

THE FLORIDA SCHOOL FOR THE DEAF AND THE BLIND

Operational Audit



BOARD MEMBERS AND PRESIDENT

Members of the Board of Trustees and President who served during the 2009-10 fiscal year are listed below:

	<u>Residence</u>
<i>Christopher D. Wagner, Vice Chair from 8-21-09 to 3-13-10, Chair from 3-13-10</i>	<i>Bradenton</i>
<i>Edgar M. Turner, Vice Chair from 3-13-10</i>	<i>Pensacola</i>
<i>Mary Jane Dillon, Chair to 2-22-10 (1)</i>	<i>St. Augustine</i>
<i>Herschel H. Parrish, Jr., Vice Chair to 8-11-09 (2)</i>	<i>Winter Garden</i>
<i>Owen B. McCaul</i>	<i>Tallahassee</i>
<i>Yolanda A. Rodriguez from 2-22-10 (4)</i>	<i>Plantation</i>
<i>Maria Teresa Rojas to 2-22-10 (3)</i>	<i>Coral Gables</i>
<i>Carol M. Ross from 2-22-10 (4)</i>	<i>Tallahassee</i>
<i>Gerald Weedon</i>	<i>Jacksonville</i>
<i>Dr. Thomas M. Zavelson from 2-22-10 (4)</i>	<i>Gainesville</i>

L. Daniel Hutto, President

Notes:

- (1) Member's term expired November 20, 2009. Continued as de facto member until replaced by Carol M. Ross on February 22, 2010.
- (2) Member deceased August 11, 2009. Position remained vacant until replaced by Dr. Thomas M. Zavelson on February 22, 2010.
- (3) Member's term expired November 13, 2009. Continued as de facto member until replaced by Yolanda A. Rodriguez on February 22, 2010.
- (4) Appointed for term beginning February 22, 2010. Confirmed by Senate on April 27, 2010.

The audit team leader was Charles Alldredge, CPA. The audit was coordinated by Randy R. Arend, CPA, and supervised by Hardee Ratliff, CPA. Please address inquiries regarding this report to Marilyn D. Rosetti, CPA, Audit Manager, via e-mail at marilynrosetti@aud.state.fl.us or by telephone at (850) 487-9031.

This report and other reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 487-9175; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

THE FLORIDA SCHOOL FOR THE DEAF AND THE BLIND

SUMMARY

Our operational audit disclosed the following:

CAPITAL OUTLAY AND CONSTRUCTION ADMINISTRATION

Finding No. 1: The School needed to enhance its controls over construction contracting.

Finding No. 2: The School's Legislative Budget Request for Public Education Capital Outlay funding was not adequately supported.

BUDGET ADMINISTRATION

Finding No. 3: The School did not include net unexpended appropriated funds carried forward in its annual operating budget, contrary to Section 1011.57(4), Florida Statutes.

PROCUREMENT

Finding No. 4: The School's administration of purchasing cards needed improvement.

CAPITAL ASSETS

Finding No. 5: The School's asset management records and related controls over tangible personal property needed improvement.

BACKGROUND

The Florida School for the Deaf and the Blind operates under the leadership and direction of its Board of Trustees (Board), pursuant to Section 1002.36(4), Florida Statutes. The Board consists of seven members who are appointed by the Governor and confirmed by the Senate. One of its members must be a blind person, and one must be a deaf person. Each member is required to have been a Florida resident for at least ten years and the term of office for each member is four years.

The Board adopts rules, subject to the approval of the State Board of Education, as it considers necessary to operate the School in conjunction with the rules of the State Board of Education. The rules adopted by the Board are published in the Florida School for the Deaf and the Blind Rules, Chapter 6D, Florida Administrative Code. The Board exercises control of the School through a Board-appointed president, who is the chief administrative officer of the School and appoints and supervises all other School employees. The School's purchasing procedures are governed by Chapter 287, Florida Statutes, and rules of the Florida Department of Management Services. Personnel matters are governed by Florida School for the Deaf and the Blind Rules, Chapter 6D-6, Florida Administrative Code, and Department of Management Services Rules, Chapter 60L, Florida Administrative Code, as appropriate for the position.

The School is part of the State system of public education and is funded through the Florida Department of Education. The Legislature appropriates fixed capital outlay moneys to the School on an annual basis from the Public Education Capital Outlay and Debt Service Trust Fund, pursuant to Article XII, Section 9(a)(2) of the State Constitution, as amended.

Most of the School's students participate in the residential program and live in dormitories on campus during the week, while approximately 29 percent of the students are day-students from St. Augustine and surrounding counties. Students in the residential program are bused home on weekends and holidays.

FINDINGS AND RECOMMENDATIONS

Capital Outlay and Construction Administration

Finding No. 1: Subcontractor Procurement

Pursuant to Section 1013.45(1), Florida Statutes, the School may contract for the construction or renovation of facilities with a construction management (CM) entity. Under the CM process, contractor profit and overhead are contractually agreed upon, and the CM is responsible for scheduling and coordinating the design and construction phases and is generally responsible for the successful, timely, and economical completion of the construction project. Under guaranteed maximum price (GMP) contracts, the School may realize cost savings if the cost of construction is less than the GMP. As such, a GMP contract requires School personnel to closely monitor construction costs.

We reviewed the School's administration of GMP contracts, totaling approximately \$12.6 million through June 30, 2010, for the Bryant Hall Replacement (\$4.1 million), Cary White Renovations (\$6.5 million), and MacWilliams Hall Renovations (\$2.0 million) projects. Our review disclosed that the School could enhance its controls over construction contracting, as discussed below:

- School records did not evidence that all vendors and subcontractors were selected pursuant to competitive verbal quotes or written proposals, contrary to the School's CM agreements. A similar finding was noted in our report No. 2009-212. For contracts over \$1,000 and not exceeding \$10,000, the CM agreements required a minimum of two verbal quotes; for contracts exceeding \$10,000 and not exceeding \$200,000, they required a minimum of three written proposals; and for contracts exceeding \$200,000, they required that the bid be advertised in addition to the written proposals. The CM agreements also required that, upon receipt of the quotes or proposals, the lowest responsible proposal be selected. Our review disclosed:
 - School records did not evidence that verbal quotes were obtained for 16 subcontracts, ranging from \$1,050 to \$9,000, and totaling \$69,645.
 - School records did not evidence that written proposals were obtained for 7 subcontracts, ranging from \$12,250 to \$58,967, and totaling \$234,230.
- The School was not always able to adequately review project invoices because subcontractor bid documentation and related subcontracts were not obtained. A School representative attends the subcontractor bid opening; however, the subcontract may not be awarded to the lowest bidder indicated on the bid tab prepared at the opening. The CM completes the subcontractor procurement process and enters into subcontracts after the bid opening. However, if the bid is awarded to a subcontractor other than the lowest bidder indicated on the bid tab, the School is not notified. Although the School receives subcontractor procurement documentation notebooks at project close-out, these do not allow for proper review of invoices during the project. While our test of payments did not disclose any exceptions, our testing does not relieve the School from performing an adequate review of invoices prior to authorizing payment on an ongoing basis. Such review should include obtaining related bid documentation and subcontracts to make a determination that the payments were proper.

Recommendation: The School should enhance its monitoring of the subcontractor bid process to ensure that subcontractors are selected pursuant to competitive verbal quotes or written proposals in accordance with the CM agreements. The School should also ensure that it obtains copies of subcontracts and uses these to ensure that project invoices are in accordance with the subcontracts prior to making payment.

Finding No. 2: Legislative Budget Request and Facilities Master Plan

Pursuant to Section 1002.36(4)(f)1., Florida Statutes, the School must prepare and submit legislative budget requests (LBRs) for operations and fixed capital outlay, in accordance with Chapter 216, and Sections 1011.56 and 1013.60, Florida Statutes, to the Florida Department of Education (Department) for review and approval, and the Department must analyze the amount requested for fixed capital outlay to determine if the request is consistent with the School’s campus master plan, educational plant survey, and facilities master plan. Additionally, pursuant to Section 216.0158, Florida Statutes, the School must develop a five-year plan of facility needs that provides a five-year schedule for preventative maintenance, replacement, improvement, or construction of facilities on a specific project-by-project basis. The law also provides that each plan, for years two through five shall provide a full explanation of the basis for each project, including a description of the function which requires the facility; an explanation of the inability of existing facilities to meet such requirements; historical background; alternatives; and anticipated changes in both initial and continuing operating costs.

The School’s *Facilities Master Plan (Plan)* serves as the primary supporting document for the School’s annual fixed capital outlay budget request for Public Education Capital Outlay (PECO) funding from the Legislature. The *Plan* shows the School’s PECO funding needs for a five-year period. The May 2008 *Plan*, covered the 2009-10 through 2013-14 fiscal years, and documented the School’s plans to expend approximately \$68.8 million on capital projects, maintenance, and related items during the five-year period. The School partially updated the May 2008 *Plan* to prepare its subsequent annual LBRs for PECO funding. The School’s 2011-12 fiscal year LBR, the most recent LBR, which was submitted to the Department in June 2010, projected PECO funding needs of \$65.1 million for the 2011-12 through 2015-16 fiscal years and is summarized in Table 2 below.

	2011-12	2012-13	2013-14	2014-15	2015-16	Total
Major Renovations and New Construction:						
Campus Infrastructure	\$ 2,920,000	\$ 3,620,000	\$ 4,000,000	\$ 4,000,000	\$ 7,700,000	\$ 22,240,000
Other Specified Projects	6,370,000	5,840,000	5,850,000	5,850,000	1,500,000	25,410,000
Total Major Renovations and New Construction	9,290,000	9,460,000	9,850,000	9,850,000	9,200,000	47,650,000
Building Maintenance	2,843,071	2,985,224	3,134,485	3,291,209	3,455,769	15,709,758
Campus Wide Site	308,200	323,610	339,790	356,779	374,618	1,702,997
Facilities Master Plan Update	10,000	10,000	25,000	12,000	12,000	69,000
Total	\$ 12,451,271	\$ 12,778,834	\$ 13,349,275	\$ 13,509,988	\$ 13,042,387	\$ 65,131,755

Our review disclosed the following:

- **Campus Infrastructure.** In our report No. 2009-212, we noted the May 2008 *Plan* projected that the School would need approximately \$26 million over five years for the Campus Infrastructure appropriation category (a subpart of Major Renovations and New Construction) for which the *Plan* provided no detailed description or listing of the specific projects involved. The School previously advised us that its funding needs for Campus Infrastructure were determined based on three contracted engineering studies: a communication infrastructure study; a chilled and heating water infrastructure replacement study; and a paving study. Additionally, the engineering studies and supporting documentation provided by the School’s Director of

Construction Services indicated that the \$25.8 million for Campus Infrastructure was comprised of \$7.3 million for communication infrastructure; \$7.6 million for chilled and heating water infrastructure replacement; \$3.7 million for construction contingencies; \$2.8 million to resurface the entire campus roadways; and \$4.4 million for architect and engineer fees, owner contingency, permit fees, and equipment costs.

Our current review disclosed that the *Plan*, as updated for the 2011-12 fiscal year LBR, did not support the School's estimated future campus infrastructure costs. The 2011-12 fiscal year LBR disclosed that the School was projecting Campus Infrastructure funding needs of \$33.4 million¹. The LBR also indicated specific infrastructure needs and projected funding needs as follows: \$13.2 million for chilled and heating water piping replacement; \$7 million for communications; \$3.5 million for roadways; \$6 million for bulkheads; \$2.2 million for stormwater and sewer; and \$1.5 million for campus entrance and parking. However, except for the engineering studies and documentation previously provided, the School did not provide supporting documentation for the revised projected funding needs. Subsequent to submission of the 2011-12 LBR, in September 2010, School personnel provided documentation (reports, studies, etc.) to support the revised bulkhead costs (\$6 million) and explanations for the other five projects totaling \$27.4 million. However, reports or studies supporting the School's explanations were not provided.

- **Building Maintenance.** In our report No. 2009-212, we noted that the School's May 2008 *Plan* projected funding needs for Building Maintenance based on estimated "total system renovation cost" per building as determined from building-condition assessments, and did not contain a detailed, per-year maintenance-needs schedule. The 2011-12 fiscal year LBR contained a similar schedule of projected building maintenance renovation costs that calculated the 2011-12 fiscal year funding request by multiplying the total renovation cost amount shown for all of the School's buildings (approximately \$56.86 million) by 5 percent, and projecting subsequent requests through the 2015-16 fiscal year by increasing the requested amount for the 2011-12 fiscal year by 5 percent for each succeeding fiscal year, projecting total funding needs of \$15.7 million for the five-year period.

Our current review of the 2011-12 fiscal year LBR for Building Maintenance, as updated from the *Plan*, disclosed that the specific maintenance-related projects to be funded by such appropriations were still not identified. Although there was a prioritization in the School's 2011-12 fiscal year LBR of items considered to fall under Building Maintenance, it was general in nature, as follows: (1) Life/Safety Concerns; (2) Preventative Maintenance (roofs, HVAC, controls, plumbing); (3) Short Term Concerns (may not require immediate attention, but would maximize efficiency of a facility or systems); (4) Long Term Requirements (interior finishes); and (5) Building Improvements. Consequently, it was not evident from the School's 2011-12 fiscal year LBR how the School's projected funding needs for Building Maintenance applied to specific projects.

- **Campus Wide Site.** The maintenance projections in the *Plan* and 2011-12 fiscal year LBR also include a maintenance category referred to as Campus Wide Site, which projects maintenance needs of approximately \$1.7 million over five years. The 2011-12 fiscal year LBR indicated Campus Wide Site was for annual routine maintenance on site requirements such as, but not limited to: roads, bridges, sidewalks, covered walkways, fences and gates, sewer and water treatment, storm water and retention ponds, wells and pumping systems, environmental remediation, termite protection, utilities, bulkhead, and athletic fields and courts. The School's annual maintenance for Campus Wide Site was calculated by multiplying the total renovation cost amount shown for all the School's buildings (approximately \$56.86 million) by 10 percent and then multiplying this amount by 5 percent, plus building condition assessments for site structures such as gazebos, pavilions, storage, etc. of \$23,900, resulting in a total of \$308,200 for Campus Wide Site for the 2011-12 fiscal year, with an annual increase of 5 percent. However, the specific projects to be funded by such appropriations were not identified, nor was it otherwise evident from School records how the School's projected funding needs for Campus Wide Site projects applied to specific projects.

The School's *Plans* or other supporting documentation should clearly identify the proposed use of requested funds to comply with Section 216.0158, Florida Statutes, to adequately support the School's LBRs, and as a good business

¹ This amount does not agree with the \$22.24 million amount shown in Table 2 as the \$33.4 million total includes funding needs from years prior to the 2011-12 fiscal year.

practice. A consistent flow of information, or explanations as to why inconsistencies may exist, provides users a transparent method to understand the current and future needs of the School, and shows how the needs for one year flow into the School’s projections and subsequent future funding requests. Absent comprehensive, consistent, and properly supported *Plans* that include specific identification of capital and maintenance-related projects, there is an increased risk that the School will request PECO appropriations in an inefficient manner.

Recommendation: The School should review and revise its *Plan* and fixed capital outlay LBR methodology, as appropriate, to ensure that funding needs for Campus Infrastructure, Building Maintenance, and Campus Wide Site are specifically identified and prioritized as required by law, and supported by adequate documentation.

Follow-up to Management’s Response

In his response, the President indicated disagreement with our finding as it relates to building maintenance and campus wide site. The point of our finding is that Section 216.0158, Florida Statutes, requires that the School’s LBR provide detailed information on a project-by-project basis. The President indicated that an Attorney General opinion would be sought regarding this issue.

Budget Administration

Finding No. 3: Carryforward of Unexpended Appropriated Funds

Section 1011.57(1), Florida Statutes, requires the School’s Board of Trustees to develop an annual operating budget that allocates funds by program component and traditional expenditure category. Section 1011.57(4), Florida Statutes, requires that all unexpended funds appropriated for the School be carried forward and included as the balance forward in the approved operating budget for the following year.

As shown in Table 3 below, the School’s unexpended general revenue funds, net of liabilities, available for carryforward have increased from \$550,060 as of June 30, 2007, to \$5,502,223 as of June 30, 2010, and have become significant in comparison to the operating budget:

Table 3

Fiscal Year	General Revenue Carryforward ¹	Salaries & Accounts Payable	Net General Revenue Carryforward	General Revenue Operating Budget Expenditures	Percent of General Revenue Operating Budget Expenditures
2007-08	\$2,395,201	\$1,845,141	\$ 550,060	\$42,171,046	1.30
2008-09	2,408,783	1,415,197	993,586	41,062,528	2.42
2009-10	5,117,107	1,269,205	3,847,902	38,064,002	10.11
2010-11 ²	7,896,797	2,394,574	5,502,223	38,311,937	14.36

¹ Amount available from the end of the previous fiscal year.

² Initial budget, subject to change.

The School’s Comptroller advised us that certain factors have contributed to the increase in carryforward funds, including the release of held back appropriations late in the 2007-08 and 2008-09 fiscal years; conservation measures instituted to reduce utility usage, travel, and other discretionary expenditures; not filling vacant positions after

employees terminated; and the receipt of additional funding from the Federal government (State Fiscal Stabilization Funds) used to pay salaries previously funded from the operating budget.

Our review of the School’s net unexpended appropriated funds indicated that carryforward funds were used for allowable School purposes; however, the amounts carried forward were not included in the School’s annual operating budgets. In response to our inquiry as to why the School did not include carryforward balances in its operating budget, the School’s Comptroller provided several explanations, including the inability to determine what was contemplated by the phrase “balance forward” in the approved operating budget for the following year, as used in Section 1011.57(4), Florida Statutes; the School’s operating budget needing to agree with the General Appropriations Act; and the difficulty in allotting carryforward amounts because of fluctuations in the amounts from year to year.

Recommendation: The School should include all unexpended appropriated funds for the School and carried forward in its annual operating budgets to ensure that the Legislature and the public are aware of the School’s carryforward balances.

Procurement

Finding No. 4: Purchasing Cards

The School’s purchasing card (p-card) program is administered pursuant to approval from the Florida Department of Financial Services and the Florida Department of Management Services under the State’s p-card agreement. The School’s Operational Policies and Procedures, OPP 1.31, states that the School “is making available to certain School employees delegated authority to make minor purchases directly through a ‘Purchasing Card’ system. This will allow departments flexibility to purchase small routine materials, supplies and travel accommodations.”

The School’s p-cards are issued to its employees by a Purchasing Card Administrator (Administrator), who is also the Director of Purchasing, pursuant to requests from department supervisors. The process of issuing a p-card begins with the creation of a cardholder profile by a supervisor that lists the name of the employee needing a card and the employee’s position, department, credit limit, and any charge restrictions. The cardholder profile is forwarded to the Administrator who submits an automated request for card issuance through the State system and retains the profile in his files.

After the requested p-card is issued and received in the mail by the Administrator, he verifies that the cardholder information in the State system is correct and activates the card. He then meets with the employee concerned to: (1) have the employee sign a cardholder agreement; (2) give the employee a copy of the School’s Purchasing Card User’s Guide; and (3) deliver the card to the employee. The cardholder agreements are maintained by the Administrator. Credit limits are established by the cardholder’s supervisor and the Administrator. The Administrator also has the authority to cancel p-cards when employees leave the School or when deemed appropriate due to other circumstances. The canceled cards are to be collected and destroyed.

As of June 30, 2010, the School had 119 employees with an active p-card, and charges for the 2009-10 fiscal year totaled approximately \$1 million. The top five p-card users accounted for approximately 60 percent of the School’s p-card transactions and approximately 70 percent of total p-card expenditures. As similarly noted in our report No. 2010-151, our current review disclosed that the School’s administration of p-cards needed improvement, as follows:

- The School’s OPP 1.31 indicates that the p-card system was authorized for employees to make “minor” purchases, allowing flexibility to purchase “small” routine materials, supplies, and travel accommodations.

However, “minor” and “small” are not defined in terms of dollar amount. Our review of p-card purchases made by the top five employees indicated numerous purchases in excess of \$1,000 and ranging to \$14,999.

- The School issued p-cards to several employees who had no apparent need for a p-card. We noted that most of the 119 employees with p-cards during the 2009-10 fiscal year made rare or infrequent use of their cards. As of June 18, 2010, 4 of 119 cardholders were issued a card from approximately one and a half to five years prior and have never used it; another 7 of 119 cardholders were issued a card from approximately two to ten years prior and have only used it once; and 3 additional cards were issued on June 30, 2009, September 17, 2009, and April 6, 2010, and the cardholders had not used the cards.
- The School did not timely cancel p-cards for four terminated employees. P-cards for these employees were canceled 9, 48, 337, and 429 days, respectively, after the dates on which the employees separated from the School. One employee resigned in December 2008 and her card remained active until February 2010. In addition, one of the four employees retired in July 2009 and had an active p-card until June 2010, when it was canceled subsequent to audit inquiry.

Although our test of selected p-card transactions disclosed no improper charges, under the conditions described above there is an increased risk of misuse or unauthorized charges occurring without timely detection. In addition, excess distribution increases the risk that purchases may exceed budget constraints.

Recommendation: The School should revise its p-card policies to more clearly define the intent of its policy regarding its stated purpose to implement this program for “minor” and “small” purchases and provide guidance as to which employees or positions should be issued a p-card based on duties assigned. Based on the revised policies, the School should reevaluate whether employees that have been issued p-cards have need for a p-card. The School should also enhance its procedures to ensure that terminated employee’s p-cards are canceled timely.

Capital Assets

Finding No. 5: Tangible Personal Property

The School is subject to Chapter 273, Florida Statutes, and Department of Financial Services Rules, Chapter 69I-72, Florida Administrative Code, which establish control procedures and record requirements necessary to achieve accountability for tangible personal property. The School reported approximately \$2.1 million of tangible personal property, net of accumulated depreciation, at June 30, 2010. The School’s asset management records and related controls over its tangible personal property needed improvements as follows:

- The School did not have a comprehensive written procedures manual for tangible personal property. Although minimal written policies and procedures regarding property existed, they were inadequate and did not cover all areas of asset management. Examples of areas not included were procedures for tagging of property, recording information in the accounting records, disposing of property items, and conducting property inventories. Comprehensive written procedures, properly followed, promote a strong internal control system.

The School’s limited written policies and procedures relating to tangible personal property did not clearly define the responsibilities of the property custodian and custodian’s delegate concerning annual physical inventory, and individuals responsible for the physical custody of property were not restricted from performing the annual physical inventory. During our review, we noted one location at which the inventory had been completed by the property custodian, contrary to Department of Financial Services Rule 69I-72.006(4), Florida Administrative Code, which provides that custodian delegates must not personally inventory items for which they are responsible. When physical inventories are performed by those with custody of the property, conditions are created under which record errors and property losses may be concealed from timely detection, investigation, and resolution.

- As of August 12, 2010, the physical inventory conducted by School personnel, which began on April 2, 2010, had not been completed or reconciled. We were advised by the School Comptroller on September 28, 2010, that the 2009-10 fiscal year property inventory had been completed, including a reconciliation to the property records. Although a physical inventory for the 2008-09 fiscal year was completed in March 2009, no reconciliation of the physical inventory to the property records was completed for the 2008-09 inventory. Therefore, it had been more than a year since a complete, reconciled inventory had been performed by School personnel, contrary to Department of Financial Services Rule 69I-72.006(6), Florida Administrative Code. When annual inventories are not reconciled timely, damaged, stolen, or obsolete property can go unreported and unadjusted in the property records.
- The School did not timely record new tangible personal property items in its property master file. We noted that the School had 159 items, totaling \$1,242,409, recorded in the property pending file from July 30, 2009, to June 22, 2010, that were not recorded in the master file until July 19, 2010. According to School management, property is only transferred to the master file via an automated process once tag numbers are recorded in the pending file for the individual property and all other information is accurate. School management indicated that property is tagged when it is received and the tag numbers are recorded on the receiving report, which is maintained in a file by the School's property custodian. However, the tag numbers are not recorded in the pending file until the end of the fiscal year. Although the expenditures were properly capitalized for financial reporting purposes, when purchased tangible personal property items are not timely recorded in the property system, the School's ability to exercise appropriate control over its property is limited and the risk for the misappropriation of assets is increased. In addition, the true value of active property is not readily determinable.
- Department of Financial Services Rule 69I-72.003(1), Florida Administrative Code, requires the School to maintain adequate records of property in its custody. We selected 16 items from the School's property records for physical inspection and noted the following:
 - Of the 16 items selected for testing, 15 items were located with 8 items found in locations other than those shown on the School's property master file record. One item (chalkboard) was determined to have been demolished.
 - Of the 16 items selected for testing, 2 items, totaling \$3,326, were not properly tagged with the item number assigned. One item had an old property tag number and another was not tagged at all but was considered to be the correct property item based on age and description.

Effective controls over tangible personal property include properly maintaining and timely updating detailed property records, properly tagging property items belonging to the School, as well as annual physical inventories and the resolution of any resulting differences. Without adequate written procedures and defined internal control guidance, the risk of improper recording and handling of property, the risk of theft, and the risk of misplaced property is increased.

Recommendation: The School should develop a comprehensive written property and inventory management procedures manual covering all areas of asset management, including procedures to timely record tangible personal property in the property records, attach tags to all property, ensure that locations are kept current in the property records, and timely reconcile the annual physical inventory to the property records. As part of this manual, policies and procedures should preclude custodian delegates from performing the annual physical inventory.

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the School had taken corrective actions for findings included in our prior reports.

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.

We conducted this operational audit from April 2010 to August 2010 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.

The objectives of this operational audit were to: (1) obtain an understanding and make overall judgments as to whether the School’s internal controls promoted and encouraged compliance with applicable laws, rules, regulations, contracts, and agreements; the economic and efficient operation of the School; the reliability of records and reports; and the safeguarding of assets; (2) evaluate management’s performance in these areas; and (3) determine whether the School had taken corrective actions for finding Nos. 1 through 6 included in our report No. 2009-212 and finding Nos. 1 through 4 included in our report No. 2010-151. Also, pursuant to Section 11.45(7)(h), Florida Statutes, our audit may identify statutory and fiscal changes to be recommended to the Legislature.

The scope of this operational audit is described in Exhibit A. Our audit included examinations of various records and transactions (as well as events and conditions) occurring during the 2009-10 fiscal year.

Our audit methodology included obtaining an understanding of the internal controls by interviewing School personnel and, as appropriate, performing a walk-through of relevant internal controls through observation and examination of supporting documentation and records. Additional audit procedures applied to determine that internal controls were working as designed, and to determine the School’s compliance with the above-noted audit objectives, are described in Exhibit A. Specific information describing the work conducted to address the audit objectives is also included in the individual findings.

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.



David W. Martin, CPA
Auditor General

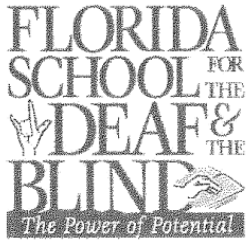
MANAGEMENT’S RESPONSE

Management’s response is included as Exhibit B.

EXHIBIT A
AUDIT SCOPE AND METHODOLOGY

Scope (Topic)	Methodology
Fraud policy and related procedures.	Inquired of School personnel and examined written policies, procedures, and supporting documentation relating to the School's fraud policy and related procedures.
Tangible personal property.	Reviewed the School's procedures for acquiring and disposing of tangible personal property.
Pharmacy inventory.	Examined the School's procedures for pharmacy inventory record keeping, drug acquisition, and drug disposal pursuant to applicable laws, rules, and School policies and procedures.
Purchasing card procurement.	Tested purchasing card expense transactions for propriety and compliance with related laws, rules, and School policies and procedures.
Capital outlay expenditures.	Tested capital outlay expenditures to determine compliance with contractual requirements and applicable laws, rules, and School policies and procedures.
Construction administration.	For selected significant construction projects in progress during the audit period, determined whether the projects were completed in accordance with laws, rules, and contractual agreements. This included reviewing the procedures for: (1) construction planning, (2) construction manager contracting, (3) surety bonds, (4) construction manager self-performance, (5) subcontractor bids, (6) construction cost savings, and (7) planning documentation, such as the Facilities Master Plan.
American Recovery and Reinvestments Act (ARRA).	Inquired of School personnel, reviewed applicable laws, rules, and School policies and procedures, and tested ARRA expenditures to determine that ARRA funds were accounted for separately, that expenditures were allowable, and that applicable ARRA reports were in accordance with guidelines.
Carryforward balances.	Inquired of School personnel, reviewed applicable laws, rules, and School policies and procedures, and tested expenditures from carryforward to determine whether the expenditure of carryforward balances were appropriately accounted for and that carryforward expenditures were appropriate.
Selected Board actions.	Reviewed Board-approved transfers of remaining balances for selected public education capital outlay projects, and substantial completion for one project, to determine whether approved actions were proper and accomplished as intended.

**EXHIBIT B
MANAGEMENT'S RESPONSE**



March 2, 2011

**L. Daniel Hutto
President**

Mr. David W. Martin, CPA
Auditor General
3974 Woodcock Drive, Suite 101A
Jacksonville, FL 32207

BOARD OF TRUSTEES

Subject: Operational Audit For Fiscal Year Ended June 30, 2010

Owen McCaul
Tallahassee

Dear Mr. Martin:

Yolanda Rodriguez
Plantation

In accordance with Section 11.45(4)(d), Florida Statutes, attached is a written statement of explanation concerning the findings of the above referenced audit, including proposed corrective actions.

Carol Ross
Tallahassee

Sincerely,

Edgar Turner
Pensacola

Christopher Wagner
Bradenton

L. Daniel Hutto
President

Gerald W. Weedon
Jacksonville

Attachment

Dr. Thomas M. Zavelson
Gainesville

cc FSDB Board of Trustees

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EXHIBIT B
MANAGEMENT'S RESPONSE (CONTINUED)

AG Audit for FYE ended June 30, 2010
Findings, Recommendations and FSDB Responses

Finding No. 1: Subcontractor Procurement

Our review disclosed that the School could enhance its controls over construction contracting.

Recommendation: The School should enhance its monitoring of the subcontractor bid process to ensure that subcontractors are selected pursuant to competitive verbal quotes or written proposals, and bids are properly advertised in accordance with the CM agreements. The School should also ensure that it obtains copies of subcontracts and uses these to ensure that project invoices are in accordance with the subcontracts prior to making payment.

FSDB Response: We concur with the finding, and we are contemplating controls that will provide additional assurance that the contractual provisions of our construction contracts are enforced.

Finding No. 2: Legislative Budget Request and Facilities Master Plan

The School's Legislative Budget Request for Public Education Capital Outlay funding was not adequately supported.

Recommendation: The School should review and revise its *Plan* and fixed capital outlay LBR methodology, as appropriate, to ensure that funding needs for Campus Infrastructure, Building Maintenance, and Campus Wide Site are specifically identified and prioritized as required by law, and supported by adequate documentation.

FSDB Response: We do not agree with your findings on the subjects of building maintenance and campus wide site. Specifically, we believe that we have fully complied with the law concerning our legislative requests for maintenance funding, and we will provide you with a copy of our request to have your interpretation of the relevant laws reviewed by the Attorney General.

We will strive to update our planning documents in a more timely manner to reflect any major changes that occurred after the plan was initially developed. However, we do not anticipate that we will update the plan due to changes in cost estimates or minor changes in scope for previously planned projects.

Finding No. 3: Carryforward of Unexpended Appropriated Funds

The School did not include net unexpended appropriated funds carried forward in its annual operating budget, contrary to Section 1011.57(4).

Recommendation: The School should include all unexpended appropriated funds for the School and carried forward in its annual operating budgets to ensure that the Legislature and the public are aware of the School's carryforward balances.

EXHIBIT B
MANAGEMENT'S RESPONSE (CONTINUED)

AG Audit for FYE ended June 30, 2010
Findings, Recommendations and FSDB Responses

FSDB Response: Except for appropriations provided for federal awards that may or may not be received, the School will include all unexpended appropriated funds, including any general revenue funds carried forward from the prior year, in its annual operating budgets. Such budgets will be amended to reflect any federal funding awarded. Certain necessary changes to our current budgetary procedures are subject to the approval of our Board of Trustees; however, there is no reason to expect approval will not be granted.

Finding No. 4: Purchasing Cards

The School's administration of purchasing cards needed improvement.

Recommendation: The School should revise its p-card policies to more clearly define the intent of its policy regarding its stated purpose to implement this program for "minor" and "small" purchases and provide guidance as to which employees or positions should be issued a p-card based on duties assigned. Based on the revised policies, the School should reevaluate whether employees that have been issued p-cards have need for a p-card. The School should also enhance its procedures to ensure that terminated employee's p-cards are canceled timely.

FSDB Response: During the fiscal year ending June 30, 2010, the School, acting on recommendations included in the Auditor General's Report No. 2010-151, implemented internal controls that significantly reduce the risk of misuse of our purchasing cards. We developed comprehensive policies and procedures to govern the use of purchasing cards, restricted the use of the card to travel only for a number of employees, and significantly reduced spending limits. However, the School concurs with the findings, and will implement the recommendations to further improve our purchasing card controls.

Finding No. 5: Tangible Personal Property

The School's asset management records and related controls over tangible personal property needed improvement.

Recommendation: The School should develop a comprehensive written property and inventory management procedures manual covering all areas of asset management, including procedures to timely record tangible personal property in the property records, attach tags to all property, ensure that locations are kept current in the property records, and timely reconcile the annual physical inventory to the property records. As part of this manual, policies and procedures should preclude custodian delegates from performing the annual physical inventory.

FSDB Response: The School concurs with the findings and will commit the resources and management attention necessary to implement the recommendations.