



AUDITOR GENERAL

WILLIAM O. MONROE, CPA



PALM BEACH COUNTY DISTRICT SCHOOL BOARD

Operational Audit

SUMMARY

This operational audit for the period July 1, 2003, through June 30, 2004, disclosed the following:

Finding No. 1: Board Minutes

Minutes from two regular Board meetings were missing.

Finding No. 2: Capital Assets Reconciliations

Capital outlay expenditures were not reconciled to capital asset records.

Finding No. 3: Annual Facility Inspections

Deficiencies noted on annual facility inspections were not always corrected in a timely manner.

Finding No. 4: Educational Facilities – Safety Procedures

Documentation was not maintained to evidence the delivery of school floor plans to local law enforcement and fire departments.

Finding No. 5: Performance Pay Plan

The Instructional Personnel Performance Pay Plan contained provisions that significantly limited participation.

Finding No. 6: Bank Reconciliations

Bank reconciliations were not always performed and documented in an adequate manner.

BACKGROUND

The District is part of the State system of public education under the general direction of the Florida Department of Education. Geographic boundaries of the District correspond with those of Palm Beach

County. The governing body of the Palm Beach County District School Board is composed of seven elected members. The appointed Superintendent of Schools is the executive officer of the School Board. The Board members and the Superintendent who served during the audit period are listed in Exhibit 1.

During the audit period, the District operated 160 elementary, middle, and high schools; adult/vocational schools; and educational centers and reported 168,010.57 unweighted full-time equivalent students. In addition to its primary responsibility of providing educational services to students in grades kindergarten through 12, the District provided post-secondary vocational training.

The results of our audit of the District's financial statements and Federal awards are presented in report No. 2005-153.

FINDINGS AND RECOMMENDATIONS

Finding No. 1: Board Minutes

Minutes from 2 of the 12 regular Board meetings held during the 2003-04 fiscal year were not available for review. The missing minutes were from the December 10, 2003, and January 21, 2004, regular Board meetings.

Section 1001.42(1), Florida Statutes, provides that minutes and records be kept as necessary to set forth clearly all actions and proceedings of the School Board. The minutes shall be kept as a public record in a permanent location.

In response to our inquiry, the District indicated that the minutes for these meetings were typed and approved by the Board, but at times when District staff and members of the public review minutes from the files they later become missing. The District has purchased a software program that will allow Board Meeting Agendas and Minutes to be available on-line for research. The new software will help to ensure that minutes will not be misplaced in the future.

Recommendation: The District should continue its efforts to ensure that Board minutes are kept as a permanent record and available for public review.

Finding No. 2: Capital Assets Reconciliations

District personnel did not perform periodic reconciliations of the applicable expenditure data recorded in its accounting system to the data maintained in the District's capital assets records. Periodic reconciliations performed in a timely manner would provide District management with assurances related to the accuracy and completeness of financial information.

During our audit, we noted \$29,080,759 in expenditures related to a construction project that were not capitalized until subsequent to our audit inquiry. In response to our inquiry, the District indicated that a manual review of capital outlay expenditures is made at fiscal year-end to determine capital versus non-capital expenditures and, because it is a manual process, the possibility of human error exists. The implementation of the newly acquired software for the ERP system will eliminate the manual process. In the interim, a reconciliation between the capitalized and non-capitalized capital outlay expenditures will be incorporated into the current manual process.

Recommendation: The District should develop and implement procedures requiring periodic reconciliations to ensure that capital assets are accurately recorded.

Finding No. 3: Annual Facility Inspections

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

The District provided for the required inspections of its facilities by qualified inspectors during the 2003-04 fiscal year. For each facility, the inspector completed a comprehensive safety inspection report that indicated the types of deficiencies, locations, and number of times previously cited. We reviewed safety inspection reports at five schools and noted that 83 percent of the deficiencies (414 out of 494) were previously cited, ranging from 1 to 12 years. Examples include providing exhaust fans in bathrooms (12 times), turning barbs down on all fencing (7 times), securing loose handrails (4 times), and providing engineered foundation and anchoring systems for portable (3 times).

Failure to provide for the timely correction of facility deficiencies results in an increased risk that facilities could become unsafe for occupancy, and could result in additional costs in the future due to further deterioration.

In response to our inquiry, District personnel noted that there were several reasons for a deficiency to be repeated, including (1) backlog of citations from prior years, (2) projects requiring multi-year resolutions, and (3) the District's school modernization schedule.

Recommendation: The District should continue its efforts to provide for the timely correction of facility deficiencies noted in the annual comprehensive safety inspection reports.

Finding No. 4: Educational Facilities – Safety Procedures

Section 1013.13, Florida Statutes, provides that each district school superintendent provide to the local law enforcement agency and fire department that has jurisdiction over each educational facility a copy of the floor plans and other relevant documents for each educational facility in the district by October 1 of each year for each educational facility in the district that was modified during the preceding year.

The District's School Police are responsible for delivering the floor plans to the applicable law enforcement and fire departments. During the 2003-04 fiscal year, ten schools opened or were modernized. The District did not maintain documentation to evidence that floor plans were delivered to the appropriate law enforcement and fire departments.

Recommendation: The District should document the delivery of the floor plans to local law enforcement and fire departments.

Finding No. 5: Performance Pay Plan

The District finalized its 2003-04 Performance Pay Plan (Plan) for instructional personnel on February 16, 2004. Of the 582 instructional personnel who applied for performance pay, 331 applicants received a total of \$822,895 in performance payments.¹

¹ Section 1012.22, Florida Statutes, requires that a district school board, in determining the salary schedule for school administrators and instructional personnel, must base a portion of each employee's compensation on performance demonstrated under 1012.34, Florida Statutes. The Statute further stated that the adopted salary schedule must allow school administrators and instructional personnel who demonstrate outstanding performance under criteria set forth in Section 1012.34,

While the District did provide for the payment of performance-based pay, we noted Plan provisions that appeared to significantly limit participation as described below:

- The Plan requires that interested employees submit an "Intent Form," as well as various other documents specified in the Plan. Employees who did not provide all documents by stated deadlines were ineligible for the Performance Pay Supplement. We noted that 52 percent of instructional employees determined ineligible for performance pay were disqualified because they failed to provide a copy of their annual evaluation form or a copy of their successfully completed and signed Individual Professional Development Plan on or before the stated deadline of December 1, 2004. However, the employee evaluation forms were available to the District in its personnel files and the Individual Professional Development Plans were completed by the school principals. These records were readily available to the District.
- The Plan limits participation to those employees with national certificates² or, if no certificate is available in the applicant's certification area, the employee must prepare and submit a portfolio with his/her Intent Form. The portfolio requirements include supplying documentation to evidence the instructor's (1) management of student conduct, (2) human development and learning, (3) presentation of subject matter, (4) communication, (5) knowledge of subject matter, (6) learning environment, (7) planning, (8) assessment, (9) technology, (10) record keeping, (11) continuous improvement, (12) working relationships with co-workers, (13) working relationships with parents, and (14) policies, procedures, and ethics.

Florida Statutes, to earn a five percent supplement in addition to the negotiated salary, and that supplements shall be funded from performance-pay reserve adopted in the salary schedule.

² Allowable certificates include National Board of Professional Teaching Standards (NBPTS), National Certified School Psychologist (NCSPI), Standards for Certificate of Clinical Competence (SCCC), and National Certified Counselor (NCC).

Recommendation: The District should amend its pay-for-performance plan so that all employees are eligible for performance pay consideration, not just the employees who apply. Also, participation should be open to all instructional personnel, regardless of whether they have a national certificate.

Finding No. 6: Bank Reconciliations

Improvements were needed in the District's preparation of bank reconciliations. Our review of the District's bank reconciliations for four accounts for four months disclosed the following deficiencies:

- Four of the 16 bank reconciliations were not prepared timely, but were prepared 80 to 97 days after the end of the month.
- Eleven of the bank reconciliations were not signed by the preparer, and none of the bank reconciliations reviewed were dated by the preparer.
- Four of the bank reconciliations were not signed by the reviewer, and six were not dated by the reviewer.
- Reconciling items were not always timely investigated and corrected. Some reconciling items dated back to as early as March 2002.

District staff indicated that all reconciliations are signed and dated by the preparer and supervisor or reviewer, but may have been lost, not returned, or misplaced by others.

Effective internal control procedures require that bank reconciliations be performed on a routine basis and be reviewed by supervisory personnel to provide reasonable assurance that cash assets agree with recorded amounts, and that unrecorded or improperly recorded transactions are promptly detected and corrected.

Recommendation: The District should enhance its procedures related to bank reconciliations to ensure that reconciliations are performed timely, the preparer and reviewer sign and date the reconciliations, and all reconciling items are timely investigated and corrected. Additionally, the District should ensure that signed and dated reconciliations are retained for audit.

OBJECTIVES, SCOPE, AND METHODOLOGY

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

Specifically, our audit scope included management controls related to school advisory councils; board minutes; charter school monitoring; cash and investments; school recognition funds; safety and sanitation inspections; public education capital outlay allocations; ad valorem taxation; construction procurement; and payroll and personnel.

In conducting our audit, we interviewed appropriate District personnel, observed District processes and procedures, and performed various other audit procedures to test selected management controls.

PRIOR AUDIT FINDINGS

Our previous audits have addressed the administration of selected management controls. As part of our current audit, we determined that the District had substantially corrected the deficiencies noted in report No. 02-189.

AUTHORITY	AUDITEE RESPONSE
Pursuant to the provisions of Section 11.45, Florida Statutes, I have directed that this report be prepared to present the results of our operational audit.  William O. Monroe, CPA Auditor General	In accordance with the provisions of Section 11.45(4)(d), Florida Statutes, a list of audit findings and recommendations was submitted to members of the Palm Beach County District School Board and the Superintendent. The Superintendent's written response to the audit findings and recommendations is included in this report on pages 8 through 11.

This operational audit was made in accordance with applicable **Governmental Auditing Standards** issued by the Comptroller General of the United States. This audit was conducted by Clare Waters, CPA, and supervised by Ida Marie Westbrook, CPA. Please address inquiries regarding this report to David W. Martin, CPA, Audit Manager, via e-mail at davidmartin@aud.state.fl.us or by telephone at (850) 487-9039.

This audit report, as well as other reports prepared by the Auditor General, can be obtained on our Web site at www.state.fl.us/audgen; by telephone at (850) 487-9024; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

EXHIBIT – 1
PALM BEACH COUNTY DISTRICT SCHOOL BOARD
FOR THE PERIOD JULY 1, 2003, THROUGH JUNE 30, 2004

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

	<i>District</i>
	<u>No.</u>
<i>Dr. Monroe Benaim</i>	<i>1</i>
<i>Paulette Burdick</i>	<i>2</i>
<i>William G. Graham, Vice-Chair</i>	<i>3</i>
<i>Thomas E. Lynch, Chair</i>	<i>4</i>
<i>Mark Hansen</i>	<i>5</i>
<i>Dr. Sandra Samal Richmond</i>	<i>6</i>
<i>Dr. Debra L. Robinson</i>	<i>7</i>
<i>Dr. Arthur Johnson, Superintendent</i>	

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STATEMENT FROM AUDITED OFFICIAL

THE SCHOOL DISTRICT OF
PALM BEACH COUNTY, FLORIDA

SUPERINTENDENT'S OFFICE
3340 FOREST HILL BOULEVARD, C-316
WEST PALM BEACH, FL 33406-5869

(561) 434-8200 FAX: (561) 434-8571

ARTHUR C. JOHNSON, Ph.D.
SUPERINTENDENT

THOMAS E. LYNCH
CHAIRMAN

WILLIAM G. GRAHAM
VICE CHAIRMAN

MONROE BENAIME, M.D.
PAULETTE BURDICK
MARK HANSEN
DR. SANDRA S. RICHMOND
DEBRA L. ROBINSON, M.D.

June 21, 2005

William O. Monroe, CPA
Auditor General
111 West Madison Street
Tallahassee, Florida 32302

Dear Mr. Monroe:

We are responding to the preliminary and tentative audit findings and recommendations related to the operational audit of the Palm Beach County School District for the fiscal year ended June 30, 2004.

In the attached document we have provided more detailed explanations to the tentative findings and the actions taken to address them.

We appreciate your guidance on these issues. Please contact Martin V. Arroyo, Director of Accounting at 561-434-8096 if you have questions about this response.

Sincerely,

Arthur C. Johnson, Ph. D.
Superintendent

Attachments

PALM BEACH COUNTY SCHOOLS #3 IN THE NATION! - 2004!
Visit www.palmbeachschools.org for details
AN EQUAL OPPORTUNITY EMPLOYER

STATEMENT FROM AUDITED OFFICIAL (CONTINUED)**Finding No. 1: Minutes from two regular Board meetings were missing.**

Management concurs. Minutes for these meetings were typed and approved by the Board. It might have happened that after District staff and members of the public reviewed minutes from the files they were misplaced. The District has purchased a software program that allows Board Meeting Agendas and Minutes to be available on-line for research. All documents are automatically archived while allowing access for research both to staff and the public if necessary. The new software and control processes in place will help ensure that minutes will not be misplaced in the future.

Finding No. 2: Capital outlay expenditures were not reconciled to capital asset records.

Management concurs. At the close of each fiscal year, the detailed capital outlay expenditures are manually reviewed by the staff in Treasury/Capital Projects to determine capital versus non-capital expenditures. This manual and time-consuming process is fraught with the possibility of human error. Consequently, the final schedule of capitalized construction in progress did not include approximately \$29 million in capitalizable construction costs for a school put into service in August 2004. The implementation of the newly acquired software for the ERP System should eliminate the manual process currently utilized to categorize expenditures within the capital budget. In the meantime, the Treasury/Capital Projects staff will incorporate a reconciliation between capitalized capital outlay and non-capitalized capital outlay into the current manual process, and the capitalizable costs will be reclassified to the appropriate capital asset category.

Finding No. 3: Deficiencies noted on annual facility inspections were not always corrected in a timely manner.

Management concurs. The District provided for the required inspections of its facilities by qualified inspectors during the 2003-04 fiscal year. There were several reasons for a deficiency to be repeated, including (1) backlog of citations from prior years, (2) projects requiring multi-year resolutions, and (3) the District's school modernization schedule. In spite of the backlog in citations, an improvement has taken place when compared to prior years.

STATEMENT FROM AUDITED OFFICIAL (CONTINUED)

A more assertive planning process has resulted in correction of deficiencies. The District successfully reduced the number of citations for Public School and Ancillary Facilities from 14,702 in 2004 to 12,659 in 2005. This represents a 13.9% reduction over one year and a 73% reduction since 2000. All conditions considered by the inspector to be hazardous or posing an imminent danger were reported to Maintenance at the time of discovery for immediate action. The District will continue its efforts to provide for the timely correction of facility deficiencies noted on the annual comprehensive safety reports.

Finding No. 4: Documentation was not maintained to evidence the delivery of school floor plans to local law enforcement and fire departments.

Management concurs. The District's School Police Department delivered the floor plans to the applicable law enforcement and fire departments with jurisdiction over each educational facility as required by Section 1013.13, Florida Statutes. At the time of delivery, however, due to a relationship of trust with such agencies, the District did not have a process in place to require official receipt of the documents provided. In response to the Auditor General's recommendation, the Police Department will document the future delivery of the floor plans to local law enforcement, fire departments, and any other agency with jurisdiction over educational facilities.

Finding No. 5: The Instructional Personnel Performance Pay Plan contained provisions that significantly limited participation.

Management concurs. The School Board took affirmative action to approve a Memorandum of Understanding (MOU) between itself and the Palm Beach County Classroom Teachers Association (CTA) at the July 21, 2004 Meeting. That MOU encompasses the 2003-2004 Performance Pay Plan and is binding on both the CTA and the School Board.

The parties to the MOU understand that there is currently no objective criteria that can be used to measure "outstanding performance" of institutional employees. Therefore they adopted the next best criteria and that was the attainment of the National Certificate (NBPTS, NCSP, CSCCCC or NCC). It is objective, and employees, for the most part, are eligible to attain one of these certificates. Even those employees who are teaching in areas where the NBPTS does not issue a certificate can still participate in the Plan by completing the portfolio.

STATEMENT FROM AUDITED OFFICIAL (CONTINUED)

While the FCAT is a useful tool for measuring performance, not all teachers teach FCAT tested subjects to students who take FCAT exams. For example, all kindergarten, first, and second grade teachers instruct students who do not take the FCAT. The same is true for sixth through tenth grade teachers who do not teach either math or reading and all teachers who teach eleven and twelfth grades as well as media specialists, guidance counselors, music teachers, art teachers, physical education teachers, school psychologists, and speech and language pathologists. Using the FCAT to measure outstanding performance would eliminate all of these teachers from participating.

The District reviewed the Plans from other Florida Districts and found that most of them require the institutional employees to apply to participate in the Plan. This allows the District to determine approximately how many performance pay supplements it will need to award for any given school year, and is a valuable budget planning tool.

Finding No. 6: Bank reconciliations were not always performed and documented in an adequate manner.

Management concurs. This fiscal year, the usual course of timely bank reconciliations was interrupted with the untimely departures of several key accounting personnel including the Manager and the accountant in charge of the bank reconciliation process. Management recognizes the need for timely bank reconciliations as a control over the District's cash accounts and agrees with all recommendations made. In order to ensure that all reconciliations are prepared on a timely basis, the following steps have been taken:

- The cross-training of accounting personnel to minimize the impact of personnel turnover on processes and procedures.
- A review of current bank reconciliation procedures to identify opportunities and deficiencies within the process.
- The Accounting Department is working in coordination with Information Technology in the implementation of automated bank reconciliation processes to improve accuracy and timeliness utilizing a standardized format. As of June 2005, all bank reconciliations through May 2005 have been completed.

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