Charter School were required to maintain errors and omissions insurance of \$1 million per occurrence and \$5 million of annual aggregate coverage. This coverage was not maintained by either school. Insurance documentation provided by the charter schools indicated that only one carried all of the required types of coverages.

The contracts required that the insurers provide the District with a minimum of sixty (60) days written notice prior to cancellation. However, the insurance certificates provided to the District indicated that most of the insurers agreed to give notice no less than 30 days prior to cancellation of policies.

Our audit procedures are not a substitute for the District's responsibility to determine the existence of proper insurance coverage for all of its charter schools. Without adequate procedures to monitor the charter school's insurance coverages, there is an increased risk that such coverage may not be sufficient, subjecting the District to potential losses.

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**Recommendation: The District should enhance its procedures to ensure that each charter school of the District obtains the insurance coverage specified by its contract.**

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## PRIOR AUDIT FINDINGS

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Our previous audits have addressed the administration of selected management controls. As part of our current audit, we determined that the District had substantially corrected the deficiencies noted in our report No. 2004-002, except as noted in finding Nos. 7, 8, and 10 of this report.

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## OBJECTIVES, SCOPE, AND METHODOLOGY

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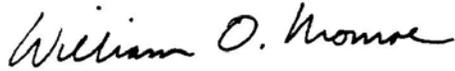
The objectives of this operational audit were to determine whether District management controls promoted and encouraged: (1) compliance with applicable laws, regulations, and provisions of contracts or grant agreements; (2) the economic, effective, and efficient operation of the District; (3) the reliability of records and reports; and (4) the safeguarding of assets.

Specifically, our review included, but was not limited to, the following topics: school advisory councils; educational enhancement (lottery) trust fund expenditures; self-insurance residual net assets; monitoring of charter schools; sanitation and safety inspections of District facilities; capital outlay contracting procedures; strategic plan documentation; school recognition program expenditures; student fee procedures; food service meal costs; employee overtime expenditures; and fingerprinting and background checks for the period July 1, 2004 through June 30, 2005, and selected transactions through March 31, 2006.

This operational audit was made in accordance with applicable *Government Auditing Standards* issued by the Comptroller General 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 Lee County District School Board and the Superintendent. The Superintendent's written response to the audit findings and recommendations is included in this report in Appendix B.

This audit was conducted by James A. Grattan, CPA, and supervised by Reginald C. McNeill, CPA. Please address inquiries regarding this report to David W. Martin, CPA, Audit Manager, via e-mail at [davidmartin@aud.state.fl.us](mailto:davidmartin@aud.state.fl.us) or by telephone at (850) 487-9039.

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**APPENDIX A**  
**LEE COUNTY DISTRICT SCHOOL BOARD**

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

	<i>District No.</i>
<i>Robert D. Chilmonik, Vice Chair from 11-16-04</i>	<i>1</i>
<i>Jeanne S. Dozier, Chair to 11-15-04</i>	<i>2</i>
<i>Dr. Jane S. Kuckel</i>	<i>3</i>
<i>Steven K. Tueber</i>	<i>4</i>
<i>Dr. Elinor C. Scricca, Vice Chair to 11-15-04, Chair from 11-16-04</i>	<i>5</i>
<i>Dr. James W. Browder, Superintendent</i>	

**APPENDIX B  
MANAGEMENT RESPONSE**



**THE SCHOOL DISTRICT OF LEE COUNTY**

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James W. Browder, Ed.D.  
Superintendent of Schools  
239-337-8301 • 239-337-8378 (Fax)

Steven K. Teuber, J.D.  
Chairman, District 4  
Elinor C. Scricca, Ph.D.  
Vice Chairman, District 5  
Robert D. Chlmonik  
District 1  
Jeanne S. Dozier  
District 2  
Jane E. Kuckel, Ph.D.  
District 3  
Keith Martin  
Board Attorney

June 8, 2006

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

Dear Mr. Monroe,

As requested in your letter dated May 18, 2006, below is an explanation concerning all of the findings, including therein our actual or proposed corrective actions, contained in your preliminary and tentative audit findings with regard to the Lee County District School Board's Operational Audit for the fiscal year ended June 30, 2005:

*Finding #1*

*The District should enhance procedures to ensure that school advisory councils' memberships are representative of the ethnic and racial communities served by the schools.*

Response #1

The Office of Continuous Improvement will ask that schools use the percentages for the following groups: Black, White, Hispanic and Other. The schools will be asked to be within 15% of each of these minority percentages for each minority group. As schools currently have difficulties meeting the minority percentage for their SAC, we expect that this new requirement will make compliance with these new policies even more difficult.

*Finding #2*

*Educational Enhancement Trust Fund (lottery) moneys allocated to several individual school advisory councils should be expended in a timelier manner.*

Response #2

Florida Statute 24.121(5)(c) requires school districts to allocate a portion of their annual educational enhancement trust fund appropriation (lottery funds) to each school in an equal amount for each student enrolled. These funds are to be spent only on programs or projects selected by the school's advisory council.

According to the Statute, the School District of Lee County provides these funds to the schools, and the School Advisory Councils are given broad discretion as to how these funds are to be used. Pursuant to the Statute, the school advisory councils (SACs) have the

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**District Vision**  
To Be a World-Class School System

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**APPENDIX B**  
**MANAGEMENT RESPONSE (CONTINUED)**

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Mr. William O. Monroe, CPA  
June 8, 2006

discretion of when these funds will be spent. The schools in our District are aware of this Statute, and inform their SACs of their responsibilities and privileges regarding this matter.

As the Statute is clear that the SACs have the privilege and authority over these funds, Lee County School District staff feel that we have followed the letter and the spirit of the Statute cited above. While the finding states those schools have carried substantial balances forward, according to the Statute it is the SACs prerogative to do so if they choose to save for a large purchase or a special future event.

As stated in the recommendation, we will send all schools a periodic written reminder to encourage all school advisory councils to expend the lottery proceeds for school improvement in a timely manner, as per the intent of the Statute.

*Finding #3*

*The District's employee health self-insurance fund has net assets of approximately \$9,330,000 at June 30, 2005, which, because the District no longer self-insures its employees' health, should be returned to, or otherwise used by, the funds (including Federal programs) that contributed to this fund.*

**Response #3**

A decision to return to self insurance in the near future is a very strong possibility, as the District released a Request for Proposals (RFP No. R066458RG) for Group Medical Benefits May 24, 2006. The RFP invites proposals for both fully-insured and self-insured programs.

Should the successful proposer offer an Administrative Services Only (ASO) program to the District, effective April 1, 2007, the District would need adequate reserves to meet the State of Florida's Office of Insurance Regulation's (OIR – formally the Department of Insurance) requirements.

The OIR looks at two reserve components in its approval process. The first can be considered pure reserve. This is the estimated amount needed to pay claims that have already been incurred, but for which payment has not been made by the plan as of the end of the plan year. This is referred to as the IBNR (incurred but not reported). The number is estimated by an actuary based on the historical speed with which incurred claims have been paid. For plans administered by a major carrier, this reserve usually averages somewhere between 1.3 and 1.5 months of claims.

In addition to the pure reserve, plans should also have assets that can be used to cover claims if actual experience is worse than estimated experience. This is referred to as surplus. While there is no surplus requirement in the Statute itself, the OIR has adopted a practice of approving a plan's annual filing if that plan has surplus equal to a minimum of 60 days of claims. If a plan doesn't meet this standard, the entity has to provide a certification from someone with the necessary authority stating that the entity has enough money in other funds (typically the general fund for school districts) to satisfy the threshold and that the plan will have access to those funds if necessary.

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**APPENDIX B**  
**MANAGEMENT RESPONSE (CONTINUED)**

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Mr. William O. Monroe, CPA  
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This safe harbor target will increase with medical trend. If the District were to self-fund beginning April 2007, claims may well average \$5 million or more per month, in which case the District would need \$10 million to meet the OIR target surplus.

*Finding #4*

*Improvements were needed in the internal controls over cash collections and fee allocations at the Trade Extension School.*

Response #4

The first audit finding dealt with the funds collected for the District's evening Trade Extension classes as adult students are registered and then the funds were held for a time and deposited after the first class. The solution has already been implemented: No student registration funds will be collected from any prospective students until the first night of class. All policies and procedures that apply to the receipt of cash will be followed as prescribed by Board policy.

The second finding concerned the allocation of fees to the State approved categories of Tuition, Financial Aid, and Capital Outlay. Although all of the allocations were in State approved ranges, they were inconsistent in the application of the Board approved percentage ranges for the Trade Extension programs. Now that the problem has been identified, a spread sheet will be developed (with the assistance of Budget) that will correctly allocate each fee receipt by the exact Board approved fee rate. Also, Internal Audit will monitor the percentage allocations on an annual basis to determine that Board approved percentage ranges are being followed. **Note:** A minimum/maximum percent range is set by the legislative action each year. The fee rate (within State approved range) is submitted to the Board each year for approval.

*Finding #5*

*Tests indicated that authorization of record for overtime worked by several District employees was granted up to several weeks after the work was actually performed, contrary to the instructions on the District forms used for such authorizations. Also, substantial amounts of overtime were paid to individual employees and overtime expenditures for the District increased significantly during the 2004-05 fiscal year indicating that District procedures regarding overtime should be reviewed.*

Response #5

The Payroll Department will take the lead in providing instruction and focus on processing overtime, especially regarding the pre-approval requirement, with all schools and departments in FY07 to improve the efficiency and accuracy of extra/overtime hours worked and paid. The Budget Department is a part of the approval process to determine the appropriate account line to be charged and will be included in the development of messaging to the District work sites to assure completion of the extra/overtime documents in an accurate and timely manner.

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**APPENDIX B**  
**MANAGEMENT RESPONSE (CONTINUED)**

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There are four salary schedules within the School District of Lee County. All positions paid from the TALC collective bargaining agreement and all positions paid from the Administrators Salary Schedule are exempt from the Fair Labor Standards Act (FLSA) regarding overtime pay. Specific guidelines for the overtime pay are governed by the support personnel collective bargaining agreement (SPALC – Support Personnel Association of Lee County) and the Supervisory, Technical, & Confidential Employee's Salary Schedule (Schedule "N").

The Payroll Department will process District overtime summary reports by location and provide members of the Superintendent's Cabinet with statistical data on a monthly basis.

It is the expectation of the Payroll Department to process extra/overtime hours for payment in the pay period following the dates worked. For example, overtime hours worked from the 1<sup>st</sup> through the 15<sup>th</sup> should be reported to Payroll for payment on the end-of-the-month paycheck. Overtime hours worked from the 16<sup>th</sup> through the end of the month should be reported to Payroll for payment on the following middle-of-the-month paycheck. Payroll Specialists will be instructed to monitor this process effective July 1, 2006. The Payroll Director will be notified regarding overtime not reported in the expected timely manner.

While excessive overtime usage may indicate staffing levels are not adequate in certain departments the following should be noted:

- Hurricane emergency closures increase the overtime hours necessary to open schools as soon as possible following the emergency. The increase in hours from FY04 to FY05 included the need for extra/overtime hours to prepare for the opening of schools following the Hurricane Charley emergency closing period.
- Overtime is to be expected from the Personnel Services Department and Payroll Department when processing the beginning of the school year activity, year-end activity, and during condensed pay periods such as Winter Break and Spring Break.
- Maintenance Department services are most likely to require maintenance services outside the regular operation hours for the facility when such services during the regular school day would affect the teaching/learning process.
- Overtime is to be expected in the Transportation Department to include field trips, activity runs, regular extended runs due to the absence of bus operators and traffic delays.

Employee records with excessive overtime hours will be edited for duplication of reported time and confirmation by the supervisor regarding the required services outside the regular work day. This editing will take place on a monthly basis in the Payroll Department effective with the FY07 fiscal year.

*Finding #6*

*Improvements were needed in procedures for timely obtaining fingerprints and background checks for staff that have direct contact with students.*

**APPENDIX B  
MANAGEMENT RESPONSE (CONTINUED)**

Mr. William O. Monroe, CPA  
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Response #6

The Human Resources Division will identify instructional employees that have renewed their certification prior to the 2004-2005 fiscal year. The Department of Professional Standards, Equity and Recruitment will launch the re-fingerprinting project during the Fall semester of the 2006-2007 school year. Thirty-four percent (34%) of the identified personnel will be re-fingerprinted during the 2006-2007 school year. Thirty-three percent (33%) of the identified personnel will be fingerprinted respectively during the 2007-2008 and 2008-2009 school years. The Department of Professional Standards, Equity and Recruitment will simultaneously fingerprint 34% of the non-instructional workforce hired prior to the 2004-2005 fiscal year. The Department of Professional Standards, Equity and Recruitment will continue to fingerprint and screen contractors in accordance with the Jessica Lunsford Act.

Below is a tentative fingerprinting schedule that has been established:

	Instructional	Non-Instructional	Other
Fall 2006	East Zone Elementary	East Zone Elementary	
Spring 2007	East Zone Middle East Zone High	East Zone Middle East Zone High	
Summer 2007			Non-school-based personnel and rescheduled employees
Fall 2007	South Zone Elementary	South Zone Middle	
Spring 2008	South Zone Middle South Zone High	South Zone Middle South Zone High	
Summer 2008			Non-school-based personnel and rescheduled employees
Fall 2008	West Zone Elementary	West Zone Elementary	
Spring 2009	West Zone Middle West Zone High	West Zone Middle West Zone High	

Finding #7

*Improvements were needed in the District's timely resolution of various payroll deduction and withholding account transactions.*

Response #7

Appropriate staff needs to establish a process in which Payroll and Finance departments will analyze and settle, in a timelier manner, the transactions included in the payroll-related liability accounts. Scheduled actions are as follows:

- Include the Finance Director and Payroll Director in the email notifications from Financial Accounting staff to Payroll Department staff regarding accounts in question. This action will enable the Directors of the departments to monitor the process.

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**APPENDIX B**  
**MANAGEMENT RESPONSE (CONTINUED)**

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Mr. William O. Monroe, CPA  
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- Schedule a meeting prior to the end of June with appropriate Payroll Department staff and Financial Accounting Department staff to document the current process used to analyze and settle the payroll-related liability accounts in question.
- Identify areas of the process in need of improvement to enable more efficient analysis and corrections or refunds as appropriate.
- Propose automation where appropriate to minimize the manual actions necessary to keep the liability accounts in balance each pay period.
- Set a deadline no later than the end of August 2006 to establish improvements to the current process and recommend automation where appropriate.

As a result of the above actions, the Payroll Department and Financial Accounting Department staff will make all corrections/refunds to the payroll deduction liability accounts in a timely manner.

*Finding #8*

*Improvements were needed in the timeliness of corrective actions for serious safety deficiencies noted in the District's Annual facilities inspection reports.*

**Response #8**

In order to address the deficiencies identified in the 2004-05 Fire Safety Report, the District contracted with three separate Contractors (one Contractor for each zone) to ensure that all deficiencies were corrected.

All items listed as "serious" on the report were not "serious" but low priority. They were listed as "serious" due to a packaged program not having the proper category to place these items. That program has since been corrected.

The deficiencies listed for Lehigh Senior High School were all a site-based responsibility and have been corrected.

The deficiencies listed for Lee Middle School were all a site-based responsibility and have been corrected.

The deficiencies listed for Villas Elementary that have reappeared for the last three years may be in error. Exhaust fans go out all the time and it is more probable that the exhaust fan was corrected in preceding years; a different fan may have been written up as non-functional. In any event the exhaust fans at Villas Elementary have all been corrected.

*Finding #9*

*Change Orders issued on the District's construction contracts were not submitted to the Board and entered into the official minutes although required by Section 1013.48, Florida Statutes and Board policy.*

**APPENDIX B**  
**MANAGEMENT RESPONSE (CONTINUED)**

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Response #9

The Change Orders that were not brought before the Board for approval were for projects where a total project cost had been previously approved by the Board. The change orders did not result in an increase above the total project cost that the Board had approved.

The Board Policy 4.42 Change Orders requires modification to expedite the construction schedule required to open schools each August and to be more appropriate for Construction Management (CM) projects. The Board will be informed of any change orders to all construction contracts on a monthly basis and this information will be entered into the Board meeting minutes.

The revised Policy 4.42 Change Orders complies with Section 1013.48, Florida Statutes.

The following are suggested revisions to the District's Change Order Policy 4.42:

**DRAFT POLICY: 4.42**

**CHANGE ORDERS**

The Superintendent or designee shall have authority to approve change orders in the name of The School Board of Lee County to the extent the total of such change orders added to the original contract price does not exceed the total project cost approved by the School Board, in an amount less than \$10,500 or for an adjustment in the contract price. Any such order shall be reported to the School Board of Lee County and entered in its official minutes. \*Before any change order can be approved, it shall be reviewed and signed by the architect or engineer, the School District's project manager and the Director of Construction Services to verify the need, to ensure accuracy of backup documentation, and ensure the pricing is in the best interest of the School District.

- (1) The School Board of Lee County may make changes in the scope of the work required to be performed by the contractor by making additions or omissions without invalidating the contract, without relieving or releasing the contractor from any obligations under the contract or any guarantee pursuant to the contract provisions without affecting the validity of the guarantee bonds, and without relieving or releasing the surety or sureties of the bonds. All such work shall be executed under the items of the original contract unless expressly provided otherwise.
- (2) If applicable unit prices are not contained in the agreement, the architect shall request an itemized proposal covering the work involved in the change before ordering the contractor to proceed with the desired changes, after which the procedure shall be as follows:
  - (a) If the proposal is acceptable, the architect shall prepare the change order for acceptance by the contractor.

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**APPENDIX B**  
**MANAGEMENT RESPONSE (CONTINUED)**

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- (b) Each change order shall include in its final form:
  - 1. A detailed description of the change in the work.
  - 2. The contractor's proposal (if any) or a conformed copy.
  - 3. Definite statements as to the resulting change in the contract price and/or time.
  - 4. The statement that all work involved in the change shall be performed in accordance with contract requirements except as modified by the change order.
- (c) Any change order affecting code requirements shall be reviewed and approved by the external agency that conducted the construction plan review. Any document revision affecting life safety or fire code requirements shall be reported to the local fire district.
- (d) No extra work shall be done nor any obligation incurred for payment except upon a written order fully signed by the owner's representative and approved by the Superintendent or designee or the School Board of Lee County as applicable. Such order shall state the cost of such extra work and shall be provided by the architect. The architect must state a firm and just price.

*Finding #10*

*The District's Strategic Plan, generally, did not contain cost estimates for its goals and action steps to be completed in future years to serve as a guide in developing budgets and in making spending decisions.*

**Response #10**

The School District of Lee County is currently unaware of any requirement regarding including fiscal impact within a strategic plan. This audit is in regard to the 2004-2005 District Plan that was adopted as a temporary measure while the current strategic plan was being developed. The currently adopted Strategic Plan for FY06-FY10 lists fiscal impacts for goals being achieved in the current year. Goals for future years have yet to have the fiscal impact listed because the plan is reviewed annually. During yearly reviews, District priorities are evaluated and the Strategic Plan is realigned according to those priorities. Action steps that are currently listed may or may not be a part of future strategic plans. The District feels that it is premature to list fiscal impact for all goals and that listing the fiscal impact for the current year goals is necessary to focus District staff on the tasks to be addressed during that fiscal year.

*Finding #11*

*Procedural enhancements should be made in the District's monitoring of its charter schools to ensure that the schools provide the insurance coverages required by the contracts.*

**Response #11**

Procedural changes have been instituted to ensure Charter Schools in Lee County are in compliance with their contracts with the District in the area of insurance.

**APPENDIX B**  
**MANAGEMENT RESPONSE (CONTINUED)**

Mr. William O. Monroe, CPA  
June 8, 2006

Charter Schools will submit Certificate of Coverage by June 30th for the next fiscal year or school year. The certificates will:

- Provide proof of coverage for Commercial or General Liability, Automobile Liability, Worker's Compensation and Employer Liability, Excessive Umbrella Liability, Property Insurance, and School Leaders Errors and Omissions.
- Specify the School Board of Lee County as additional insured.
- Provide the policy number, effective dates and coverage that meet the occurrence and aggregate amounts required.
- Show a 60 day notice to the District for cancellation of coverage in all areas.

The Accord Certificates of Liability or Certificates of Coverage will contain the name of the company, NAIC number, the AM Best ratings and company strength. The Best ratings and strength will be verified by the AM Best website [www.ambest.com](http://www.ambest.com).

The certificate of authority or letter of eligibility for companies listed on the certificates will be verified by The Florida Department of Financial Services web site [www.fldfs.com](http://www.fldfs.com).

A spread sheet of insurance coverages will be required of all Charter Schools and signatures of insurance agent.

Thank you for the opportunity to respond to your findings.

Please contact me at your convenience if you have any questions or concerns.

Sincerely,



James W. Browder, Ed.D.  
Superintendent

JWB/mlc

c: Steven K. Teuber, J.D., Chairman  
Board Members  
Superintendent's Cabinet

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