



THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA

Single Audit Report

Year ended June 30, 2005

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA

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KPMG LLP
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Fort Lauderdale, FL 33301

**Independent Auditors' Report on Internal Control
over Financial Reporting and on Compliance
and Other Matters Based on an Audit of
Financial Statements Performed in
Accordance with *Government Auditing Standards***

The Honorable Chairperson
and Members of the School Board of
Palm Beach County, Florida:

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the School District of Palm Beach County, Florida (the School District) as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements and have issued our report thereon dated November 18, 2005, which was modified to emphasize the adoption of Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, and included a reference to the reports of other auditors as it relates to the aggregate discretely presented component units. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grants, and other matters did not include the entities audited by the other auditors referred to in the previous paragraph. The findings, if any, of those other auditors are not included herein.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the School District in a separate letter dated November 18, 2005.

This report is intended solely for the information and use of the School District's board, audit committee, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 18, 2005
Certified Public Accountants



KPMG LLP
450 East Las Olas Boulevard
Fort Lauderdale, FL 33301

**Independent Auditors' Report on Compliance with Requirements
Applicable to Each Federal Major Program and on Internal Control over
Compliance in Accordance with OMB Circular A-133**

The Honorable Chairperson and Members of the School Board of
Palm Beach County, Florida:

Compliance

We have audited the compliance of the School District of Palm Beach County, Florida (the School District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned cost as items 05-01 and 05-02.

Internal Control over Compliance

The management of the School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.



Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the School District as of and for the year ended June 30, 2005, and have issued our report thereon dated November 18, 2005 which included a reference to the reports of other auditors as it relates to the aggregate discretely presented component units. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the School District's board, audit committee and management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

March 3, 2006, except as to the
schedule of expenditures of
federal awards, which is
as of November 18, 2005
Certified Public Accountants

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA

Schedule of Expenditures of Federal Awards

Year ended June 30, 2005

Federal grantor/pass-through grantor/program or cluster title	Federal CFDA number	Pass-through entity identifying number	Federal expenditures
U.S. Department of Agriculture:			
Food Donation	10.550	None	\$ 3,665,715
Pass-through from the Florida Department of Education:			
Child Nutrition Cluster:			
School Breakfast Program	10.553	421	5,320,829
National School Lunch Program	10.555	101	23,179,780
Summer Food Service Program For Children	10.559	None	666,115
Total Child Nutrition Cluster			<u>29,166,724</u>
Total U.S. Department of Agriculture			<u>32,832,439</u>
U.S. Department of Justice:			
Public Safety Partnership and Community Policing Grants	16.710	None	<u>1,707,334</u>
U.S. Department of Labor:			
Pass-through from the Florida Department of Education			
Migrant and Seasonal Farmworkers	17.264	405	<u>30,992</u>
U.S. Department of Education:			
Bilingual Education Cluster:			
C.A.R.E./Extra Care (Bilingual Education Cluster)	84.291	None	2,894
Impact Aid	84.041	None	19,745
Twenty-First Century Community Learning Centers	84.287	None	548,027
Foreign Language Assistance	84.293	None	12,719
Safe and Drug-Free Schools and Communities –			
National Programs	84.184	None	3,086,553
Fund for the Improvement of Education (FIE)	84.215	None	<u>220,751</u>
Subtotal Direct Programs			<u>3,890,689</u>
Pass-through from the Florida Department of Education:			
Special Education Cluster:			
Special Education – Grants to State (Special			
Education Cluster)	84.027	262	33,820,551
Special Education – Preschool Grants (Special			
Education Cluster)	84.173	267	<u>1,431,414</u>
Total Special Education Cluster			<u>35,251,965</u>
Adult Education – State Grant Program	84.002	191	1,202,715
Title I Grants to Local Educational Agencies	84.010	212	26,471,824
Migrant Education – State Grant Program	84.011	217	2,105,405
Vocational Education – Basic Grants to States	84.048	151	1,557,059
Safe and Drug-Free Schools and Communities – State Grants	84.186	103	822,414
Education For Homeless Children and Youth	84.196	127	108,855
Even Start – State Educational Agencies	84.213	219	394,510
Tech-Prep Education	84.243	157	209,827
Charter Schools	84.282	298	2,885,959
Innovative Education Program Strategies	84.298	113	1,000,322
Education Technology State Grants	84.318	121	1,436,448
Comprehensive School Reform Demonstration	84.332	128	1,100,898
Reading First State Grants	84.357	208, 209, 211, and 213	2,275,454
Voluntary Public School Choice	84.361	299	213,316
English Language Acquisition Grants	84.365	102	2,583,675
Improving Teacher Quality – State Grants	84.367	224	<u>8,318,617</u>
Total U.S. Department of Education			<u>91,829,952</u>

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA

Schedule of Expenditures of Federal Awards

Year ended June 30, 2005

<u>Federal grantor/pass-through grantor/program or cluster title</u>	<u>Federal CFDA number</u>	<u>Pass-through entity identifying number</u>	<u>Federal expenditures</u>
U.S. Department of Health and Human Services:			
Refugee and Entrant Assistance – State Administered Programs	93.566	None	\$ 42
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	None	244,568
Refugee and Entrant Assistance – Discretionary Grants	93.576	None	696,459
Refugee and Entrant Assistance – Targeted Assistance Grants	93.584	None	<u>1,152</u>
Total U.S. Department of Health and Human Services			<u>942,221</u>
Corporation for National & Community Service:			
Pass-through the Florida Department of Education:			
Learn and Serve America – School and Community-based Programs	94.004	234	<u>68,038</u>
U.S. Department of Homeland Security:			
Pass-through from the Florida Department of Community Affairs:			
Disaster Assistance Grants – Public Assistance (Presidentially Declared Disasters)	97.036	52	<u>18,164,617</u>
U.S. Department of Defense:			
Reserve Officers Training Corps (ROTC) (GSF)	12-unknown	None	<u>692,022</u>
Total expenditures of federal awards			<u>\$ 146,267,615</u>

See accompanying notes to the schedule of expenditures of federal awards.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2005

(1) General

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) presents the activity of all federal award programs of the School District of Palm Beach County, Florida (the School District) for the year ended June 30, 2005. The School District's structure is described in note 1 to the basic financial statements. Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included in the Schedule.

(2) Basis of Accounting

The accompanying schedule is presented using the modified-accrual basis of accounting. Under the modified-accrual basis, expenditures are recognized in the period in which liabilities are incurred, if measurable. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

(3) Relationship to Financial Statements

Expenditures of federal awards are reported in the basic financial statements as expenditures in the Special Revenue Funds.

(4) Nonmonetary Federal Financial Assistance-Donated Foods

Food Distribution – Expenditures for nonmonetary federal awards totaling \$3,665,715 at June 30, 2005, are included in the accompanying Schedule. Commodities are valued at fair value as determined at the time of donation.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

Section I – Summary of Auditors’ Results

(a) Basic Financial Statements

Type of auditor’s report issued: *Unqualified*

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ yes X none reported

Noncompliance material to the basic financial statements noted? _____ yes X no

(b) Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no
- Reportable condition(s) identified that are not considered to be material weakness(es)? _____ yes X no

Type of auditors’ report issued on compliance for major programs: *Unqualified*

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? X yes _____ no

Identification of major programs:

Name of federal program or cluster	CFDA number
• Child Nutrition Cluster	10.553/10.555/10.559
• Public Safety Partnership and Community Policing Grants	16.710
• Adult Education State Grant Program	84.002
• Vocational Education Basic Grants to States	84.048
• Safe and Drug-Free Schools and Communities National Programs	84.184
• Safe and Drug-Free Schools and Communities – State Grants	84.186
• Public Assistance Grant	97.036

Dollar threshold used to distinguish between type A and type B programs: \$3,000,000

Auditee qualified as low-risk auditee? X yes _____ no

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

Section II – Financial Statement Findings

There are no findings related to the basic financial statements that are required to be reported in accordance with *Government Auditing Standards*.

Section III – Federal Award Findings and Questioned Costs

Finding No. 05-01

{U.S. Department of Agriculture – Pass-through from the Florida Department of Education – Child Nutrition Cluster – (CFDA #10.553, #10.555, and #10.559) – Federal Award Identification Numbers – 3215A, 3005A, and 3235A}

{U.S. Department of Education – Safe and Drug-Free Schools and Communities – National Programs – (CFDA #84.184) – Federal Award Identification Number – S184A0200067-04}

{U.S. Department of Education – Pass-through from the Florida Department of Education – Vocational Education – Basic Grants to States – (CFDA #84.048) – Federal Award Identification Numbers – 1515A and 1514A}

{U.S. Department of Education – Pass-through from the Florida Department of Education – Safe and Drug-Free Schools and Communities – State Grants – (CFDA #84.186) – Federal Award Identification Numbers – 1035A and 1035B}

Criteria

OMB Circular A-87 requires recipients of federal awards to maintain effective controls over the recording and claiming for reimbursement of costs related to a federal program, and that the accounting treatment applied to those costs be consistently applied among the various federal programs. Additionally, OMB Circular A-87, B8 (h) requires that the distribution of salaries and related benefits of employees who are assigned to work on multiple activities or cost centers be supported by personnel activity reports or equivalent documentation which meets the standards outlined in B8 (h)(5) of OMB Circular A-87 unless a statistical sampling system or other substitute system has been approved by the cognizant federal agency. Such documentary support is required in a variety of circumstances such as when employees are assigned to work on multiple federal award programs. When an employee is assigned to work solely on one federal program or cost objective, certifications must be prepared at least semiannually certifying to this fact, and must be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

Situation

The District did not prepare the required semiannual certifications which certify that the employees worked solely on the respective program. Information regarding the exceptions noted is as follows:

Employee ID Number	Gross salary paid per pay period (by CFDA#)			
	10.553, 10.555, and 10.559	84.184	84.048	84.186
xxx-xx-5472	\$ 933	—	—	—
xxx-xx-4278	787	—	—	—
xxx-xx-8400	962	—	—	—
xxx-xx-3308	1,046	—	—	—
xxx-xx-9267	1,779	—	—	—
xxx-xx-5205	—	1,519	—	—
xxx-xx-4115	—	1,461	—	—
xxx-xx-9658	—	1,352	—	—
xxx-xx-7187	—	1,404	—	—
xxx-xx-6986	—	1,596	—	—
xxx-xx-3303	—	1,376	—	—
xxx-xx-7979	—	1,834	—	—
xxx-xx-6188	—	1,844	—	—
xxx-xx-5726	—	1,175	—	—
xxx-xx-1954	—	1,387	—	—
xxx-xx-3601	—	—	3,261	—
xxx-xx-7484	—	—	2,651	—
xxx-xx-6754	—	—	3,166	—
xxx-xx-4549	—	—	1,234	—
xxx-xx-7609	—	—	3,150	—
xxx-xx-5089	—	—	3,166	—
xxx-xx-1911	—	—	2,731	—
xxx-xx-8783	—	—	—	4,230
xxx-xx-5676	—	—	—	1,095
xxx-xx-0243	—	—	—	2,496
xxx-xx-8444	—	—	—	2,638
xxx-xx-5942	—	—	—	814
	<u>\$ 5,507</u>	<u>14,948</u>	<u>19,359</u>	<u>11,273</u>
Number of employees with exceptions	<u>5</u>	<u>10</u>	<u>7</u>	<u>5</u>
Sample size – number of employees selected	<u>5</u>	<u>10</u>	<u>7</u>	<u>5</u>

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

Total payroll expenditures for the programs during fiscal year 2005 amounted to \$14,518,614, \$1,948,912, \$495,206, and \$460,725 for the Child Nutrition Cluster, Safe and Drug-free Schools and Communities – National Programs, Vocational Education – Basic Grants to States, and the Safe and Drug-free Schools and Communities – State Grants programs, respectively.

Cause

The District does not maintain a Districtwide policy regarding the preparation and maintenance of the required semiannual certifications to support the payroll disbursements for those individuals who work solely on one respective federal program or cost objective. Currently, certain departments have implemented processes to obtain the semiannual payroll certifications and maintain them on file while other departments were unaware that this requirement applied to their programs.

Effect

The District is not in compliance with the requirements of OMB Circular A-87 with regards to documentation required for the distribution of salary and related benefit charges to the programs.

Questioned Costs: \$ —

Recommendation

We recommend that the District develop a Districtwide policy regarding the preparation and maintenance of the required semiannual payroll certifications for those employees who work solely on one federal program or cost objective. We further recommend that the District develop a standard certification format and implement procedures and controls to ensure that the required semiannual certifications are obtained and maintained in accordance with the requirements set forth in OMB Circular A-87.

Views of Responsible Officials and Planned Corrective Actions

Management concurs. Management would like to adopt a School District policy and procedure to implement a semiannual standardized Certificate of Compliance. This would be used to satisfy Time & Effort Certifications for all of the School District’s federal grants and satisfy the requirements set forth in the OMB Circular A-87.

The School District will collaborate with the Directors of all the federal grants to develop and implement a uniform Certificate of Compliance document for all employees, who are solely employed and split-funded through federal grant funds. We plan to implement a similar system adopted by the No Child Left Behind (NCLB) and Individual with Disabilities Education Act (IDEA) federal grants for all remaining School District grants for fiscal year 2006.

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

Finding No. 05-02

{U.S. Department of Education – Safe and Drug-Free Schools and Communities – National Programs – (CFDA #84.002) – Adult Education – State Grant Program

{U.S. Department of Education – Pass-through from the Florida Department of Education – Vocational Education – Basic Grants to States – (CFDA #84.048) – Federal Award Identification Numbers – 1515A and 1514A}

{U.S. Department of Education – Pass-through from the Florida Department of Education – Safe and Drug-Free Schools and Communities – State Grants – (CFDA #84.186) – Federal Award Identification Numbers – 1035A and 1035B}

Criteria

Pursuant to 34 CFR 80.21(c), grantees and subgrantees shall be paid in advance, provided they maintain or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of the funds and their disbursement.

Situation

The District receives cash advances for these programs as permitted under the terms and provisions of the respective grant agreements. Periodic drawdown requests are submitted to the Florida State Controller’s office based on a pre-established formula that estimates the cash needs for the following period. The formula is based on the actual cash outflow of the previous month. The District experiences a significant increase in payroll during the last month of the school year due to contractual obligations with certain employees. Because of the significant increase in payroll during this month, the cash draw for the first month of the new school year significantly exceeds the cash outflows for that month. This excess cash is gradually reduced so by the end of the school year, the cash draws approximate the cash outflows for the year. The District conducts an annual reconciliation of the total cash advances received during the year to the total cash disbursements for all programs that are funded on a cash advance basis. The District also submits any interest earned on the advanced funds to the U.S. Treasury on a quarterly basis in accordance with 34 CFR 80.21(i).

Cause

While the District does monitor the cash balances on a monthly basis, this process is not documented and no adjustments are made to the pre-established formula to take into account any excess cash on hand in an effort to minimize the time elapsing between the transfer of the funds and their disbursement. Since the District does not take excess cash balances into account when preparing the periodic cash drawdown requests, it does not ensure that the drawdown amounts are limited to its immediate cash needs.

Effect

The Program is not in compliance with the requirements of 34 CFR 80.21(c) with regards to minimizing the time elapsing between the transfer of the funds and their disbursement.

Questioned Costs: \$ —

THE SCHOOL DISTRICT OF PALM BEACH COUNTY, FLORIDA

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

Recommendation

We recommend that the District implement procedures to document its monthly analysis of the cash balances, and make adjustments, as necessary, to the periodic cash drawdown requests to take into account excess balance balances on hand in an effort to minimize the time elapsing between the transfer of the funds and their disbursement.

Views of Responsible Officials and Planned Corrective Actions

Management concurs. In past years, the School District's current formula for determining drawdowns has proven to be a reliable tool for forecasting expenditures. The formula is based on previous month expenditures and includes a portion for indirect cost. Typically, at the end of the fiscal year, large payroll expenditures are required to fulfill the School District's contractual obligations. Since the drawdown formula for the first month of the new fiscal year is based on the large payroll expenditures of the last month of the preceding year, the School District's drawdown significantly exceeds expenditures. Management makes adjustments in future months to correct the initial imbalance. Usually, by the third period of the new fiscal year (September), the School District's drawdowns will closely match expenses. Over the years, the School District has found this uniform formula process to be successful and standardized approach.

During the first month of the new fiscal year, we will revise our standardized approach to allow for an analysis of the end-of-the-year salary and benefit expenditures for the balance of contract payments. We anticipate that the additional analysis will assist us to more closely match the School District's cash drawdowns to expenditures.