



AUDITOR GENERAL

WILLIAM O. MONROE, CPA



HILLSBOROUGH 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: Fingerprinting Requirements

The District should improve its procedures for timely obtaining fingerprints and background checks on personnel having direct contact with students. Absent timely background screening checks, there is an increased risk that personnel may have backgrounds that are not suitable for direct contact with students.

Finding No. 2: Controls Over Inventories

The District could enhance its internal controls over inventories by adequately separating asset custody and record keeping responsibilities, and providing for year-end physical inventory counts to be conducted by employees independent of the record keeping function.

Finding No. 3: Controls Over Bids

Our review of controls over bids found that the District could not locate bid envelopes in one instance and the bid tabulation was not signed in another instance.

Finding No. 4: Insurance Commissions

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

establishing a fixed-price contract with the insurance consultant and broker.

Finding No. 5: Annual Facility Safety Inspections

The District did not timely correct some safety and maintenance deficiencies disclosed by annual safety inspections.

Finding No. 6: Construction Management Agreement – Penalty Clauses

The agreements between the District and the general contractors for three contracts did not contain the required penalties to be paid by the contractors for failure to comply with the terms of the contracts.

Finding No. 7: Monitoring of Construction Managers

The District's monitoring procedures did not ensure that subcontractors were appropriately licensed. For one construction management contract, the District did not ensure the adequacy of the performance and payment bond obtained by the construction management entity.

Finding No. 8: Architect Liability Insurance

The District did not have written policies and procedures to establish minimum and adequate insurance requirements for design professionals.

Finding No. 9: Charter School Monitoring

Improvements were needed in the District's monitoring of its charter schools to ensure that the schools provide evidence of insurance coverages required by the contracts with the District.

BACKGROUND

The District is part of the State system of public education under the general direction of the Florida Board of Education. Geographic boundaries of the District correspond with those of Hillsborough County. The governing body of the Hillsborough County District School Board is composed of seven elected members. The Superintendent of Schools is the executive officer of the 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 214 elementary schools, middle schools, high schools, special school centers, and adult centers and reported 185,687 unweighted full-time equivalent students. In addition to its primary responsibility of providing educational services to students in grades kindergarten through 12, the District also provided post-secondary vocational training.

The results of our audit of the District's financial statements and Federal awards are presented in our report No. 2006-157.

FINDINGS AND RECOMMENDATIONS

Finding No. 1: Fingerprinting Requirements

The District should improve its procedures for timely obtaining fingerprints and background checks for staff that have direct contact with students. Sections 1012.56(9) and 1012.465, Florida Statutes (2004), required instructional personnel renewing their teaching certificates and noninstructional personnel every five years following employment, respectively, to 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 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.

Our review disclosed that the District had not established an adequate process during the 2004-05 fiscal year for performing the required background screenings for staff that had direct contact with students. For example, on March 8, 2005, the District approved a plan to implement the required legislation; however, actual procedures to initiate the plan had not begun until January 2006. According to District personnel, the plan development, adoption, and implementation delay was due to various logistical issues, including but not limited to, obtaining the necessary equipment, the District's review of financial responsibility for additional costs, and negotiating procedures acceptable to the various employee unions. As a result of the District's implementation delay, of the 1,595 instructors that renewed their teaching certificates in the 2004-05 fiscal year, only 51 were required to undergo the required background screenings. In addition, none of the noninstructional employees that should have been screened were required to undergo the background screenings. We further noted that while the District's plan identified approximately 27,000 employees to undergo the required background screenings, as of April 7, 2006, approximately 800 employees had been fingerprinted.

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 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, with regard to persons under contract with the District, further impact the need to enhance procedures for timely obtaining fingerprints and background checks.

Recommendation: The District should enhance its personnel procedures to ensure that required fingerprinting and background checks are performed for instructional and noninstructional staff on a timely basis. Further, documentation of these procedures should be retained in appropriate personnel records to document that the required fingerprinting and background checks were performed and reviewed as required.

Finding No. 2: Controls Over Inventories

At June 30, 2005, the District reported \$3,387,734 in inventories related to maintenance and operational supplies. As previously noted in our report No. 2004-018, the District's internal control over the Central Maintenance and the Sites and Utilities Department inventories (formerly Grounds) could be improved by providing an adequate separation for asset custody and record keeping responsibilities. Our review disclosed that two Central Maintenance and two Sites and Utilities Department employees were responsible for receiving and issuing inventory, and recording the inventory transactions. In addition, these same employees were responsible for performing periodic and annual physical inventory counts. Further review disclosed that annual physical inventories performed at eight additional District locations were performed by the same employees who maintained the inventory records at those locations.

Under the conditions described above, the employees are assigned the incompatible duties of asset custody and record keeping such that errors or fraud could occur and not be timely detected.

Recommendation: The District should provide for an adequate separation of duties and responsibilities within the Central Maintenance and Sites and Utilities Departments to the extent practicable with existing personnel. Also, the District should provide for physical inventory counts at fiscal year-end to be conducted by employees independent of the record keeping function.

Finding No. 3: Controls Over Bids

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

- Purchases for termite and pest control chemicals were acquired through a competitive bid process. The bid envelopes with the date and time stamp could not be located. Such records are necessary to document vendor compliance with the bid deadline.
- Purchases of pianos were made through a competitive bid process. The bid tabulation documenting the responding vendors bid amounts was not signed by the bid opener nor by a witness. Signatures of the bid opener and witness would serve as certification of the accuracy of bid tabulations.

A similar finding was noted in our report No. 2004-018. During our test of bid compliance, we noted that the District has made progress in correcting these deficiencies and should continue its efforts.

Recommendation: The District should continue its efforts to ensure that bid envelopes are maintained with the date and time that they were received and ensure that bid tabulations are signed by the bid opener and a witness.

Finding No. 4: Insurance Commissions

During the 2004-05 fiscal year, the District provided health and employee benefits for its employees and dependents and purchased property and casualty insurance. To assist in making a determination of the best value for such coverage, the District has used an insurance consultant for approximately 6 years as its broker for insurance carriers for health and employee benefits and a broker for approximately 14 years for insurance carriers for the property and casualty insurance. According to the District, the insurance

consultant for health and employee benefits performs various services such as development and analysis of request for proposal specifications, carrier renewal negotiations, analysis of proposals, ongoing advice, research and technical services, and providing one full-time staff that is on-site in the District's Risk Management Office three days a week. Additionally, the consultant provides administrative services such as maintenance of the benefits Web site, overseeing open enrollment, including creation, printing, and distribution of all open enrollment communications materials and periodic newsletters. The broker for the property and casualty insurance obtains and presents to the District proposals from the insurance carriers.

During the 2004 and 2005 calendar years, the insurance consultant received \$1,206,565 and \$1,336,033, respectively, in commissions paid by insurance carriers for the District's health and employee benefits coverages such as dental, life, and vision. In addition, the consultant was paid \$1,505,343 and \$1,731,085 for administrative services during the 2004 and 2005 calendar years, respectively. The insurance consultant also received \$121,181 and \$142,502 from the District for the "Opt Out Administrative Fee" for administrative services during the calendar years 2004 and 2005, respectively. The "Opt Out Administrative Fee" is paid to the consultant for active employees and those on Leave of Absence who choose not to enroll with the District's health insurance carrier.

The broker for the District's property and casualty insurance received \$495,580 and \$494,008 in commissions paid by insurance carriers for the 2004 and 2005 calendar years, respectively. District staff indicated that the District did not directly pay the consultant or insurance broker for the consulting and administrative services, except for the Opt Out Administrative Fee, but that the consultant and broker were paid by the selected insurance companies based on a percent of the premiums paid by the District to the company and a set per member per month administrative fee for the administrative services.

In March 2005, a corporation, whose business units include the District's insurance consultant for health and employee benefits, reached an agreement with five agencies in three states to settle investigations of certain insurance industry practices, including receipt of contingent commissions. The contingent commissions were paid by insurers in connection with the placement of insurance and other risk solutions products by the corporation or its affiliates for the calendar years 2001 through 2004. As part of the settlement, the corporation agreed to send clients an annual statement for compensation received, invoiced, or due from any insurer or third party in connection with the placement, renewal, consultation on, or servicing of each client's policy. The settlement was for \$190 million and the District's share of the settlement was \$503,375. In January 2006, the District received \$264,395 of the settlement. In addition, as of May 2006, there was a proposed class action settlement pending in the Circuit Court of Cook County, Illinois. The class action lawsuit concerns alleged conduct by subsidiaries and affiliates of the corporation and involves the corporation's receiving, or eligibility to receive, contingent commissions. The lawsuit covers insurance policies purchased for the calendar years 1994 through 2004.

Based on the results of these recent class action lawsuits and considering that the insurance consultant's and broker's fees were based on a percentage of the premium costs, the District may have limited the incentive to recommend insurance services at the lowest and best price consistent with desired quality by not separately establishing a fixed-price contract with the insurance consultant and broker.

The District is in the process of negotiating a fixed-price contract with the consultant for the brokerage and administrative services. However, the District has not initiated a request for proposal for the employee benefits administrative and brokerage services or for the broker services for property and casualty insurance. Purchases made pursuant to written competitive proposals provide a method of

documenting the fairness of the purchasing process to encourage fair and open competition and participation by all available qualified vendors. Such procedures also serve to document that the lowest and best price is paid by the District consistent with acceptable quality and performance.

Recommendation: The District should enter into a competitive proposal process for future services obtained from insurance consultants and brokers. The District should continue its efforts to enter into competitive fixed-price contracts for such services to ensure its selection of insurance companies provides the lowest and best price consistent with desired quality.

Finding No. 5: Annual Facility Safety Inspections

Section 1013.12, Florida Statutes, and Section 4.4 of the Florida Department of Education publication, *State Requirements for Educational Facilities – 1999*, requires that each district school board provide for periodic inspection of each educational and ancillary plant at least once during each fiscal year to determine compliance with standards of sanitation and casualty safety prescribed in the rules of the State Board of Education.

District records indicated that the District provided for the required inspections of its facilities during the 2004-05 fiscal years. The inspector completed a report for each facility which recorded various information for noted deficiencies, such as: a priority code that indicated the type and severity of the deficiencies by building and room number, the estimated costs of correction, the number of times a deficiency has been cited before, and the date a deficiency should be scheduled for correction not later than.

Our review of the annual safety inspection reports for 15 District schools and centers during the 2004-05 fiscal year disclosed that the District had provided for the correction of many of the deficiencies in the reports. However, we noted numerous instances in which deficiencies noted in the annual safety inspection reports remained uncorrected from previous years. These deficiencies included such items

as inadequate fencing, electrical problems, missing handrails, expired and missing fire extinguishers, and missing smoke detectors. Some of these deficiencies had been cited in the annual safety inspection reports up to sixteen previous times (years). Failure to timely correct facility deficiencies results in an increased risk that facilities could become unsafe for occupancy. Similar findings were noted in our report No. 2004-018.

Recommendation: The District should provide for the timely correction of facility deficiencies as noted in the annual safety inspection reports.

Finding No. 6: Construction Management Agreement – Penalty Clauses

Section 1013.47, Florida Statutes, provides that construction contracts, in part, contain the time limits in which construction is to be completed and penalties to be paid by the contractor for any failure to comply with the terms of the contract. As part of our audit procedures, we reviewed three construction management contracts. We noted that the contracts did not contain penalty clauses. Without a threat of a financial penalty, a contractor has limited incentive to complete a project on a date certain and the District has limited ability to hold the contractor responsible for timely completion of the project.

Recommendation: The District should comply with Florida Statutes and provide construction contract penalty clauses.

Finding No. 7: Monitoring of Construction Managers

Section 1013.45(1)(c), Florida Statutes, authorizes the District to contract for the construction or renovation of facilities with a construction management entity (CM). Under the CM process, contractor profit and overhead are contractually agreed upon, and the contracted firm is responsible for all scheduling and coordination in both the design and construction phases and is generally responsible for the successful, timely, and economical completion of the construction

project. CM firms may also be required to offer a guaranteed maximum price (GMP). The GMP provision allows for the difference between the actual cost of the project and the GMP amount, or the net costs savings, to be returned to the District.

Section 1013.45(1)(c), Florida Statutes, further provides that the CM must consist of, or contract with, licensed or registered professionals for the specific fields or areas of construction to be performed, as required by law. Additionally, Section 1013.47, Florida Statutes, provides that the contractor shall furnish the District with a performance and payment bond. The District's responsibility is to establish monitoring procedures to ensure compliance with the Statutes.

The District's Planning and Construction Department is responsible for the administration of the construction program. Our review of the District's administration of three construction manager projects disclosed the following:

- District records did not contain evidence that the District verified project subcontractors were appropriately licensed. Chapter 489, Florida Statutes, establishes certain certification requirements for persons engaged in construction contracting, including licensing requirements for specialty contractors such as electrical, air conditioning, plumbing, and roofing contractors. Monitoring the verification of subcontractor licenses provides the District additional assurance that the subcontractors met the qualifications to perform the work for which they were engaged.
- For one project, the District received performance and payment bonds in the amount of \$30,040,299 prior to establishment of the GMP. Once the GMP was established in the amount of \$35,159,855, there were no additional performance and payment bonds provided by the CM to cover the full GMP amount. When a bond is insufficient, the District is not fully protected in the event the contractor fails to pay the subcontractors or complete the project.

Recommendation: The District should establish monitoring procedures for its construction projects that include verification of subcontractor licensure and adequacy of performance and payment bonds.

Finding No. 8: Architect Liability Insurance

The District should adopt a written standard for architect liability coverage requirements. Section 4.1(2)(f) of the Florida Department of Education publication, *State Requirements for Educational Facilities – 1999*, indicates that the Florida Board of Architecture, Interior Design, and Landscape Architecture does not require the design professional to carry insurance against errors and omissions or liability and, consequently, states that boards should either develop policy to provide this insurance for the design professional who does not carry insurance or require its design professional to carry insurance.

The District stated their procedures require architects to provide proof of insurance with a minimum of \$1,000,000 in professional liability coverage. However, there is no written policy or provision in the architect agreements stating these requirements.

Our audit included a review of three District construction projects, including agreements for architectural services. The District had certificates of insurance as provided by the architectural firms on file for the three projects demonstrating \$1,000,000 in professional liability coverage. The projects reviewed had GMPs of approximately \$35.1 million, \$9.2 million, and \$7.9 million, respectively. The certificates of insurance provided for the projects in our review also included coverage for additional projects in which the architect was involved at the District. The insurance coverage in effect for the project may not be adequate based on the anticipated project costs and based on multiple projects being covered by one policy. Adopting policies that establish uniform architect insurance requirements and procedures to verify those requirements would enhance the District's protection in the event that deficiencies exist in the work performed by these professionals.

Recommendation: The District should adopt written policies and procedures to establish minimum insurance requirements for design professionals. The District should also ensure these requirements provide adequate liability coverage for District construction projects.

Finding No. 9: Charter School Monitoring

The District sponsored 21 charter schools in the 2004-05 fiscal year. We reviewed the District's monitoring procedures, including compliance with contract provisions, for 3 of the 21 charter schools. The District's contract with the Mount Pleasant Charter School (Charter School) for the 2004-05 fiscal year required the Charter School to provide evidence of errors and omission, general liability, buildings, and workers' compensation insurance. The District could not provide evidence that the Charter School had obtained the required coverage for the 2004-05 fiscal year. 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.

Recommendation: The District should enhance monitoring procedures of its charter schools to ensure that the schools provide evidence of insurance as required by the contracts with the District.

PRIOR AUDIT FINDINGS

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 report No. 2004-018, except as noted in finding Nos. 2, 3, and 5 of this report.

OBJECTIVES, SCOPE, AND METHODOLOGY

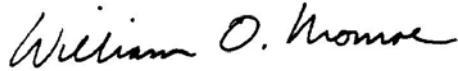
The objectives of this operational audit were to determine whether District management controls promoted and encouraged: 1) compliance with applicable laws, administrative rules, and other guidelines; 2) the economic, effective, and efficient operation of the District; 3) the reliability of records and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

Specifically, our review included management controls related to financial condition; monitoring of charter schools; financial reporting; public depository collateral reporting requirements; Federal cash management; capital assets and capital outlay transactions; evidence of insurance by architects; land acquisitions; annual facility inspections; day labor projects; independent financial advisors for refunding debt issues; equity in school funding; Workforce Development program; Florida School Recognition Program; expenditures; employee compensation; fingerprinting and background screening; bid compliance; adequacy of insurance coverage; blanket purchase orders; and follow-up on prior audit findings.

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 Hillsborough County District School Board and the Superintendent. The Superintendent's written response to the audit findings and recommendations is included in Appendix B. The responses to finding Nos. 1, 7, and 9 refer to attachments containing certain additional information. This additional information was too voluminous to include within this report, but may be obtained from the District.

This audit was conducted by Anna A. McCormick, CPA, and supervised by Christina R. Porter, 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
HILLSBOROUGH COUNTY DISTRICT SCHOOL BOARD

Hillsborough County District School Board members and the Superintendent of Schools who served during the audit period are shown in the following tabulation:

	<i>District No.</i>
<i>Glenn Barrington to 11-15-04, Chair</i>	<i>1</i>
<i>Susan L. Valdes from 11-16-04</i>	<i>1</i>
<i>Candy Olson, Vice-Chair to 11-15-04, Chair from 11-16-04</i>	<i>2</i>
<i>Dr. Jack R. Lamb</i>	<i>3</i>
<i>Jennifer Faliero</i>	<i>4</i>
<i>Doris Ross Reddick to 11-15-04</i>	<i>5</i>
<i>Doretha W. Edgecomb from 11-16-04</i>	<i>5</i>
<i>Carolyn Bricklemeyer, Vice Chair from 11-16-04</i>	<i>6</i>
<i>Carol W. Kurdell</i>	<i>7</i>

Dr. Earl J. Lennard, Superintendent

APPENDIX B
MANAGEMENT RESPONSE

School Board
Carolyn Brickleyer, Chair
Jack R. Lamb, Ed. D., Vice Chair
Doretha W. Edgecomb
Jennifer Faliero
Carol W. Kurdell
Candy Olson
Susan L. Valdes



Superintendent
MaryEllen Elia

June 20, 2006

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

Dear Mr. Monroe:

I am in receipt of the May 22, 2006, letter that transmitted the preliminary and tentative audit findings and recommendations for the operational audit of the Hillsborough County District School Board for the fiscal year ended June 30, 2005.

The school district staff members responsible for the areas addressed in the report have prepared explanations of the findings. They have also prepared corrective actions that have already been implemented or are in the implementation process. The responses and supporting documents are attached herein.

If you have any questions or concerns, please contact me. The direct line to my office is 813-272-4030. If members of your staff have specific questions concerning any part of the responses, please have them contact Gretchen Saunders, Chief Business Officer (813-272-4383) or Jim Hamilton or Ken Otero, in the Chief of Staff's Office (813-272-4103).

Thank you for your help, and the high quality service provided by your office and members of your team.

Sincerely,

MaryEllen Elia
Superintendent

MEE:GS

APPENDIX B
MANAGEMENT RESPONSE (CONTINUED)

Finding No. 1: Fingerprinting Requirements

The District should improve its procedures for timely obtaining fingerprints and background checks on personnel having direct contact with students. Absent timely background screening checks, there is an increased risk that personnel may have backgrounds that are not suitable for direct contact with students.

At the start of the fingerprinting requirement in FY 2004-2005 the district had approximately 27,000 employees who had to complete fingerprinting and a level 2 background screening. To meet our responsibilities we developed a system that we believed will meet the statutory deadline. As noted we will fingerprint an increased number of employees each year to meet the deadline. In addition, the District fingerprints and conducts level 2 background checks on all newly hired employees. In FY 2004-05 we hired, fingerprinted, and conducted level 2 background checks on 3,818 new hires.

To further clarify the District's approach the following is offered:

In the Audit Report the Florida Department of Education (FLDOE memo of June 25, 2005, ("Certification Legislative Changes 2004 Session") was cited (Attachment I). The citation was that districts should re-fingerprint teachers at the time of certificate renewal. However, we understood that the process was a recommendation not a requirement. We thought the matter was further clarified in a technical assistance paper. In addition, during phone conferences to discuss the technical assistance paper provided to school districts, Martha Wright, Chief, User Services Bureau, and Marian Lambeth, Chief, Bureau of Professional Practices Services, stated that it was the district's decision as to whether teachers would be required to re-fingerprint at the time of certificate renewal, but that this was not a required procedure. As outlined in our district plan that was approved by the School Board on March 8, 2005, (Attachment II) our district did not elect to tie teacher certificate renewal to fingerprinting. An employee holding a valid teaching certificate when hired in our district is fingerprinted and the fingerprints are sent to the Department of Education's Certification Office for future renewal. If a certificate renewal is required before the five-year fingerprint renewal date, we would have to add a second fingerprint and background check in the employee's first five years of employment.

Finding No. 2: Controls Over Inventories

The District could enhance its internal controls over inventories by adequately separating asset custody and record keeping responsibilities, and providing for year-end physical inventory counts to be conducted by employees independent of the record keeping function.

The district will review all processes of receiving and issuing inventory and provide for additional separation of duties to the extent feasible with existing personnel.

The district will also insure that the year-end inventory will be conducted by employees independent of the record keeping functions.

The District wishes to enhance its already well established internal controls over inventory. Those controls include the following: Due to the existence of multiple

APPENDIX B
MANAGEMENT RESPONSE (CONTINUED)

inventory locations, each with a large number of items, the District had elected to have inventory managers at the various locations perform physical inventories of the assets they manage, and then verify counts through statistically-significant sampling by employees from outside the particular department that owned the inventory. This test was independent of the record keeping function. The statistical sampling provided a high level of confidence in the accuracy of reported inventory, and was able to be feasibly resourced.

The District takes the following steps to protect all assets.

- 1) All receipts, assets issued, or other inventory transactions recorded in the inventory management system are tagged with the user ID of the employee entering the transaction.
- 2) Invoices for all items received are processed independently of the receiving function. Differences between receipts as recorded in the inventory database and invoices recorded independently by Accounts Payable necessarily trigger a review, prior to the payment.
- 3) Regarding inventory items for maintenance requests, the use of the item is recorded on a paper copy of the maintenance request by an individual other than the employee responsible for the record-keeping function. The paper copy provides the basis for the electronic transaction, which is accomplished by an individual other than the employee who created the paper record. The paper record is maintained on file. Maintenance Department policy requires that all assets issued be tagged with the maintenance request number, which allows the asset to be tracked to a specific job or task. The Department conducts periodic sampling to insure that the electronic records are supported by the paper record.
- 4) Maintenance Department managers are required to randomly sample five purchases each month, to insure that the purchases are for the appropriate purpose, and recorded properly. Inventory purchases are recorded in the sampling, providing another opportunity to protect assets.
- 5) As identified previously, the District verified recorded inventory levels through statistically-significant sampling by employees from outside the department maintaining the inventory, and independent of the record keeping function.

Finding No. 3: Controls Over Bids

Our review of controls over bids found that the District could not locate bid envelopes in one instance and the bid tabulation was not signed in another instance.

The Auditor General's recommendation in Finding No. 3 states, "The District should continue its efforts to ensure that bid envelopes are maintained with the date and time that they were received and ensure that bid tabulations are signed by the bid opener and a witness."

As part of our bid review and evaluation process the Purchasing department will tighten the practice of date and time stamping all bid documents coming into Purchasing, including bid envelopes, so our school district will be in compliance with solicitation deadlines. Each employee of the Purchasing Department will be trained to properly

APPENDIX B
MANAGEMENT RESPONSE (CONTINUED)

date and time stamp all bid documents, including bid envelopes. Specific department employees will be assigned the responsibility of maintaining these important papers.

Additionally, as part of our bid opening process the Purchasing department will tighten the practice of the bid opener and witness to sign the tabulation sheets which serve as certification of the accuracy of the documents. This procedure will be reinforced with all Purchasing Agents in the department who are responsible for bid openings, and the employees will be held accountable for properly completing this assignment.

Finding No. 4: Insurance Commissions

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

The upcoming and future RFP's will incorporate the Auditor General's recommendation and the statutory requirements in place at the time of these RFP's.

The District will release a request for proposals (RFP) for the brokerage and administrative services of its employee voluntary benefits program by the end of June 2006. The RFP will seek the most appropriate products and services at competitive prices. The District further plans, within the next six months, to issue an RFP for the brokerage and administrative services of its property and casualty insurance.

Finding No. 5: Annual Facility Safety Inspections

The District did not timely correct some safety and maintenance deficiencies disclosed by annual safety inspections.

Steps have been taken since 2004-2005 to further ensure the timely correction of items noted on annual inspections.

During FY 2004-2005, a district committee consisting of staff members from facilities, maintenance, administration, and the safety office met to evaluate the inspection and repair process. The recommendations of this committee were presented to the School Board, and new procedures were implemented in fiscal year 2005-2006. The procedures included establishing an estimated date of completion for all repairs and corrections. This provides all divisions (maintenance, facilities, and administration) a required timeline within which repairs and/or corrections are to be made. Further, as an additional step, the district will add an estimated completion date of repair to the Annual Fire Safety Inspection reports for the 2006-2007 inspection cycle to better track needed corrections. Finally, additional follow-up inspections will be accomplished by District Safety Inspectors to verify that deficiencies have been corrected by the estimated date of completion.

Some of the repeated items that were noted reflect changing code requirements. After changes have been made in the codes, inspections are conducted for compliance with

APPENDIX B
MANAGEMENT RESPONSE (CONTINUED)

the new existing building codes. Occasionally this results in a finding that a building is out of compliance with the new existing code. However, the requirements are that the facility is in compliance with the codes that existed at the time of construction or last major renovation and district facilities meet that standard. As major renovations are undertaken facilities are brought into compliance with the codes as they exist at the time of renovation. The District has taken steps to insure that repair requirements noted on these inspections are addressed in a timely manner. The items identified as recurring items for the schools sampled during the audit have all been accomplished.

Finding No. 6: Construction Management Agreement – Penalty Clauses

The agreements between the District and the general contractors for three contracts did not contain the required penalties to be paid by the contractors for failure to comply with the terms of the contracts.

We will provide the recommended penalty clauses in future contracts consistent with the findings of this audit and existing statutory requirements.

To clarify the Board's present practice, the following explanation is offered:

Penalty clauses are meant to remedy the harm that might result from a contract default. The harm caused by delinquency is typically remedied by liquidated damages. We believed that a close reading of FS 1013.45(1)(c) provided the Board the authority to require the construction manager to either guarantee a maximum price or a completion date but not both. Because the Board had chosen to require a guaranteed maximum price it was understood that we were precluded by statute from also requiring a guaranteed completion date.

Finding No. 7: Monitoring of Construction Managers

The District did not ensure that subcontractors were appropriately licensed. For one construction management contract, the District did not ensure the adequacy of the performance and payment bond obtained by the Contract Manager.

While it is clearly the responsibility of the State to enforce the licensing laws referenced in the audit, and while the District has no contractual relationship with any subcontractors, we agree that verifying their licensure would be consistent with the District's best interests. We will include language in future construction contracts to require confirmation of licensure of all Division I and II contractors.

With regard to the provision of Payment and Performance Bonds, we agree to implement procedures to insure that the face value of such bonds is at all times equal to or greater than the current contract amount. We believe that we are already in compliance with this provision.

We are required to have a Performance and Payment Bond on file when the work commences. Under the normal construction management process, the Bond is created prior to the approval of the Guaranteed Maximum Price (GMP). The Bond form used in all of our contract documents is the AIA Document 702, which reads as follows in Article 1:

APPENDIX B
MANAGEMENT RESPONSE (CONTINUED)

The Contractor and the Surety, jointly and severally, bind themselves, their heirs, executors, administrators, successors, and assigns to the Owner for the performance of the **Construction Contract**, which is incorporated herein by reference. In Article 15.2, the Construction Contract is defined as follows:

Construction Contract: The agreement between the Owner and the Contractor identified on the signature page, **including all Contract Documents and changes thereto.**

Once the Bond is created, there are never any revisions sent to the district. It has always been understood that the full amount of a contract is always covered under the original Bond from beginning to completion, regardless of any changes to the amount. Therefore, there was no additional bond needed for the high school RRR Project. The district is fully covered.

In addition the School District participates in a district direct purchase program for the acquisition of construction materials. This plan reduces costs by ensuring that the district takes full advantage of its sales tax exempt status to purchase these materials. Funds are transferred from the total GMP back to the school district for the purchase of materials. This transfer is accomplished through deductive change orders that reduce the GMP by issuing a direct credit to the contractor. The money is for the cost of the direct purchase. This action reduced the actual GMP on high school RRR below the \$30 million bond limit noted in finding #7. Therefore there was never any exposure of the District to liabilities not covered by the bond (Attachment I)

Finding No. 8: Architect Liability Insurance

The District did not have written policies and procedures to establish minimum and adequate insurance requirements for design professionals.

Our district has been on the cutting edge of Best Business Practices. Prior to 1986 we implemented the practice of requiring professional liability insurance of all architects engaged on major projects long before it was chic and accepted in Tallahassee as a Best Business Practice. The reason we chose to be a front runner in this type of best business practice was the growth experienced in our district and the number of schools opened on an annual basis, for example, since 1998 our district built and opened 60 schools.

We agree that the coverage limits may be out of pace with current project costs so the district will establish a review committee consisting of representatives from the Facilities and Human Resources Divisions to include the General Manager of Planning and Construction, Manager of Risk Management, outside architects, and insurance professionals to review the current liability limits and make appropriate recommendations based on the findings of the review.

It has been the District's longstanding practice to require professional liability insurance of all architects engaged on major projects even though it is not required by the law to do so. We agree that this practice should be reflected in the terms of every contractual agreement for design services.

APPENDIX B
MANAGEMENT RESPONSE (CONTINUED)

Finding No. 9: Charter School Monitoring

Improvements are needed in the District's monitoring of its charter schools to ensure that the schools provide evidence of insurance coverage required by the contracts with the District.

FS 1002.33(14) clearly states that "The credit or taxing power of the state or the school district shall not be pledged and no debts shall be payable out of any moneys except those of the legal entity in possession of a valid charter approved by a district school board pursuant to this section." In addition HB 135, 2nd Engrossed/Enrolled adds FS 1002.33(5)(g) that further identified and holds harmless school districts for the actions of charter schools.

The District will enhance monitoring procedures of its charter schools to ensure that the schools provide evidence of insurance as required by the contracts with the District.

The action plan related to the information above is as follows:

- 1) Charter school principals will receive procedural training and a copy of the Charter School Inspections and Reports Checklist (Attachment 1) in July.
- 2) Principals will be given appointment times to meet with district personnel to submit the required documents at the July training.
- 3) If any documents are not available at the time of the appointment, a Compliance Documentation notice (Attachment 2) will be completed and a copy will be given to the principal. This notice will stipulate a revised due date within fourteen calendar days of that appointment.
- 4) If the revised deadline is not met, a letter requesting immediate submission of the documents will be sent to the principal and Board Chair of the charter school via certified mail, return receipt requested.
- 5) If the required documents are still not submitted, the school will be considered in breach of contract. A meeting will be held with the principal and Board chair to discuss the situation and a corrective action plan will be developed. Copies of the correction action plan and all related documentation will be sent to the appropriate personnel at the Department of Education and the Auditor General's Office.