

**SARASOTA COUNTY
DISTRICT SCHOOL BOARD**

**Construction Expenses and Related Controls
and Prior Audit Follow-Up**



Sherrill F. Norman, CPA
Auditor General

Board Members and Superintendent

During the period July 2018 through December 2019, Mitsi Corcoran served as Acting Superintendent of the Sarasota County Schools from November 19, 2019, Dr. Todd Bowden^a served as Superintendent before that date, and the following individuals served as School Board Members:

	<u>District No.</u>
Bridget Ziegler, Chair through 11-19-18	1
Caroline Zucker, Chair from 11-19-19, Vice Chair 11-20-18 through 11-18-19	2
Eric Robinson	3
Shirley Brown, Vice Chair from 11-19-19	4
Jane Goodwin, Chair 11-20-18 through 11-18-19, Vice Chair through 11-19-18	5

^a Pursuant to a mutual separation agreement with the School Board, Dr. Bowden was on paid administrative leave November 19, 2019, through his last day December 31, 2019.

The team leader was Svetlana V. Izmailova, CPA, and the audit was supervised by Rachel P. Sellers, CPA.

Please address inquiries regarding this report to Edward A. Waller, CPA, Audit Manager, by e-mail at tedwaller@aud.state.fl.us or by telephone at (850) 412-2887.

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SARASOTA COUNTY DISTRICT SCHOOL BOARD

Construction Expenses and Related Controls and Prior Audit Follow-Up

SUMMARY

This operational audit of the Sarasota County School District (District) focused on construction expenses and related controls and included a follow-up on Finding 2 noted in our report No. 2019-100. Our operational audit disclosed the following:

Finding 1: District records did not always demonstrate the accuracy of construction project costs, including direct and general conditions costs. A similar finding was noted in our report No. 2019-100.

BACKGROUND

The Sarasota County School District (District) is part of the State system of public education under the general direction of the Florida Department of Education and is governed by State law and State Board of Education rules. Geographic boundaries of the District correspond with those of Sarasota County. The governing body of the District is the Sarasota County District School Board (Board), which is composed of five elected members. The appointed Superintendent of Schools is the Executive Officer of the Board. During the audit period July 2018 through December 2019, the District operated 43 elementary, middle, high, and specialized schools; sponsored 11 charter schools; and as of June 2019, reported 43,119 unweighted full-time equivalent students.

FINDING AND RECOMMENDATION

Finding 1: Construction Costs

State law¹ provides the authority for the Board to contract for the construction of new facilities or renovation of existing facilities using various delivery methods. Construction contractors may be required to offer a guaranteed maximum price (GMP) contract, which 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. GMP contracts typically include provisions for direct construction costs, such as contractor fees and trade work, and general conditions costs that are not directly associated with a particular activity and may include costs relating to labor supervision, temporary offices and utilities, travel expenses, clean-up, permits, and testing.

Established policies and procedures that provide appropriate guidance for effectively monitoring and documenting the accuracy of direct construction and general conditions costs are essential to ensure that potential cost savings are realized under GMP contracts. For direct material and labor costs, it is important for District personnel to verify that contractor pay requests agree with supporting documentation such as the GMP contract and subcontractor bids, contracts, and invoices. Additionally, for contracts that include general condition costs, appropriate policies and procedures include verifying

¹ Section 1013.45(1), Florida Statutes.

that the general conditions costs are supported by detailed construction documents, such as payroll records and paid invoices, and comply with the GMP contract. To ensure that verifications are consistently performed for each project, it is important to require documented, supervisory review procedures to monitor the verification process.

Our examination of District records disclosed that, for the period July 2018 through December 2019, the District expended a total of \$53 million on 112 construction and renovation projects. In response to our inquiry, District personnel indicated that, to monitor GMP contract costs, District project managers are responsible for approving pay requests for their assigned project. Specifically, upon receipt of pay requests from contractors, the project manager is responsible for verifying that each charge on the pay request is properly supported with documentation. For general conditions costs, the project manager is to examine applicable payroll records or vendor invoices and, if necessary, payments are modified based on that support. The project manager is also responsible for documenting verification that line items on the schedule of values listed on the pay requests agree with the applicable subcontractor bids, change orders, and contracts. However, as of June 2020, the District had not established documented, supervisory review procedures to monitor project manager verifications to ensure that the verifications are consistently performed for each project and that the pay amounts requested are accurate and supported before payment.

To evaluate the accuracy of general conditions costs, we selected 10 projects with costs totaling \$25.3 million, including \$2.3 million for general conditions costs, and requested for examination District records supporting general condition costs totaling \$801,993. While District records indicated that the District designed and implemented internal controls to generally verify that payments were consistent with GMP contract terms, we identified general conditions costs totaling \$72,891 for 2 projects² conducted by one contractor that were erroneously billed based on a lump sum, fixed fee amount as a percentage of project completion instead of supported actual costs as specified in the GMP contract.

As a result of our audit procedures, District personnel evaluated other construction projects performed by that contractor with costs totaling \$3 million. The District identified \$196,000 for direct cost items such as contractor fees and trade work, and additional general conditions costs totaling \$46,000, that the District determined to be erroneously billed and unsupported. Our examination of District records and inquiry of District personnel found that the District project manager for these projects had not, of record, verified the accuracy of the pay requests.

Absent documented project manager pay request verifications and supervisory review to monitor the verifications performed, the District has limited assurance that construction costs are accurate, verifications are consistently performed for each project, and cost savings will be realized on GMP contracts. A similar finding was noted in our report No. 2019-100.

Recommendation: The District should enhance procedures for documenting and monitoring the accuracy of construction project costs, including direct and general conditions costs. Such enhancements should require documented, supervisory review procedures to monitor project manager pay request verifications to ensure that the verifications are consistently performed for

² The two projects were the Woodland Middle School Security Improvements/Fencing and Gates Project with a total GMP of \$686,086, including \$120,267 for general conditions costs; and the Cranberry Elementary School Security Improvements and Fencing Project with a total GMP contract cost of \$320,055, including \$75,964 for general conditions costs.

each project. In addition, the District should request the contractor to provide documentation to support the direct and general conditions costs totaling \$314,891 or seek reimbursement of these costs.

PRIOR AUDIT FOLLOW-UP

The District had not taken corrective actions for Finding 2 included in our report No. 2019-100.

OBJECTIVES, SCOPE, AND METHODOLOGY

The Auditor General conducts operational audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations. Pursuant to Section 11.45(3)(a), Florida Statutes, the Legislative Auditing Committee, at its October 24, 2019, meeting, directed us to conduct this operational audit of the Sarasota County District School Board.

We conducted this operational audit from March 2020 through June 2020, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This operational audit focused on construction expenses and related controls. For those areas, our audit objectives were to:

- Evaluate management's performance in establishing and maintaining internal controls in accordance with applicable laws, rules, regulations, contracts, grant agreements, and other guidelines.
- Examine internal controls designed and placed in operation to promote and encourage the achievement of management's control objectives in the categories of compliance, economic and efficient operations, reliability of records and reports, and the safeguarding of assets, and identify weaknesses in those controls.
- Determine whether management had taken corrective actions for Finding 2 included in our report No. 2019-100 for those operating units, programs, activities, functions, and classes of transactions within the scope of audit.
- Identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

In planning and conducting our audit, we assessed whether internal controls were significant to our audit objectives by considering the internal control integrated framework established by the Committee of Sponsoring Organizations (COSO)³ and adapted for a government environment within the *Standards for*

³ The Committee of Sponsoring Organizations (COSO) of the Treadway Commission was established in 1985 to develop guidance in the areas of risk and control which enable good organizational governance and reduction of fraud. Pursuant to their mission, COSO developed a framework for internal control that consists of five components and 17 underlying principles.

Internal Control in the Federal Government issued by the United States Government Accountability Office. That framework is illustrated in the following table.

COSO Internal Control Integrated Framework

Internal Control Component	Description	Underlying Principles (To be Applied by the Board and Management)
Control Environment	Standards, processes, and structures that provide the basis for carrying out internal control across the organization. Represents the foundation on which an effective internal control system is built.	<ul style="list-style-type: none"> • Demonstrate commitment to integrity and ethical values. • Exercise oversight responsibility. • Establish structures and reporting lines and assign authorities and responsibilities. • Demonstrate commitment to a competent workforce. • Hold individuals accountable for their responsibilities.
Risk Assessment	Management’s process to consider the impact of possible changes in the internal and external environment and to consider actions to mitigate the impact. The basis for how risks will be managed.	<ul style="list-style-type: none"> • Establish clear objectives to define risk and risk tolerances. • Identify, analyze, and respond to risks. • Consider the potential for fraud. • Identify, analyze, and respond to significant changes that impact the internal control system.
Control Activities	Activities in the form of policies, procedures, and standards that help management mitigate risks. Control activities may be preventive in nature or detective in nature and may be performed at all levels of the organization.	<ul style="list-style-type: none"> • Design control activities to achieve objectives and respond to risks. • Design control activities over technology. • Implement control activities through policies and procedures.
Information and Communication	Information obtained or generated by management to support the internal control system. Communication is the dissemination of important information to help the organization meet requirements and expectations.	<ul style="list-style-type: none"> • Use relevant and quality information. • Communicate necessary information internally to achieve entity objectives. • Communicate necessary information externally to achieve entity objectives.
Monitoring	Periodic or ongoing evaluations to verify that the internal control system is present and functioning properly.	<ul style="list-style-type: none"> • Conduct periodic or ongoing evaluations of the internal control system. • Remediate identified internal control deficiencies on a timely basis.

We determined that the internal control components significant to our audit objectives included control environment, control activities, information and communication, and monitoring. The associated underlying principles significant to our objectives included:

- Board exercise of oversight responsibility.
- Management design of control activities to achieve the District’s objectives and respond to risks.
- Management establishment of policies and procedures to implement internal control activities.
- Management use of relevant and quality information to achieve the District’s objectives.
- Management communication of information internally necessary to achieve the District’s objectives.
- Management activities to monitor the District’s internal control system and evaluate the results.
- Management remediation of identified internal control deficiencies on a timely basis.

This audit was designed to identify, for those areas included within the scope of the audit, weaknesses in management’s internal controls significant to our audit objectives, instances of noncompliance with applicable laws, rules, regulations, contracts, grant agreements, and other guidelines; and instances of inefficient or ineffective operational policies, procedures, or practices. The focus of this audit was to identify problems so that they may be corrected in such a way as to improve government accountability and efficiency and the stewardship of management. Professional judgment has been used in determining

significance and audit risk and in selecting the particular transactions, legal compliance matters, records, and controls considered.

As described in more detail below, for those programs, activities, and functions included within the scope of our audit, our audit work included, but was not limited to, communicating to management and those charged with governance the scope, objectives, timing, overall methodology, and reporting of our audit; obtaining an understanding of the program, activity, or function; identifying and evaluating internal controls significant to our audit objectives; exercising professional judgment in considering significance and audit risk in the design and execution of the research, interviews, tests, analyses, and other procedures included in the audit methodology; obtaining reasonable assurance of the overall sufficiency and appropriateness of the evidence gathered in support of our audit findings and conclusions; and reporting on the results of the audit as required by governing laws and auditing standards.

Our audit included transactions, as well as events and conditions, occurring during the audit period of July 2018 through December 2019, and selected District actions taken prior and subsequent thereto. Unless otherwise indicated in this report, these records and transactions were not selected with the intent of statistically projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

An audit by its nature does not include a review of all records and actions of management, staff, and vendors, and as a consequence, cannot be relied upon to identify all instances of noncompliance, fraud, waste, abuse, or inefficiency.

In conducting our audit, we:

- Reviewed applicable laws, rules, District policies and procedures, and other guidelines, and interviewed District personnel to obtain an understanding of construction expense processes and administrative activities.
- From the population of 112 construction projects with expenditures totaling \$53 million during the audit period, identified 10 construction projects with expenditures totaling \$25.3 million, including \$2.3 million for general conditions costs. For the 10 construction projects, we:
 - Requested for examination District records supporting general condition costs totaling \$801,993 to determine whether Board policies and District procedures were effectively established for negotiating and monitoring these costs.
 - Examined Board meeting minutes and other records to determine whether the Board approved or ratified change orders for those duly delegated to be approved by Superintendent or designee and for evidence of fiscal transparency for all recommended construction budget increases, rationale, and documented funding sources. We also examined District records supporting the reasonableness of the change orders based on the original contract cost, final payment, and related reconciliation.
- Expanded our original procedures to consider District conclusions regarding the propriety of direct construction costs and general conditions costs for one construction contractor who provided services totaling \$3 million.
- Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.

- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.
- Prepared and submitted for management response the findings and recommendations that are included in this report and which describe the matters requiring corrective actions. Management's response is included in this report under the heading **MANAGEMENT'S RESPONSE**.

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.

A handwritten signature in blue ink that reads "Sherrill F. Norman". The signature is written in a cursive style with a large, stylized initial 'S'.

Sherrill F. Norman, CPA
Auditor General

MANAGEMENT'S RESPONSE



Office of the Superintendent

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August 25, 2020

Sherrill F. Norman, CPA
Auditor General
Office of Auditor General
111 West Madison Street, Suite G74
Tallahassee, FL 32399-1450

Dear Ms. Norman:

The following response is offered with respect to the preliminary and tentative audit finding memo dated July 30, 2020 on the operational audit which focused on construction expenses and related controls and included follow-up on Finding 2 noted in the operational audit report No. 2019-100 of the Sarasota County District School Board.

Finding No. 1: District records did not always demonstrate the accuracy of construction project costs, including direct and general conditions costs. A similar finding was noted in our report No. 2019-100.

Response: The District enhanced procedures for documenting and monitoring the accuracy of construction project costs, including direct and general conditions costs prior to 6/30/2020 and has been consistently using them to review project pay applications. The new procedures were amended to include supervisory review procedures to monitor project manager pay request verifications to ensure that the verifications are consistently performed for each project.

In addition, the District has done a complete audit review of the projects performed by one of the District's contractors that was identified during the audit review process to have erroneously billed the District incorrectly due to our contract terms. As a result of this review, the District received reimbursement of \$323,487.80 on August 13, 2020 for the overbilled projects.

As always, we appreciate the opportunity for review of our operational program procedures and wish to thank the Auditor General's staff for their professional and courteous manner in which they conducted this operational audit.

If you need additional information, please feel free to contact Mitsi Corcoran, Chief Financial Officer at (941) 927-9000 ext. 31300 or via e-mail at mitsi.corcoran@sarasotacountychools.net. We look forward to the release of the final audit report but do reserve the right to appeal as we deem appropriate.

Sincerely,

A handwritten signature in blue ink, appearing to read "BAsplen", is positioned above the typed name.

Dr. Brennan Asplen
Superintendent

cc: Mitsi Corcoran, Chief Financial Officer