



AUDITOR GENERAL

WILLIAM O. MONROE, CPA



LAKE COUNTY DISTRICT SCHOOL BOARD OPERATIONAL AUDIT

For the Period July 1, 2004, through June 30, 2005, and Selected
Transactions through April 28, 2006

SUMMARY

This operational audit for the period July 1, 2004, through June 30, 2005, and selected transactions through April 28, 2006, disclosed the following:

Finding No. 1: Annual Facility Safety Inspections

The District did not correct safety deficiencies disclosed by annual facility inspections in a timely manner. Our review of annual facility inspection reports indicated many instances in which previously cited safety deficiencies remained unresolved.

Finding No. 2: Inspections of Relocatables

The District did not provide for the required annual inspections of ten relocatable buildings used for classroom purposes or student occupancy during the 2004-05 fiscal year.

Finding No. 3: Floor Plans

Floor plans of educational facilities were not always timely provided to area law enforcement and fire departments.

Finding No. 4: Land Acquisition

The District purchased land that required rezoning without obtaining local government assurance that the land would be rezoned.

Finding No. 5: Lobbying

The Board conducted business with a sales broker who had previously served as a Board member within a two-year period of time, contrary to Section 112.313(14), Florida Statutes.

Finding No. 6: Professional Insurance Requirements

The District had not adopted standard liability insurance requirements for architects under contract with the District.

Finding No. 7: Construction Management Services – Contract Administration

The District’s monitoring of its construction management entity (CME) for the Leesburg High School project did not evidence an adequate preaudit of the CME’s billings or supporting invoices.

Finding No. 8: Construction Management Services – Selection of Subcontractors

Improvements were needed in the District’s monitoring of the selection of subcontractors by the CME.

Finding No. 9: Tangible Personal Property

Improvements were needed in the District’s controls over its annual physical inventory of tangible personal property.

Finding No. 10: Payroll Processing

The District did not have written procedures providing a consistent methodology for documenting employee time worked, leave used, and supervisory review and approval.

Finding No. 11: Sick Leave Payments

The District should implement procedures to ensure that terminal leave pay for accumulated sick leave is properly calculated and limited to amounts allowed by District policy. Audit tests

disclosed that the District overpaid net amounts totaling \$6,781.

Finding No. 12: Physical Security of Payroll Records

Deficiencies were noted in security control features relating to personnel and payroll records.

Finding No. 13: Property Insurance

The District’s schedule of values for property casualty insurance coverage was not accurate and complete for the 2004-05 and 2005-06 plan years.

Finding No. 14: Monitoring of Charter Schools

The District did not have a procedure to monitor required insurance coverage for the District’s charter schools.

Finding No. 15: Banking Services Agreement

The District did not routinely solicit proposals and prepare formal analyses to compare the provisions of their banking agreement (minimum required balances, interest earned, cost of services provided, etc.) with other available financial institutions to ensure the reasonableness of the fees charged by the financial institution. Consequently, the District could not be assured that it obtained customary services at the lowest and best price.

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

During the audit period, the District operated 37 elementary, middle, high, and specialized schools; sponsored eight charter schools; and reported 35,385 unweighted full-time equivalent students.

The results of our audit of the District’s financial statements and Federal awards are presented in our report No. 2006-110.

FINDINGS AND RECOMMENDATIONS

Finding No. 1: Annual Facility Safety Inspections

Section 1013.12, Florida Statutes, requires that each district school board provide for periodic inspection of each educational and ancillary plant at least once during each fiscal year to determine compliance with standards of sanitation and casualty safety prescribed in the rules of the State Board of Education. Further, firesafety inspections are required to be made annually by persons certified by the Division of State Fire Marshal to conduct firesafety inspections of public educational and ancillary plants.

- Our review of the District’s 2005-06 fiscal year comprehensive facilities inspection records for 23 schools and ancillary plant facilities that had been inspected as of March 17, 2006, disclosed that the District had not corrected many deficiencies cited in prior years’ reports. The District’s records indicated 2 repeated deficiencies relating to firesafety that were cited as Priority A, defined as “Imminent Danger”, which were due to improper locking devices on doors and needing a hood fire suppression cover for an appliance; and 91 repeated deficiencies relating to firesafety that were cited as Priority B, defined as “Serious.” These deficiencies had been cited in previous reports dating as far back as the 2001-02 school year. Failure to provide for timely correction of facility deficiencies results in an increased risk of unsafe conditions.
- Our review of ten inspection reports for administrator signatures noted that seven reports had not been signed by the educational facility administrators. These inspections had been completed from 8 to 45 days prior to our review. The facility administrator’s signature is needed to ensure that the administrator has been made aware of the deficiencies.

Recommendation: The District should review its maintenance and planning procedures to ensure that fire and casualty safety and sanitation needs noted in the annual inspection reports are timely corrected. Additionally, the inspection reports should be presented to and signed by the facility administrators as soon as is practical so that any noted deficiencies that are to be corrected by the schools can be promptly addressed.

Finding No. 2: Inspections of Relocatables

Our review of annual inspections for relocatable buildings used for classroom purposes or student occupancy during the 2004-05 fiscal year disclosed that, for 10 of 12 relocatables examined, the District did not have the required annual inspection reports completed and posted. Section 1013.20(2), Florida Statutes, requires annual inspections for all relocatables designed for classroom use or being occupied by students. Inspections are to include foundations; tie-downs; structural integrity; weatherproofing; HVAC; electrical; plumbing, if applicable; firesafety; and accessibility. Reports shall be filed with the district school board and posted in each respective relocatable in order to facilitate corrective action. Failure to provide for the required inspections of relocatable buildings could result in unsafe conditions not being corrected in a timely manner.

Recommendation: The District should provide for the required inspection of relocatable buildings used for classroom purposes or student occupancy and properly post the inspection reports.

Finding No. 3: Floor Plans

The District had not, as of April 7, 2006, submitted facility floor plans to local law enforcement agencies and fire departments for seven new or modified schools that were completed during the 2003-04 and 2004-05 fiscal years. Section 1013.13(1), Florida Statutes, requires that school districts provide a copy of the educational facility floor plans and other relevant documents to law enforcement agencies and

fire departments that have jurisdiction over district facilities. This Statute further requires that revised documents be submitted to these agencies by October 1 of each year for district facilities that were modified during the preceding year. The District should enhance its school safety procedures by providing floor plans of its educational facilities, as required by law, to area law enforcement agencies and fire departments. This information may be useful to local authorities in the event that emergency hazardous conditions develop at District sites. A similar finding was noted in our report No. 03-185.

Recommendation: The District should timely file required floor plans and other relevant documents with appropriate law enforcement agencies and fire departments and document such compliance.

Finding No. 4: Land Acquisition

Section 1013.33, Florida Statutes, requires the coordination of planning between boards and local governing bodies to ensure that plans for the construction and opening of public educational facilities are facilitated and coordinated in time and place with plans for residential development, concurrently with other necessary services. Further, the school board, county, and nonexempt municipalities located within the geographic area of a school district shall enter into an interlocal agreement that jointly establishes the specific ways in which the plans and processes of the district school board and the local governments are to be coordinated.

In November 2003, the District, the Lake County Board of County Commissioners (County), and other local governments of Lake County entered into an interlocal agreement to coordinate land use and public educational facilities. Section 3 of the agreement requires the District to notify the affected local governments of any potential new school sites before the acquisition to permit participation in the process. The local governments are to advise the District as to the consistency of the site with the local comprehensive plan, including appropriate

circumstances and criteria under which the District may request an amendment to the comprehensive plan for school siting.

Lake County records show that the District's Assistant Superintendent for Business and Support Services attended a June 2004 County Commission meeting at which the Commissioners discussed their reluctance to rezone a parcel of real estate known as the "Lowndes property." One of the County Commissioners stated that "...the School Board may purchase the proposed site, even though the two Boards may not agree on it..." and "...the School Board may choose to land bank the proposed site, until such time as roads are constructed in the area, and, in the meantime, they may find another site that has the infrastructure."

On November 8, 2004, the District paid \$3,384,600 to purchase the "Lowndes property," approximately 115 acres of land in southern Lake County, to construct a high school and a middle school. When purchased, the property was zoned as a Planned Urban Development and did not permit the building of public school facilities. Subsequent to the purchase, the District requested that the County Commission rezone the property as a Community Facility District, which would allow the District to construct the planned schools. However, at its September 19, 2005, meeting the County Commission denied the District's rezoning request. The Board filed a Petition for Certiorari on October 18, 2005, requesting that the rezoning issue be reconsidered. As of April 28, 2006, this matter is still pending. In these circumstances, the District is in possession of land that it cannot immediately, or in the foreseeable future, use for the purpose for which it was purchased.

Recommendation: The District should, prior to the purchase of land, obtain assurances from local governments that any required rezoning will be provided, or document why it would be in the District's best interest to make the purchase without these assurances.

Finding No. 5: Lobbying

Section 112.313(14), Florida Statutes, provides that a person who has been elected to any county, municipal, special district, or school district office may not personally represent another person or entity for compensation before the governing body of which the person was an officer for a period of two years after vacating that office.

As discussed in Finding No. 4, on November 8, 2004, the District purchased land for \$3,384,600, for two planned schools. A former Board member's firm acted as the sales broker and received \$236,922 in commissions. Our review indicated that in February 2004, fifteen months after vacating the District Board position, the former Board member met with District staff and the District's principal architect to view potential school sites in southern Lake County, including the land noted above. The District entered into a sales contract for the property on April 30, 2004.

Recommendation: The District should comply with the provisions of Section 112.313(14), Florida Statutes, and refrain from conducting business with former District officers within two years of vacating the office.

Finding No. 6: Professional Insurance Requirements

The District should adopt standard architect liability insurance 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 a policy to provide this insurance for the design professional who does not carry insurance or require its design professional to carry insurance.

The District entered into a contract with an architectural firm to design the Tavares Elementary

School, with an approximate construction cost of \$11.2 million. When initially requested, the District could not provide proof of insurance for the firm hired to design the school. In response to our request, the District obtained documentation evidencing that the architect's professional liability insurance coverage in effect for the \$11.2 million school was \$1 million per claim. The insurance coverage in effect for the project may not be adequate based on the anticipated project cost. Adopting policies that establish uniform architect insurance requirements and implementing 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 policies and procedures to establish minimum insurance coverage requirements for design professionals and document that the insurance is in effect for the duration of the projects.

Finding No. 7: Construction Management Services – Contract Administration

Section 1013.45(1)(c), Florida Statutes, authorizes district school boards to contract for the construction or renovation of facilities with a construction management entity (CME). The CME would be responsible for all scheduling and coordination in both design and construction phases and is generally responsible for the successful, timely, and economical completion of the construction project. The Statute further provides that the CME may 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 cost savings, to be returned to the District.

In January 2003, the District entered into an agreement with a CME for renovations, remodeling, and new construction at Leesburg High School, and in February 2004, the District accepted a GMP proposal of \$30,822,070 for the project. The GMP was amended to \$30,994,323 on June 30, 2005. The District's Facilities Department is responsible for

construction project administration, including monitoring CME activities and reviewing documentation submitted by the CME in support of payment requests. The project was nearing completion in May 2006.

Our review disclosed the following:

- Although the CME's payment applications were signed and approved for payment by District staff, the charges were not supported by subcontractors' detailed invoices. Subcontractor charges generally represent a large portion of work billed. For example, of the total \$716,167 requested on Payment Application No. 26, \$491,166 was for subcontractor charges. Absent adequate pre-audit of supporting invoices by appropriate staff, the District cannot ensure that payments are proper.
- The CME's scheduled value for general conditions at June 30, 2005, was \$1,484,843. The contract indicates that general conditions (construction phase fee and mobilization) includes items such as: 1) salaries or other compensation of the CME's employees at his principal office and branch office for services directly related to the project, 2) general operating expenses specifically related to this project of the CME's principal and branch offices, 3) the costs of all data processing staff performing services specifically related to this project, 4) salaries or other compensation of the CME's employees at the job site, and 5) general operating expenses incurred in the management and supervision of the project. Our review of two of the payment applications submitted to the District during the audit period disclosed that invoices for general conditions work was not supported. For example, Payment Application No. 15 included an invoice for the construction phase fee for \$36,400. Although requested from the District, we were not provided with any supporting detail for the general conditions charge, such as payroll records for the indicated CME employees or invoices from third parties providing general operating supplies or materials. Absent adequate pre-audit of supporting invoices by appropriate staff, the District cannot ensure that payments are proper.

- The District did not verify amounts submitted by the CME for overhead and profit with each payment application. Section IX, (C) of the CME’s contract indicates that the overhead and profit fee for the construction phase shall be paid proportionally to the ratio of the cost of the work in place, including stored materials and less retainage, as it bears on the latest estimate of the total construction cost or to the GMP or to the owner’s construction budget, whichever is less. Using the calculation described above, we determined that the total overhead and profit fee earned through June 25, 2005, (Payment Application No. 26) was \$844,126. As of that date, the CME had billed for \$1,225,276, and subsequently was paid that amount less retainage. Although requested, we were not provided with supporting documentation as to how the overhead and profit fee had been determined. As the total overhead and profit allowed for the project is \$1,424,739, the District had not exceeded the schedule of values; however, because the District is not monitoring this calculation, the CME received these payments in advance of when they were earned.

Recommendation: The District should establish monitoring procedures for CME agreements that include reviewing CME payment applications and adequacy of support.

Finding No. 8: Construction Management Services – Selection of Subcontractors

In August 2004, the District approved a guaranteed maximum price contract for construction management services for the construction of Tavares Elementary School, pursuant to Section 1013.45(1)(c), Florida Statutes. The construction management entity’s (CME) guaranteed maximum price was approximately \$11.2 million, and the District incurred expenditures totaling approximately \$7.1 million relating to the contract during the 2004-05 fiscal year.

According to the contract, the CME is responsible for hiring subcontractors, including the advertising, solicitation, bid opening, and awarding procedures. Our review indicated that the CME submitted tabulation sheets summarizing the subcontractor bids to the District. However, the District did not have

documentation on file to evidence that District staff was present at the bid openings. In the absence of the District’s documented monitoring of the subcontractor selection process, the District has limited assurance that the CME complied with the terms of the contract in the handling and awarding of subcontractor bids.

Recommendation: The District should monitor the CME’s subcontractor selection process for future subcontractor selections and document such monitoring procedures performed.

Finding No. 9: Tangible Personal Property

The District reported approximately \$51 million for tangible personal property (furniture, fixtures, and equipment and motor vehicles) at June 30, 2005. Our review disclosed that improvements could be made in certain internal control procedures, as discussed below:

- Section 10.480, Rules of the Auditor General, requires that a complete physical inventory of all property be taken annually. The District did not perform a physical inventory of District-owned property, totaling \$2,322,845, located at four converted charter schools. Neither had the District determined if charter school personnel conducted inventories of the property items. As the District still retains ownership of these assets, the District is responsible for ensuring that an annual physical inventory of its property is performed.
- Chapter 274, Florida Statutes, and Section 10.450, Rules of the Auditor General, require that tangible personal property records indicate the date the item was last physically inventoried, its physical location, and its condition. Our review of property records indicated that, although annual inventories were conducted, the individual property records for 1,939 items, totaling approximately \$11 million, at 12 District sites (of approximately 80 total sites) had not been updated, some dating as far back as March 1995. We also noted that the inventory process for the 2004-05 fiscal year had been conducted manually. Various automated systems for taking inventory are available that

will update property records automatically. Without timely update of property information, the District cannot be assured that property records are accurate and that all items are properly accounted for.

Recommendation: To improve accountability and safeguarding of the District’s assets, the District should strengthen procedures to provide for complete, properly documented, annual physical inventories of all District-owned tangible personal property. Additionally, the District should consider automating the inventory process.

Finding No. 10: Payroll Processing

The District did not have written procedures providing a consistent methodology for documenting employee time worked, leave used, and supervisory review and approval. Our review disclosed that timekeeping records were not maintained for 8 of 17 employees tested. We also noted that, for the nine employees who had completed timekeeping records, none of the records evidenced supervisory review and approval. Further, the methodology used to account for time worked varied amongst schools and departments. When documentation of work attendance and leave is not consistently maintained and reviewed, there is an increased risk of employees being incorrectly compensated and for employee leave balances to be inaccurate. Although we did not note any instances of incorrect payments, our audit tests cannot substitute for management’s responsibility to establish and maintain an adequate system of internal control.

Recommendation: The District should enhance its payroll processing procedures to provide a consistent methodology for documenting time worked, leave used, and supervisory review and approval.

Finding No. 11: Sick Leave Payments

Board Policy 6.531, *Deferred Retirement Option (DROP)*, provides that upon election to participate in the DROP, and based upon the employee’s established deferred termination date, previously accumulated sick

leave shall be paid to the employee according to the salary established at the time of entry into the DROP. Audit tests disclosed six of ten instances for which the District incorrectly calculated terminal leave payments for accumulated sick leave, resulting in net overpayments totaling \$6,781. These improper payments were due to several types of errors, such as terminal pay for accumulated sick leave calculated using the employee’s rate of pay at the end of the DROP period.

Recommendation: The District should enhance procedures to ensure that sick leave payments are calculated in compliance with District policies.

Finding No. 12: Physical Security of Payroll Records

As similarly noted in our report No. 03-185, we identified deficiencies in the District’s security controls over personnel and payroll records. Specific details of these deficiencies are not disclosed in this report to avoid the possibility of compromising District information. However, the appropriate District personnel have been notified of the deficiencies.

Recommendation: The District should take the appropriate action to correct the noted deficiencies.

Finding No. 13: Property Insurance

The District’s schedule of values for property casualty insurance coverage was not accurate and complete for the 2004-05 and 2005-06 plan years. Section 1001.42(9)(d), Florida Statutes, generally requires that the Board carry insurance on school buildings, including contents, boilers, and machinery. Additionally, Section 1001.42(10)(k), Florida Statutes, requires that the Board provide for adequate protection against any loss or damage to school property. The District purchased commercial property insurance coverage on building and contents totaling \$435,003,303 for the plan year beginning July 1, 2004, and \$624,767,397 for the plan year beginning July 1, 2005. The coverages were based on the total

insurable value (TIV) of the District’s property as shown on the District’s schedule of values. During each plan year, the TIV is subject to change based on property additions or deletions.

Our review of the District’s schedule of values for the 2004-05 and 2005-06 plan years disclosed the following errors or discrepancies:

- The District did not have a written methodology for determining the TIV. District personnel indicated that they relied on prior year values and updated as appropriate. However, we noted that the District was not consistent in valuing buildings and contents, relocatables, and covered walkways. For example, for the 2005-06 fiscal year, the TIV for buildings and contents ranged from \$105.96 to \$942.40 per square foot. Relocatables ranged from \$45.00 to \$450.09 per square foot. Covered walkways ranged from \$18.61 to \$550.03 per square foot. District personnel could not provide explanations for these variances.
- A newly constructed elementary school (Leesburg) was occupied during the 2004-05 school year; however, the new school was not reported to the insurance carrier when completed, and was not included on the schedule of values for the July 1, 2004, renewal. When added to the schedule of values in the 2005-06 plan year, the TIV was listed as \$14,991,025.
- An elementary school (Skeen) was demolished in the 2004-05 fiscal year; however, the facility was not reported to the insurance carrier upon disposal, and continued to be carried on the schedule of values for the July 1, 2005, renewal. Based on the schedule of values, the buildings and contents, relocatables, and covered walkways were listed as \$4,416,323, \$561,420, and \$648,140, respectively.
- Several schools were reported on the schedule of values using square footages that did not agree with the Florida Inventory of School Houses (FISH) report. For example, for the 2005-06 plan year, Clermont Middle School was listed on the schedule of values with a square footage of 26,293, whereas the FISH report listed square footage of 80,231. District personnel could not explain the

difference, and indicated that there had been no new construction on this site since 1986.

In these circumstances, there is an increased risk that the District’s insurance carrier may deny reimbursement to the District in the event of a loss occurring at any school site or additions at existing school sites not properly on file with the carrier. Additionally, because annual premiums are based on insured value, the District may have underpaid or overpaid its required property and casualty premiums for the 2004-05 and 2005-06 plan years, depending on the extent of the errors in the schedule of values.

Recommendation: In light of the District’s substantial investment in capital assets, the District should timely and accurately report any major facility additions, deletions, or corrections needed in the schedule of values to the insurance carrier providing property casualty insurance.

Finding No. 14: Monitoring of Charter Schools

Improvements are needed in District procedures for monitoring and reviewing certain activities of its charter schools. During the 2004-05 fiscal year, the District sponsored eight charter schools. The contracts with the charter schools required evidence of insurance for general liability, automobile liability, workers’ compensation/employers’ liability, school leader’s errors and omissions, and property damage insurance be provided to the District. However, upon inquiry, the District indicated that it had not obtained evidence of the required insurance coverage for four of the schools. In the absence of procedures to verify that the charter schools have the required insurance coverage, the District may be subject to potential liability in the event uninsured claims occur at the charter schools. Subsequent to our inquiry, the District obtained copies of the required certificates of insurance for all schools, except for property insurance coverage for two of the schools.

Recommendation: The District should develop procedures to ensure that the charter schools provide evidence of all required insurance coverage.

Finding No. 15: Banking Services Agreement

The Board has obtained banking services from the same local financial institution for more than six years. The financial institution charged various fees for services, totaling \$33,495 during the 2004-05 fiscal year and ranging from \$1,635 to \$3,212 each month.

The District did not periodically solicit proposals and prepare formal analyses to compare the provisions of its banking agreement (minimum required balances, interest earned, cost of services provided, etc.) with other available financial institutions to ensure the reasonableness of the fees charged by the financial institution. Consequently, the District cannot be assured that it is obtaining customary services at the lowest and best price. Subsequent to our inquiry, on April 24, 2006, the District issued a request for proposal for banking services.

Recommendation: The District should periodically solicit proposals from several financial institutions to ensure it is obtaining banking services in the most cost effective manner.

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 our report No. 03-185, except as noted in finding Nos. 3 and 12 of this report.

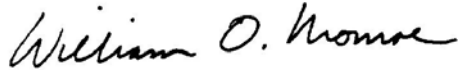
OBJECTIVES, SCOPE, AND METHODOLOGY

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 strategic planning; monitoring of charter schools; board minutes; financial reporting; bank reconciliations; capital assets and capital outlay transactions; use of restricted capital outlay money; evidence of insurance by architects; annual facility inspections; adequacy of property insurance coverage; collections from the extended day programs; equity in school funding; expenditures; employee compensation; and fingerprinting and background screening during the 2004-05 fiscal year, and selected management activities through April 28, 2006.

This operational audit was made in accordance with applicable *Governmental 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 Lake County District School Board and the Superintendent. The Superintendent's written response to the audit findings and recommendations is included in Appendix B.

This audit was conducted by Patricia A. Tindel, CPA, and supervised by Brenda C. Racis, 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
LAKE COUNTY DISTRICT SCHOOL BOARD

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

	<i>District No.</i>
<i>C. Dennis Reid to 10-18-04 (1)</i>	<i>1</i>
<i>Larry E. Metz from 10-29-04</i>	<i>1</i>
<i>Scott Strong, Vice-Chairman to 11-15-04, Chairman from 11-16-04</i>	<i>2</i>
<i>Rebecca C. Elswick</i>	<i>3</i>
<i>Jimmy Conner, Vice-Chairman from 11-16-04</i>	<i>4</i>
<i>Kyleen Fischer, Chairman to 11-15-04</i>	<i>5</i>

Pam Saylor Lannon, Superintendent to 11-15-04

Anna P. Cowin, Superintendent from 11-16-04

(1) Board member resigned effective 10-18-04. The office remained vacant until 10-29-04.

**APPENDIX B
MANAGEMENT RESPONSE**



Leading our Children to Success

201 West Burleigh Boulevard · Tavares · FL 32778-2496
(352) 253-6500 · Fax: (352) 343-0198 · www.lake.k12.fl.us

Superintendent:
Anna P. Cowin

School Board Members:
District 1
Larry Metz
District 2
Scott Strong
District 3
Becky Elswick
District 4
Jimmy Conner
District 5
Kyleen Fischer

June 29, 2006

Mr. William O. Monroe
State of Florida Auditor General
C74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450

Dear Mr. Monroe:

The District would like to take the opportunity to note our appreciation for the assistance your operational audit of fiscal year 2004/05 provides. We look to the items brought to our attention as a guide to direct our focus on the policies and procedures that need to be bettered. As this audit was conducted in the early stage of a new administration, focus was already being centered on areas that presented difficulties for the prior administration, similar to those brought forth in this audit. The transition that occurred during the year under this audit will only be strengthened through the guidance provided by this report. In response to the independent auditors' Preliminary and Tentative Audit Findings relative to the Operational Audit, we offer the following:

1) Annual Facility Safety Inspections

Repeat Deficiencies – Student safety is the highest priority for this administration. It should be acknowledged that the two deficiencies noted as “Priority A” are in concession stands which are rarely occupied by students. However, the District realizes the importance of implementing procedures to ensure repeat deficiencies do not occur, or if they are not corrected, documentation is provided as to the reason. The impacted departments have met and are establishing procedures to institute accountability on budgets, timelines and follow-up for corrective action.

Inspection Report Signatures – It has been the past practice of the District to acquire signatures from the site administrators after the inspection of the entire District had been completed. This review with the site administrator requires two signatures. One attesting to the proper amount of evacuation drills performed during the year, and the other acknowledging awareness of the discovered deficiencies. Upon this comment, the District has modified the procedures so that an exit conference with the facility administrator will be held the day after the inspection. In addition to this change, the District will obtain the local fire official’s signature that accompanied staff during the inspection.

“Equal Opportunity in Education and Employment”

APPENDIX B
MANAGEMENT RESPONSE (CONTINUED)

2) Inspections of Relocatables

The District has researched the recommendations on relocatable inspections and requested clarification from the Department of Education (DOE) on the specific requirements. DOE responded that the "annual inspections of relocatables are made by Certified Fire Safety Inspectors (district and local) and Sanitation and Casualty Safety Inspectors. When a relocatable is moved and installed the inspection falls under the jurisdiction of the Building Official and a Certified Fire Safety Inspector. Work that falls under the jurisdiction of the Florida Building Code is inspected by the Building Official and/or BCIAB licensed inspectors. Work that falls under the Florida Fire Prevention Code are inspected by Certified Fire Safety Inspectors." To comply with the requirements noted, all portables will have an inspection sheet posted inside the portable verifying that a comprehensive life safety, casualty and sanitation inspection has taken place. This assignment will fall under the direction of the risk management department.

3) Floor Plans

The exception to Section 1013.13(1) Florida Statutes is noted. Prior design contracts did not include requirement for digital as-built drawing submittals by the architect of record at project close out. This is now a requirement in all subsequent design contracts. Additionally, the District has authorized the Annual Contract Architectural Consultants to create those digital as-built floor plans for projects that were completed under the old contract requirements. In addition to the as-built drawings, the District is obtaining aerial photography of each renovated facility site. The aerial photos as well as the floor plans will be provided to the local public safety agencies upon completion.

4) Land Acquisition

The administration agrees that any land acquired should be properly zoned before the transaction is completed. In the future any property recommended for acquisition will be properly zoned for schools. Additionally, a concurrency agreement between the School Board, County Commission and local municipalities will ensure this does not happen again.

5) Lobbying

The administration will review business relationships to ensure that we do not conduct business with former Board members or Superintendent for at least two years as outlined in Statute.

6) Professional Insurance Requirements

The District will review best practices throughout the State to determine the appropriate level of coverage. Standard Operating Procedures will be developed and contract language revised to meet the appropriate levels.

APPENDIX B
MANAGEMENT RESPONSE (CONTINUED)

7) Construction Management Services – Contract Administration

The Facilities department has implemented procedures to provide greater assurance for accuracy in processing pay applications. Current staff limitations have been an obstacle to appropriately reviewing schedule of value for general conditions and verifying amounts submitted by the CME for overhead and profit. The Administration will research the value of adding a professional with an audit background and knowledge of contract administration to go through these pay applications before they are forwarded for payment. In the interim, the administration will request assistance from the District Auditor in facilitating some of these verifications.

8) Construction Management Services – Selection of Subcontractors

Sub-contractor bids were received and opened in the presence of the assigned Project Manager (PM) or Owner's Construction Representative (OCR). The OCR's maintain some documents for current on-going projects in their office files for their own use during the course of the project. Those documents are then included in the project master file at project close-out. We will require PM's and OCR's to make "copies" for their own file use and place originals in the project master file as they arrive.

9) Tangible Personal Property

Conversion Charter Schools - The District previous understanding was that conversion charter schools were exempt from the districts annual inventory audit and were to conduct their own audits. The school district did not understand there was a requirement to review the charter schools annual inventory audit. Upon this finding, a district inventory audit will be completed by June 30, 2006 of all conversion charter schools, and they will be placed on an annual inventory audit schedule.

Automated Inventory - Annual inventory audits have been completed in a timely manner, but not all inventory completion dates have been posted to the AS400 computer system. As of June 30, 2006 all Property Control inventory dates will be posted on the AS400. In addition, the District will review the possibility of automating the annual inventory through the use of bar codes.

10) Payroll Processing

The District agrees that standardized timekeeping is a concern. The District is currently researching time and attendance software to determine if an automated system is a viable solution. A timesheet for individuals is updated and pushed out to the cost centers annually, and are available on request from Payroll. Payroll will review the current software capabilities to generate a cost center level time sheet as an interim solution. Time and attendance requirements are reviewed with the department and school bookkeepers annually.

11) Sick Leave Payments

A spreadsheet program has been created for DROP value calculation and payment history. In addition, a Standard Operating Procedure has been written to document the DROP payment process. Fiscal Year 2006-07 termination benefits have been verified as processed correctly.

APPENDIX B
MANAGEMENT RESPONSE (CONTINUED)

12) Physical Security of Payroll Records

Consideration will be given to the recommendation. The Facilities Department will be contacted regarding potential actions to correct the concerns.

13) Property Insurance

A Standard Operating Procedure will be written to require the Facilities and Maintenance Departments to develop building values as they are constantly working with contractors and suppliers and should be aware of current replacement costs. The procedure will also outline how sites will be transferred from the Contractor's insurance to the District's policy in a timely fashion upon substantial completion. The Risk Management department will then recommend how to finance, insure, transfer or self insure risk related to the districts exposures.

The District will research the cost effectiveness of obtaining Insurance Appraisals for existing sites. Also, a standard for replacement cost will be established with the carrier for coverage. A square foot replacement cost will be established for the schedule of values for each type of construction.

14) Monitoring of Charter Schools

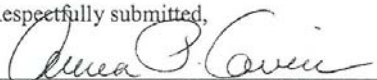
The District agrees with the importance of monitoring insurance coverage for Charter schools and as such we will implement procedures that require annual checklist to ensure all proof of coverages has been obtained.

15) Banking Services Agreement


The District has now solicited RFPs for banking services and is anticipating taking the contract to the Board in July.

We appreciate your assistance and review of our systems, and look forward to working together to continually improve our District.

Respectfully submitted,


Anna P. Cowin, Superintendent of Schools


Tommy Crosby, Chief Financial Officer


Noah Powers, Assistant Superintendent of
Support Service


Bonnie Penner, Director of Finance

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