

**STATE OF FLORIDA AUDITOR GENERAL**

**Operational Audit**

Report No. 2020-037  
October 2019

**HOLMES COUNTY  
DISTRICT SCHOOL BOARD**



Sherrill F. Norman, CPA  
Auditor General

## **Board Members and Superintendent**

During the 2017-18 fiscal year, Terry L. Mears served as Superintendent of the Holmes County Schools and the following individuals served as School Board Members:

	<u>District No.</u>
Rusty Williams	1
Wilburn G. Baker	2
Alan Justice, Vice Chair from 11-21-17	3
Shirley Owens, Chair from 11-21-17, Vice Chair through 11-20-17	4
Sid Johnson, Chair through 11-20-17	5

The team leader was Tonya Williams, and the audit was supervised by Shelly G. Curti, CPA.

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# HOLMES COUNTY DISTRICT SCHOOL BOARD

## ***SUMMARY***

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This operational audit of the Holmes County School District (District) focused on selected District processes and administrative activities and included a follow-up on applicable findings noted in our report No. 2016-141. Our operational audit disclosed the following:

**Finding 1:** District records did not evidence that the District followed the required competitive selection process to obtain architect services for the Bonifay K-8 School Project.

**Finding 2:** District personnel did not compare construction management entity (CME) payment requests, totaling \$27.8 million, to the CME guaranteed maximum price contract and applicable subcontractor contracts for the Bonifay K-8 School Project.

**Finding 3:** District construction administration monitoring procedures for the Bonifay K-8 School Project did not include documented comparisons of the subcontractor bids and contracts to verify that the CME used a competitive selection process to select subcontractors and that the selected bid and contract amounts agreed.

**Finding 4:** The District did not verify the licenses of subcontractors before they commenced work on the Bonifay K-8 School Project.

**Finding 5:** The District needs to enhance controls over negotiating, monitoring, and documenting the reasonableness of CME general conditions costs.

**Finding 6:** District records did not always evidence that Bonifay K-8 School Project change orders were appropriately approved, reported to the Board, and entered in the Board's official minutes. In addition, District records did not document justification for \$56,000 paid to the CME for Project repairs.

**Finding 7:** The CME contract for the Bonifay K-8 School Project did not contain a penalty to be paid by the contractor for a failure to comply with contract terms.

**Finding 8:** The District should enhance procedures to ensure that supervisory personnel timely review and approve employee time worked and leave requests.

**Finding 9:** Required background screenings were not always performed for contractor workers.

**Finding 10:** Contrary to State law, the District did not always verify that individuals had appropriate backgrounds before they began school volunteer work.

**Finding 11:** The District did not utilize a competitive selection process when contracting for insurance.

**Finding 12:** Controls over District facilities maintenance activities could be enhanced.

## ***BACKGROUND***

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The Holmes 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 Holmes County. The

governing body of the District is the Holmes County District School Board (Board), which is composed of five elected members. The elected Superintendent of Schools is the Executive Officer of the Board. During the 2017-18 fiscal year, the District operated seven elementary, middle, high, and specialized schools; and reported 3,138 unweighted full-time equivalent students.

## ***FINDINGS AND RECOMMENDATIONS***

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### **Finding 1: Architect Selection**

State law<sup>1</sup> prescribes the competitive selection process to be followed for each occasion when professional services, including architect services, must be purchased for a project in which the basic construction cost is estimated to exceed \$325,000, except in cases of valid public emergencies certified by the agency head. In addition, Board policies<sup>2</sup> specify the procedures to be followed when contracting with a professional for services, including advertising, rating the applications, and negotiating with the firm rated as most qualified. A competitive selection process reduces the appearance and opportunity for favoritism and inspires public confidence that the professional was selected in a fair, equitable, and economical manner.

In addition, State law<sup>3</sup> requires the District to maintain public records in accordance with the Department of State, Division of Library and Information Services, records retention schedules. For example, according to the State's records retention schedules,<sup>4</sup> correspondence and successful bid documentation for contracts related to capital improvement and real property must be maintained for 10 fiscal years after completion or termination of the contract. Failure to maintain records in accordance with State law could result in District officials being subjected to certain penalties.<sup>5</sup>

Our examination of District records disclosed that in June 2013 the Board entered into a contract for architect services with estimated costs of \$2 million for the K-8 Bonifay School Project, which was completed during the 2017-18 fiscal year with total construction costs of \$27.8 million. However, although we requested, District records were not provided to demonstrate the required competitive selection process was followed for the architect services contract. In response to our inquiry, District personnel were uncertain whether the required competitive selection process occurred, and the District did not maintain records to demonstrate compliance with the competitive selection and records retention requirements. Absent documented compliance with the required competitive selection process, there is an increased risk that the District may not select professional services in a fair, equitable, and economical manner or obtain the services at the lowest cost consistent with desired quality. Adherence to the records retention requirements demonstrates compliance with State law and other requirements and ensures records are available when needed.

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<sup>1</sup> Section 287.055(3), (4), and (5), Florida Statutes.

<sup>2</sup> Board Policy 7.71, *Selecting Professional Services*.

<sup>3</sup> Section 119.021(2)(a) and (b), Florida Statutes.

<sup>4</sup> *State of Florida General Records Schedules GS1-SL for State and Local Government Agencies*, Item #s 64 and 65.

<sup>5</sup> Section 119.10, Florida Statutes.

**Recommendation: The District should enhance procedures to ensure documented compliance with the required competitive selection process for professional services and the State's records retention requirements.**

## **Finding 2: Monitoring Construction Payment Requests**

Under the construction management entity (CME) process, contractor profit and overhead are contractually agreed upon, and the CME is responsible for all scheduling and coordination in both the design and construction phases and is generally responsible for the successful, timely, and economical completion of the construction project. The CME may be required to offer a guaranteed maximum price (GMP), 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. To ensure potential savings in material and labor costs and prevent cost overruns or other impediments to successful completion of GMP contracts, it is important that District personnel verify that CME payment requests agree with supporting documentation such as applicable subcontractor contracts.

The Board approved a CME contract in September 2015 with a CME for the Bonifay K-8 School Project and, in October 2015, the Board amended the contract to establish a GMP of \$38 million for the construction phase. For the 2015-16 through 2017-18 fiscal years, the Bonifay K-8 School Project was the only significant District construction project and, during that period, the District paid \$27.8 million to the CME, including \$23.9 million for subcontractor services. To evaluate District monitoring controls over CME payment requests, we inquired of District personnel and requested for examination District records supporting 2 selected payments totaling \$2 million during that period, including \$1.7 million for subcontractor services.

In response to our inquiries, District personnel indicated that, upon receipt of a CME payment request, District personnel compared cost lines on the CME payment request schedule of values to subcontractor invoices and verified the mathematical accuracy of the request and that prior payments were properly accumulated. However, District personnel did not verify that the applicable amounts billed on the CME payment requests agreed with the GMP contract and applicable subcontractor contracts. Additionally, as further discussed in Findings 3, 4, and 5, District personnel did not verify that subcontractors were competitively selected, subcontractor bid and contract amounts agreed, or that general conditions cost invoices agreed with the GMP contract amounts.

We requested, and in July 2019 the District obtained from the CME, the subcontractor contracts supporting the \$1.7 million paid to the CME for subcontractor services. Our review of those contracts disclosed that the selected CME payment requests were consistent with the GMP contract and subcontractor contracts; however, our procedures cannot substitute for the District's responsibility to properly monitor CME payment requests. Absent a documented reconciliation of each line in each payment request schedule of values to supporting documentation, there is an increased risk that the District may overpay for services and not realize maximum cost savings under a GMP contract.

**Recommendation: The District should enhance procedures for monitoring CME payment requests to include a documented comparison of the cost items in the CME payment requests to the GMP contract and applicable subcontractor contracts before payment is made to the CME.**

### Finding 3: Subcontractor Selection

The CME contract for the Bonifay K-8 School Project required the CME to solicit bids and award subcontracts, as necessary. Good business practice dictates that District personnel monitor the subcontractor selection process to ensure services are obtained at the lowest cost consistent with acceptable quality and to realize maximum cost savings under the GMP contract.

District personnel attended the subcontractor bid openings supporting 28 subcontractor contracts and documented attendance by signing the bid tabulation sheets. However, our examination of District records disclosed that 19 of the 28 tabulation sheets were only supported by the bid of the low bidder, and the other 9 were not supported by any bid documentation. Additionally, contracts with the selected subcontractors were not retained on file by the District.

In response to our inquiries, District personnel indicated that they did not obtain and retain all submitted bids, nor did they obtain and retain contracts with the selected subcontractors, as they relied upon the CME to maintain such documentation on their behalf. District procedures did not require, and District personnel did not verify, that the CME selected and contracted with the subcontractors with the lowest bids consistent with acceptable quality, or confirm that the CME selected subcontractors and awarded contracts with amounts that agreed with subcontractor bids. While District personnel documented verifications that applicable cost lines on the CME payment request schedule of values agreed with subcontractor invoices, they relied on the CME for the subcontractor selection process and to verify that the subcontractor invoices agreed with the terms of the subcontractor contract. However, District reliance on the CME subcontractor selection process provides limited assurance absent District efforts to evaluate the effectiveness of that process.

For the 2015-16 through 2017-18 fiscal years, subcontractors provided services with costs totaling \$23.9 million for the Bonifay K-8 School Project. As part of our procedures, we requested for examination documentation supporting \$1.7 million paid to 14 subcontractors. We examined the bid information listed on the bid tabulation sheets and in the subcontractor contracts to determine whether the selected subcontractors and listed bid amounts agreed with the subcontractor contracts. We noted that:

- The subcontractors for 4 subcontractor contracts were the low bidder listed on the corresponding bid tabulation sheets. However, the service costs listed in these subcontractor contracts ranged from \$4,080 to \$32,836 more than the respective bid amounts listed on the bid tabulation sheets. In response to our inquiries, the CME explained that the differences occurred for many reasons. For example, as a result of the phased funding for this Project, 2 of the subcontractors were impacted by material escalation costs caused by delays from the initial bids to the contract awards. For the other 2 subcontractors, additional fencing and millwork not included in the original bids were subsequently deemed necessary, priced post-bid at additional amounts, and incorporated into the subcontractors' contracts.
- The lowest bid for millwork subcontractor services totaled \$194,000; however, the CME did not select the low bidder. The contract amount with the selected subcontractor totaled \$322,215, or \$128,215 more than the lowest bid, and the bid tabulation sheets and trade contractor recommendation and approval documents did not indicate the basis for the selection. Although we requested, other District records were not provided to evidence why the CME selected a subcontractor other than the low bidder. In response to our inquiry, the CME indicated that the low bidder's failure to conform to project specifications and include a required bid bond was the basis for selecting another firm.

- The lowest bid for damp proofing and waterproofing subcontractor services totaled \$64,462; however, the CME did not select the low bidder. The contract with the selected subcontractor totaled \$234,900, or \$170,438 more than the lowest bid, and the bid tabulation sheets and trade contractor recommendation and approval documents did not indicate the basis for the selection. Although we requested, other District records were not provided to evidence why the CME selected a subcontractor other than the low bidder. In response to our inquiry, the CME indicated that the low bidder was not selected because the bidder did not include a required bid bond and did not include significant portions of the required work in the bid.

Based on the documented explanations obtained from the CME, District personnel believed that the CME exercised due diligence on behalf of the District. However, failure to document the basis for such decisions results in a lack of transparency that increases the risk that decisions could be made that are not in the best interests of the District. Additionally, without District procedures requiring and ensuring documented verification that CMEs use a competitive process for selecting subcontractors and a documented confirmation that subcontractor bid and contract amounts agree, the risk increases that subcontractor services may not be obtained at the lowest cost consistent with acceptable quality and the District may not realize maximum cost savings under a GMP contract.

**Recommendation:** The District should establish procedures that require and ensure that District personnel document verification that CMEs select, and contract with, the subcontractor with the lowest bid consistent with acceptable quality and confirmation that selected subcontractor bid amounts agree with subcontractor contract amounts.

#### **Finding 4: Subcontractor Licenses**

State law<sup>6</sup> provides that a CME must consist of, or contract with, licensed or registered professionals for the specific fields or areas of construction to be performed. State law<sup>7</sup> also establishes certain certification requirements for persons engaged in construction contracting, including licensing requirements for specialty contractors such as electrical, air conditioning, plumbing, and roofing contractors.

The District had not established procedures requiring that verifications of subcontractor licenses be performed and documented before the subcontractors commence work on District facilities. In response to our inquiry, District personnel indicated that they relied on the CME license verification process to ensure subcontractors that performed services for the Bonifay K-8 School Project were properly licensed. However, District reliance on the CME subcontractor license verification process provides limited assurance without District confirmation that the CME's process was effective.

As part of our audit procedures, we selected 6 subcontractors paid a total of \$11.5 million for services on the Bonifay K-8 School Project who should have been subject to applicable licensing requirements. We requested and were provided documentation confirming that 5 of the 6 subcontractors were appropriately licensed and determined through an online licensing search that the remaining subcontractor was also properly licensed. However, our procedures do not substitute for the District's responsibility to implement adequate internal controls over subcontractor services. Absent timely documented verifications that

<sup>6</sup> Section 1013.45(1)(c), Florida Statutes.

<sup>7</sup> Chapter 489, Florida Statutes.

subcontractors are appropriately licensed, the District lacks assurance that the subcontractors working on District facilities meet the qualifications to perform the work for which they are engaged.

**Recommendation: The District should enhance procedures to require documented verification that subcontractors are appropriately licensed before they commence work on District facilities.**

#### **Finding 5: General Conditions Costs**

A CME may be required to offer a GMP, 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 or utilized for other purposes. GMP contracts typically include provisions for 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 negotiating, monitoring, and documenting the reasonableness of general conditions costs are essential to ensure that potential cost savings are realized under GMP contracts. For contracts that include general conditions costs, appropriate policies and procedures include, for example:

- Comparisons of proposed general conditions costs with those of similar projects, including similar projects at other school districts.
- Negotiations with the CME to determine a reasonable amount for total budgeted general conditions costs.
- Verifications that the general conditions costs are supported by detailed documentation, such as CME payroll records and CME paid invoices, and comply with the CME GMP contract.

The GMP contract for the Bonifay K-8 School Project included general conditions costs totaling \$1.8 million. According to District personnel, the Director of Finance determined the reasonableness of general conditions costs based on a review of construction contracts entered into by other school districts and used this information in negotiations. Notwithstanding, although we requested, District records were not provided to evidence the methodology used and factors considered during the negotiation process to establish the reasonableness of the Project's general conditions costs. Additionally, our examination of District records associated with the Project's general conditions costs disclosed that the CME billed labor costs to the District on monthly payment requests and, as support, provided a schedule listing CME employee names and hours worked, along with a calculation of direct labor costs based on an hourly rate and multiplier for each employee consistent with the provisions in the GMP contract. However, detailed payroll records, such as signed timesheets and payroll reports specifying employee compensation rates, were not provided.

Absent effective negotiation of general conditions costs and monitoring of detailed documentation, such as CME payroll records, to support the amounts the CME requests from the District, the District may be limited in its ability to determine the propriety of CME payment requests for general conditions costs or to realize cost savings associated with general conditions costs in GMP contracts.

**Recommendation: The District should establish policies and procedures for negotiating, monitoring, and documenting the reasonableness of general conditions costs. Such policies and procedures should require documentation of the methodology used and factors considered in negotiating general conditions costs. In addition, GMP contracts should require CMEs to**

**document the reasonableness of general conditions costs and the District should maintain records that evidence the receipt and review of sufficiently detailed documentation supporting the general conditions costs included in CME payment requests.**

### **Finding 6: Construction Contract – Change Orders**

State law<sup>8</sup> provides that, in order to expedite the work in progress, the Board may authorize the Superintendent or other designated individual to approve change orders in the name of the Board for preestablished amounts, and such approvals shall be reported to the Board and entered in its official minutes. Board policies<sup>9</sup> authorize the Superintendent or the Facilities Supervisor in his or her absence to approve construction change orders that will not increase the contract amount more than \$6,000 over the original or last contract amount approved by the Board, provided that copies of all approved change orders are provided to the Board at its first regular or special meeting following the approval date of the change order.

Our examination of District records and discussions with District personnel related to the Bonifay K-8 School Project disclosed that there were eight change orders<sup>10</sup> that reduced the Project cost by \$10.4 million and two change orders, each exceeding \$6,000, that increased the cost by \$140,654. To determine whether District records evidenced compliance with these change orders, we requested for examination District records supporting each change order. We found that, because District personnel were unaware of the statutory and Board policy requirements, District records did not always demonstrate that change orders were appropriately approved and supported. Specifically:

- A \$1.9 million change order in January 2016 reduced the contract amount for District direct material purchases. However, although we requested, District records were initially not provided to support this change order. District personnel contacted the architect who was able to provide a copy of the change order. Notwithstanding, contrary to State law and Board policies, the change order contained no evidence of approval by the Superintendent or Facilities Supervisor and was not reported to the Board and entered in its official minutes.
- The nine other change orders contained evidence of approval by either the Superintendent or Facilities Supervisor. However, contrary to State law and Board policies, seven of the change orders, which reduced contract costs by a total of \$8.5 million, were not reported to the Board and entered in its official minutes.
- One change order in March 2018 included miscellaneous additions and deletions. For example, one of the change order additions totaled \$16,000 to repair junction box installations and another addition totaled \$15,000 for repairs to damaged ceiling tiles and grids. District records evidenced payment of the \$56,000 to the CME for these and other miscellaneous repairs and, according to District personnel, some were necessary because of apparent errors in the Project plans. Notwithstanding, although we requested, District records were not provided to explain why the repairs were considered change orders or why the District was responsible for making payments for repairs during the Project.

Without appropriate approval of project change orders and documented justification for related costs, the Board's ability to control project costs and realize savings on construction contracts may be limited.

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<sup>8</sup> Section 1013.48, Florida Statutes.

<sup>9</sup> Board Policy 8.512.

<sup>10</sup> The eight changes orders ranged individually from \$32,078 to \$4.3 million.

**Recommendation:** The District should maintain records that evidence compliance with State law and Board policies by ensuring all change orders are appropriately approved, reported to the Board, and entered in the Board's official minutes. In addition, the District should document justification for all change orders and related construction costs. If the District cannot document justification for the \$56,000 paid to the CME for repairs, the District should seek reimbursement from the CME.

#### **Finding 7: Penalty Clause**

State law<sup>11</sup> requires construction contracts to contain the penalty to be paid by the contractor for a failure to comply with the contract terms. The Board-approved construction contract with the CME for the Bonifay K-8 School Project provided for dispute resolution and a termination clause for breach of contract. However, neither the original CME contract nor the subsequent amendments thereto contained any penalties (e.g., penalties for untimely completion of the Bonifay K-8 School Project) to be paid by the contractor for failure to comply with the contract terms.

In response to our inquiry, District personnel indicated that a penalty clause had been inadvertently excluded from the Bonifay K-8 School Project construction contract with the CME and the Project was timely completed during the 2017-18 fiscal year. Notwithstanding, without a penalty clause in a construction contract, the Board has limited recourse in the event a contractor fails to comply with the contract terms and the District cannot demonstrate compliance with State law.

**Recommendation:** The Board should ensure that future construction contracts contain penalties to be paid by contractors for a failure to comply with the contract terms.

#### **Finding 8: Payroll Processing Procedures**

Effective internal controls require supervisory approval of time worked and leave used by employees to ensure that compensation payments are appropriate and leave balances are accurate. The District pays noninstructional employees (e.g., administrative, clerical, and other support employees) on a payroll-by-exception basis whereby the employees are paid a fixed authorized gross amount for each payroll cycle unless the amount is altered. A payroll-by-exception methodology assumes, absent any payroll action to the contrary, that an employee worked or used available accumulated leave for the required number of hours in the pay period.

During the 2017-18 fiscal year, the District reported salary costs of approximately \$6 million for noninstructional employees. According to District personnel, to document leave taken, noninstructional employees prepare leave request forms and submit the forms to their supervisor for approval. Also, both school and Districtwide noninstructional employees record their attendance by signing in daily, either manually or electronically. However, supervisory personnel do not review and approve the sign-in records or consider the records for payroll processing purposes.

In response to our inquiry, District personnel indicated that supervisory personnel printed and signed time reports using the previous system; however, in October 2017, the District implemented a new system and a similar report is not available. Without evidence of independent, documented supervisory review

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<sup>11</sup> Section 1013.47, Florida Statutes.

and approval of time worked, there is limited assurance that services were provided consistent with Board expectations. In addition, without accurate records of independent, documented supervisory review, there is an increased risk that employees may be incorrectly compensated, employee leave balances may not be accurate, and District records may not be sufficiently detailed in the event of a salary or leave dispute.

**Recommendation:** The District should establish a mechanism for noninstructional employees to report time worked and also implement procedures requiring supervisors to document the review and approval of such time.

## **Finding 9: Background Screenings**

State law<sup>12</sup> requires that each person hired or contracted to serve in an instructional or noninstructional capacity who is permitted access on school grounds when students are present or who has direct contact with students must undergo a level 2 background screening<sup>13</sup> at least once every 5 years. State law<sup>14</sup> also provides that noninstructional contractors may be exempt from the background screening requirements if the contractors are under the direct supervision of a school district employee or contractor who has had a criminal history check and meets the statutory screening requirements. Additionally, State law<sup>15</sup> requires the District to verify the results of a noninstructional contractor's background screening using the shared system implemented by the Florida Department of Law Enforcement (FDLE).

To promote compliance with the statutory background screening requirements, the District's Human Resources (HR) Department is responsible for ensuring that contractor workers who have access to school grounds undergo required background screenings every 5 years. For previously screened contractor workers, the District relies on contractors and District personnel in the schools and departments where the contractors work to ensure required background screenings are obtained. For new contractor workers, District personnel rely on personnel in the departments that will receive the contracted services to send the workers to the HR Department for background screenings before services are performed. However, the District did not maintain a comprehensive list of contractor workers to ensure that contractor worker background screenings were timely obtained.

For the 2017-18 fiscal year, we identified 32 contractor workers who had direct contact with students and were not exempt from the background screening requirements. The 32 contractor workers provided various services pursuant to seven contracts including therapy and transportation services. To determine whether required background screenings had been timely obtained, we examined District records supporting background screenings for the 32 contractor workers and found that District procedures had not been established to obtain or confirm the background screenings of all contractor workers. Specifically, we found that District records did not evidence that background screenings were performed for 20 contractor workers who provided student transportation services for District students in rural areas to attend classes at the Florida Panhandle Technical College.

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<sup>12</sup> Sections 1012.32(2), 1012.465, 1012.467, and 1012.56(10), Florida Statutes.

<sup>13</sup> A level 2 background screening includes fingerprinting for Statewide criminal history records checks through the FDLE and national criminal history records checks through the Federal Bureau of Investigation (FBI).

<sup>14</sup> Section 1012.468, Florida Statutes.

<sup>15</sup> Sections 1012.467(2)(f) and 1012.467(7)(a), Florida Statutes.

Subsequent to our audit inquiry, in May 2018 the District obtained from the contractor verification that the 20 contractor workers had obtained background screenings in the last 5 years and no unsuitable backgrounds were noted. Absent effective controls to ensure that required background screenings are timely obtained, there is an increased risk that contractor workers with unsuitable backgrounds may have direct contact with students.

**Recommendation:** The District should take immediate action to identify contractor workers who have not obtained the required background screenings, ensure that the screenings are promptly obtained and evaluated, and make decisions, as necessary, based on evaluations of the screenings. We also recommend that the District develop procedures to appropriately monitor when all District contractor workers' background screenings are due and ensure that the workers obtain the required background screenings at least once every 5 years.

### Finding 10: School Volunteers

State law<sup>16</sup> requires that, before making any decision to appoint a person to work as a volunteer where children regularly congregate, a search of that person's name or other identifying information be conducted against the registration information regarding sexual predators and sexual offenders through the Dru Sjodin National Sexual Offender Public Website (NSOPW) maintained by the United States Department of Justice. If that site is not available, a search of the registration information regarding sexual predators and sexual offenders maintained by the FDLE (i.e., Florida Sexual Offenders and Predators Registry) is required. State law provides that the search does not apply to District positions or appointments for which a level 2 background screening is conducted.

Board policies<sup>17</sup> require school volunteers to meet the level 2 background screening requirements. According to District personnel, District procedures require school volunteers to sign in at applicable schools and a school-designated employee is responsible for sending volunteers to the District HR Department to be fingerprinted before they begin volunteer work. Once the fingerprint results are evaluated, a HR Department employee notifies the school about the results. However, District procedures did not require school principals or other supervisory personnel to document confirmation that school volunteers are screened as required.

To determine whether District schools documented appropriate background screenings for the 28 school volunteers who signed in at applicable schools during the 2017-18 fiscal year, we requested for examination District records supporting 18 selected volunteers. However, District records were not provided to evidence that 2 school volunteers had obtained background screenings or, alternatively, that a search of their names had been conducted. Additionally, contrary to Board policies, 2 other school volunteers were not fingerprinted until 326 and 412 days after the date they first signed in and provided volunteer services. In response to our inquiries, District personnel indicated that they were unsure why these 4 individuals were not timely screened as required.

As part of our audit, we extended our procedures and determined that the 2 school volunteers without background screenings were not listed as sexual predators or sexual offenders on the NSOPW. However, our procedures cannot substitute for the District's responsibility to ensure that volunteers'

<sup>16</sup> Section 943.04351, Florida Statutes.

<sup>17</sup> Board Policy 3.80, *School Volunteers*.

backgrounds have been appropriately screened before they work where children regularly congregate. Absent effective controls to monitor volunteers, the District has limited assurance that only volunteers with suitable backgrounds have direct contact with students and the District cannot demonstrate compliance with State law.

**Recommendation: The District should take immediate action to ensure that all school volunteers have obtained a level 2 background screening as required by Board policies. The District should evaluate and make appropriate decisions based on the screening results. In addition, the District should establish procedures that require and ensure that school principals or other supervisory personnel document confirmation that, before individuals provide school volunteer services, the individuals are fingerprinted and obtain a background screening.**

#### **Finding 11: Insurance – Competitive Selection**

Pursuant to State law,<sup>18</sup> before entering into any contract for life, health, accident, hospitalization, legal expense, or annuity insurance, or all or any kinds of such insurance, for District officers and employees, the District must advertise for competitive bids, and such contract must be let upon the basis of such bids. The District is authorized to undertake simultaneous negotiations with qualified bidders during the selection process. For health insurance premiums during the 2017-18 fiscal year, the District paid \$2.2 million and employees paid \$610,452.

Although we requested, District records were not provided to identify the last time requests for proposals were solicited for health insurance. District personnel indicated, however, that a request for proposal had not been solicited within the past 5 years and that the District directly negotiated with the 2017-18 fiscal year provider through their agent of record. Although District insurance needs and related costs have varied over the years, District personnel indicated that the health insurance provider remained the best option due to the lack of availability of local network options from other providers.

Notwithstanding the District's response, by periodically seeking competitive bids for insurance and negotiating with qualified bidders, the District could demonstrate compliance with State law and also gain additional assurance that insurance coverage was obtained at the lowest cost consistent with acceptable quality.

**Recommendation: As required by State law, the District should use competitive bidding procedures before entering into contracts for health insurance.**

#### **Finding 12: Facilities Management**

State law<sup>19</sup> requires that each district school board have an audit conducted of the District's educational planning and construction activities not less than once every 5 years. Given the significant commitment of public funds to maintain educational facilities, it is important that the District establish policies and procedures for evaluating the effectiveness and efficiency of facility operations at least annually using performance data and established benchmarks, and establish documented processes for evaluating facilities maintenance techniques to determine the most cost-effective and efficient technique. In

<sup>18</sup> Section 112.08(2)(a), Florida Statutes.

<sup>19</sup> Section 1013.35(2)(f), Florida Statutes.

addition, performance evaluations for Facilities and Maintenance Department employees should be performed annually and could include consideration of established goals and objectives for facilities management and clearly defined measurable outcomes or benchmarks to determine the extent to which such goals and objectives were achieved.

The District Facilities and Maintenance Department is responsible for managing construction and renovation projects and ensuring District facilities are safe and suitable for their intended use. Department personnel also perform heating, ventilating, and air conditioning (HVAC); electrical; plumbing; and other maintenance-related jobs.

During the 2017-18 fiscal year, the Department employed 6 full-time employees and the Department's operating cost was \$903,400. Also, during that fiscal year, the District had expenditures totaling \$1.7 million for capital projects fund construction and renovation projects and, as shown on the District 5-Year Facilities Work Plan approved by the Board on November 21, 2017, the District planned to spend \$1 million on maintenance over the next 5 fiscal years. At June 30, 2018, the historical cost of the District educational and ancillary facilities, including land purchases, was \$97.6 million and, as shown on the Florida Department of Education's (FDOE) Florida Inventory of School Houses data, the average age of the District permanent facilities was 24 years and the facilities included a total of 909,679 square feet.

While our examination of District records indicated that District facilities management procedures were generally adequate, we determined certain enhancements could be made. Specifically:

- Although the Department had established short-term and long-term goals, the goals did not address Department accountability. For example, the goals for the Department included such objectives as providing a safe and comfortable environment for students and staff, maximizing equipment usage and extending equipment useful life, and improving efficiency of budgeted funding allocations. However, these goals did not sufficiently identify measurable cost-effectiveness or efficiency outcomes.
- The District did not perform annual performance evaluations of Department employees. Annual performance evaluations that consider established outcome measures for goals by position would provide enhanced accountability for Department employees based on their respective assignments. Progress in achieving specified goals set for staff could be measured by developing accountability systems to monitor work orders for return assignments, or corrective action because a job did not initially meet building code requirements, and to compare job costs to industry standards for similar work. Also, with clearly defined benchmark time frames for routine employee jobs progress toward meeting specified goals could be measured by comparing job completion times to industry standards for similar work.

According to District personnel, due to the limited number of maintenance personnel, formal evaluations of outsourcing and measuring Department performance is not documented. Notwithstanding this response, given the significant resources expended for facilities maintenance, establishing goals and objectives that focus on Department accountability with clearly defined measurable outcomes and benchmarks and considering during annual performance evaluations of Department employees the extent to which those goals and objectives were achieved could assist the District in determining whether the Facilities and Maintenance Department is operating effectively and efficiently.

**Recommendation: The District should develop additional goals and objectives for the Facilities and Maintenance Department that identify measurable cost-effectiveness or efficiency outcomes.**

**Additionally, the District should ensure annual performance evaluations are conducted for Department employees.**

## ***PRIOR AUDIT FOLLOW-UP***

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The District had taken corrective actions for applicable findings included in our report No. 2016-141.

## ***OBJECTIVES, SCOPE, AND METHODOLOGY***

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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 May 2018 to July 2019 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:

- Evaluate management's performance in establishing and maintaining internal controls, including controls designed to prevent and detect fraud, waste, and abuse, and in administering assigned responsibilities 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 safeguarding of assets, and identify weaknesses in those controls.
- Determine whether management had taken corrective actions for applicable findings included in our report No. 2016-141.
- Identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

This audit was designed to identify, for those programs, activities, or functions included within the scope of the audit, weaknesses in management's internal controls, 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; 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 2017-18 fiscal year audit period, 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 District information technology (IT) policies and procedures to determine whether the policies and procedures addressed certain important IT control functions, such as security, systems development and maintenance, system backups, and disaster recovery.
- Evaluated District procedures for maintaining and reviewing employee access to IT data and resources. We examined selected access privileges to the District's enterprise resource planning system finance and human resources (HR) applications to determine the appropriateness and necessity of the access based on employees' job duties and user account functions and whether the access prevented the performance of incompatible duties. We also examined the administrator account access privileges granted and procedures for oversight of administrative accounts for the network and applications to determine whether these accounts had been appropriately assigned and managed. Specifically, we examined:
  - 22 critical finance functions to determine the appropriateness and necessity of the access privileges based on the employee's job duties.
  - 21 critical HR functions to determine the appropriateness and necessity of the access privileges based on the employee's job duties.
- Evaluated District procedures for protecting sensitive personal information of students, including social security numbers. Specifically, for the 11 employees who had electronic access to sensitive personal student information, we examined the access privileges to evaluate the appropriateness and necessity of the access privileges to student information based on the employees' assigned job responsibilities.
- Examined Board meeting minutes to determine whether Board approval was obtained for policies and procedures in effect during the audit period and for evidence of compliance with Sunshine Law requirements (i.e., proper notice of meetings, meetings readily accessible to the public, and properly maintained meeting minutes).
- Examined the District Web site to determine whether the 2017-18 fiscal year tentative and official budgets were prominently posted pursuant to Section 1011.035(2), Florida Statutes.
- Examined District records to determine whether required internal funds audits for the 2016-17 and 2015-16 fiscal years were timely performed pursuant to State Board of Education Rule 6A 1.087,

Florida Administrative Code, and Chapter 8 – School Internal Funds, *Financial and Program Cost Accounting and Reporting for Florida Schools* (Red Book), and whether the audit reports were presented to the Board.

- Analyzed the District's General Fund total unassigned and assigned fund balances at June 30, 2018, to determine whether the total was less than 3 percent of the fund's revenues, as specified in Section 1011.051, Florida Statutes.
- From the population of expenditures totaling \$2.1 million and transfers totaling \$2 million during the audit period from nonvoted capital outlay tax levy proceeds, Public Education Capital Outlay funds, and other restricted capital project funds, examined documentation supporting selected expenditures and transfers totaling \$1.7 million and \$1.9 million, respectively, to determine compliance with the restrictions imposed on the use of these resources.
- For the one significant construction project (Bonifay K-8 School Project) in progress during the audit period with a guaranteed maximum price of \$38 million and expenditures totaling \$2,676,044 during the 2017-18 fiscal year, we:
  - Examined District records to determine whether the construction manager was properly selected.
  - Evaluated District procedures and examined District records to determine whether the District appropriately monitored subcontractor selection and licensure.
  - Examined District records to determine whether architect services were competitively selected and the selected architects were adequately insured.
  - Determined whether the Board established appropriate policies and evaluated District procedures addressing negotiation and monitoring of general conditions costs.
  - Examined District records supporting two selected payments totaling \$2 million to determine whether District procedures for processing payments were adequate, and payments were sufficiently supported.
  - Examined District records to determine whether the District made use of its sales tax exemption to make direct purchases of materials, or documented justification for not doing so.
- Examined copies of the most recent annual fire safety, casualty safety, and sanitation inspection reports for all 12 school and ancillary facilities to determine whether deficiencies were timely corrected.
- From the population of 639 employees compensated a total of \$17.7 million during the audit period, examined District records supporting compensation payments totaling \$39,551 to 30 selected employees to determine the accuracy of the rate and whether supervisory personnel reviewed and approved employee reports of time worked.
- Evaluated District controls and procedures over District office employee leave records to determine District compliance with State law and Board policies.
- Examined District records for the audit period to determine whether the Board adopted a salary schedule with differentiated pay for both instructional personnel and school administrators based on District-determined factors, including, but not limited to, additional responsibilities, school demographics, critical shortage areas, and level of job performance difficulties in compliance with Section 1012.22(1)(c)4.b., Florida Statutes.
- Determined whether a portion of the compensation for instructional personnel and school administrators was based on performance in accordance with Section 1012.22(1)(c)4., Florida Statutes.

- Examined District records for the period July 2017 through March 2018 for 55 employees and all contractor workers selected from the population of 611 employees and 32 contractor workers to assess whether individuals who had direct contact with students were subjected to the required fingerprinting and background screenings.
- Examined Board policies, District procedures, and related records for the audit period for school volunteers to determine whether the District obtained level 2 background screenings for the volunteers in accordance with Board policies or searched prospective volunteers' names against the Dru Sjodin National Sexual Offender Public Web site maintained by the United States Department of Justice, pursuant to Section 943.04351, Florida Statutes.
- Examined District records supporting the eligibility of 26 selected District recipients of the Florida Best and Brightest Teacher Scholarship Program awards from the population of 213 District teachers who received scholarship awards totaling \$285,200 during the audit period.
- Evaluated District procedures to implement the Florida Best and Brightest Principal Scholarship Program pursuant to Section 1012.732, Florida Statutes. We also examined District records to determine whether the District submitted to the Florida Department of Education (FDOE) accurate information about the number of classroom teachers and the list of principals, as required by Section 1012.731(4), Florida Statutes, and whether the District timely awarded the correct amount to the one eligible principal.
- Evaluated District procedures for bidding and purchasing health insurance and examined related records to determine compliance with Section 112.08, Florida Statutes.
- From the population of non-compensation expenditures totaling \$10.7 million for the audit period, examined documentation supporting 30 selected payments for general expenditures totaling \$116,442 to determine whether the expenditures were reasonable, correctly recorded, adequately documented, for a valid District purpose, properly authorized and approved, and in compliance with applicable State laws, rules, contract terms and Board policies; and applicable vendors were properly selected.
- Evaluated District procedures for allocating Title I funds to ensure compliance with Section 1011.69(5), Florida Statutes. We also examined District records to determine whether the District identified eligible schools, limited Title I allocations to eligible schools based on the threshold established by the District for the 2016-17 school year or the Statewide percentage of economically disadvantaged student, and distributed all remaining funds to all eligible schools in accordance with Federal law and regulations.
- From the population of 68 contracts totaling \$1.1 million during the period October 2017 through June 2018, examined supporting documentation, including the contract documents, for nine selected payments totaling \$228,286 related to nine contracts to determine whether:
  - The District complied with competitive selection requirements.
  - The contracts clearly specified deliverables, time frames, documentation requirements, and compensation.
  - District records documented satisfactory receipt of deliverables before payments were made.
  - The payments complied with contract provisions.
- Examined District records and evaluated construction planning processes for the audit period to determine whether processes were comprehensive, included consideration of restricted resources and other alternatives to ensure the most economical and effective approach, and met District short-term and long-term needs.
- Examined District records to determine whether the District had established and implemented various school safety requirements in accordance with Section 1006.07, Florida Statutes; adopted and implemented school safety policies and procedures; completed an annual

self-assessment of safety and security practices; and the Superintendent designated a school safety specialist for the District pursuant to Section 1006.07(6), Florida Statutes.

- Evaluated District procedures for identifying facility maintenance needs and establishing resources to address those needs, including accountability for meeting short-term and long-term goals and annual performance evaluations of maintenance operations.
- Evaluated District procedures for determining maintenance department staffing needs.
- Examined District records for the audit period to determine whether the District properly informed parents and students about students' rights to participate in a virtual instruction program (VIP) and the VIP enrollment periods as required by Section 1002.45(1)(b) and (10), Florida Statutes.
- 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***

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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 fluid and cursive, with the first name being the most prominent.

Sherrill F. Norman, CPA  
Auditor General

## MANAGEMENT'S RESPONSE

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### Holmes County School Board

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Shirley Owens, Chair  
Alan Justice, Vice-Chair  
Wilburn Baker  
Kaci Johnson  
Leesa Lee

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October 9, 2019

Sherrill F. Norman, CPA  
Auditor General, State of Florida  
Claude Denson Pepper Building, Suite G74  
111 West Madison Street  
Tallahassee, FL 32399-1450

Dear Ms. Norman:

The preliminary and tentative findings and recommendations for the fiscal year ended June 30, 2018 operational audit have been reviewed. Our response to the findings and recommendations are as follows:

**Finding 1:** District records did not evidence that the District followed the required competitive selection process to obtain architect services for the Bonifay K-8 School Project.

**Planned Corrective Action:** While the District believes that the proper selection process was utilized, high turnover made it difficult to locate the necessary documentation. To ensure this does not happen in the future, the District is working to centralize storage of all contracts and bid documentation.

**Finding 2:** District personnel did not compare construction management entity (CME) payment requests, totaling \$27.8 million, to the CME guaranteed maximum price contract and applicable subcontractor contracts for the Bonifay K-8 School Project.

**Planned Corrective Action:** In the future, the District will ensure that subcontractor agreements for CME payment requests are more closely monitored at the District level.

**Finding 3:** District construction administration monitoring procedures for the Bonifay K-8 School Project did not include documented comparisons of the subcontractor bids and contracts to verify that the CME used a competitive selection process to select subcontractors and that the selected bid and contract amounts agreed.

**Planned Corrective Action:** The District will more closely monitor the CME subcontractor bid process in the future.

**Finding 4:** The District did not verify the licenses of subcontractors before they commenced work on the Bonifay K-8 School Project.

**Planned Corrective Action:** The District recognizes that it relied too heavily on the outside construction manager and architect. In the future, the District will ensure that subcontractor licenses are more closely monitored at the District level.

**Finding 5:** The District needs to enhance controls over negotiating, monitoring, and documenting the reasonableness of CME general conditions costs.

**Planned Corrective Action:** Due to the complete turnover of District personnel included in the CME contract negotiation, it was difficult to determine the steps taken to determine reasonableness. In the future, the District will attempt to not only ensure that these steps are taken, but also that the documents are stored where they are available for future use.

**Finding 6:** District records did not always evidence that Bonifay K-8 School Project change orders were appropriately approved, reported to the Board, and entered in the Board's official minutes. In addition, District records did not document justification for \$56,000 paid to the CME for Project repairs.

**Planned Corrective Action:** The District will ensure that change orders are approved by separate action, rather than as part of the consent agenda. This will provide more detailed records of change order approval in the future. In addition, the District will ensure that justifications for project repairs are properly documented.

**Finding 7:** The CME contract for the Bonifay K-8 School Project did not contain a penalty to be paid by the contractor for a failure to comply with contract terms.

**Planned Corrective Action:** The District will work to ensure that penalty terms are included in all future CME contracts.

**Finding 8:** The District should enhance procedures to ensure that supervisory personnel timely review and approve employee time worked and leave requests.

**Planned Corrective Action:** Due to a software conversion, the District had not established appropriate time verification reports for school personnel. This issue has since been resolved. The District is also working with supervisory personnel to reiterate the importance of ensuring this information is accurately checked and reported.

**Finding 9:** Required background screenings were not always performed for contractor workers.

**Planned Corrective Action:** The District has enhanced its procedures to ensure that all contract workers have the appropriate background screenings prior to interacting with students.

**Finding 10:** Contrary to State law, the District did not always verify that individuals had appropriate backgrounds before they began school volunteer work.

**Planned Corrective Action:** The District has enhanced its procedures to ensure that all volunteers have the proper background checks prior to participating in school activities. Additional guidance has been provided to the faculty and staff at the local schools on these proper procedures. Each school is required to check with the District Secretary who oversees fingerprinting prior to allowing a substitute or volunteer to have contact with students. They are also each required to keep a log documenting the date they verified that information.

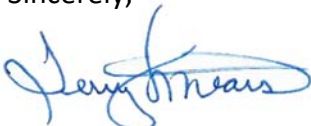
**Finding 11:** The District did not utilize a competitive selection process when contracting for insurance.

**Planned Corrective Action:** The District implemented a competitive bid process for insurance selection for the 2019-2020 fiscal year.

**Finding 12:** Controls over District facilities maintenance activities could be enhanced.

**Planned Corrective Action:** The District will work towards developing additional goals and objectives for the Facilities Maintenance Department that identify measurable cost-effectiveness or efficiency outcomes as practicable given the staffing and cost constraints of our small district. Additionally, the District will implement an annual evaluation process for all maintenance employees.

Sincerely,



Terry L. Mears  
Superintendent of Schools