

11

Cost Control Systems

Summary

The Bradford County School District is using 19 of the 22 cost control systems best practices. The district has adequate staffing and financial information systems to provide useful, timely, and accurate cost control information. The district also ensures that it receives an annual external audit to improve its operations, periodically reviews cash management activities, and has established written policies and procedures to provide for effective management of capital assets, debt, risk, purchasing, and inventory. To meet the remaining best practice standards, the district needs to establish written procedures that promote ethical financial management practices and provide for confidential reporting of suspected improprieties, develop a strategic plan that will provide management with measurable goals and objectives, and perform a risk assessment of its operations. After developing its strategic plan, the district should establish budget planning processes that link the development of the budget to the goals and objectives of the strategic plan.

Auditor General's Scope, Objectives, and Methodology for Cost Controls

Pursuant to s. 1008.35, *Florida Statutes*, the Auditor General assists the Office of Program Policy Analysis and Government Accountability (OPPAGA) in examining district operations to determine whether they meet best financial management practices. The Auditor General provides this assistance by performing the review of the cost control systems area (one of ten areas) as defined in s. 1008.35(2)(j), *Florida Statutes*. We conducted the best practices review of the Bradford County School District's cost control systems in accordance with generally accepted government auditing standards as they apply to performance audits. We reviewed cost control systems in the areas of financial management, internal controls, external and internal auditing, cash management, capital asset management, debt management, risk management, purchasing, and inventory management. We reviewed the district's operations relating to cost control systems primarily for the 2001-02 fiscal year and gathered information by using the following methods:

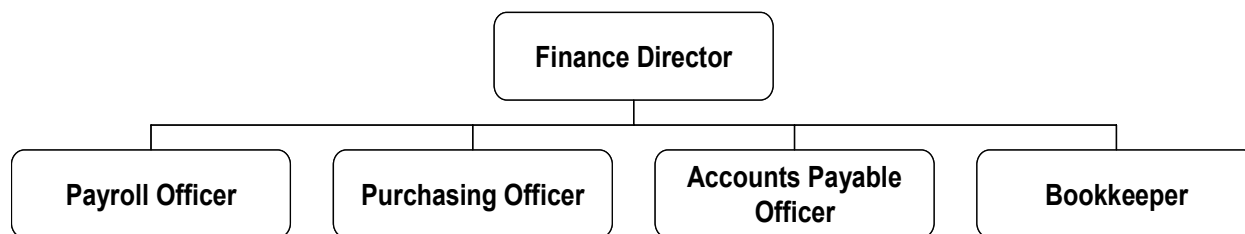
- Reviewed and tested compliance with state laws and rules applicable to cost control systems.
- Examined and tested compliance with district policies and procedures applicable to cost control systems.
- Reviewed district prepared preliminary survey documents regarding best practice standards and indicators applicable to cost control systems.
- Examined operational reports and records as they relate to cost control systems.
- Interviewed district officials and employees.
- Reviewed other financial and compliance related audits and monitoring reviews of the district.

Background

The Bradford County School District’s cost control activities are primarily managed by the finance function. Operational units of the finance function include general accounting, food service accounting, payroll, purchasing, accounts payable, etc. The finance function consists of the finance director and four fiscal assistants. The finance function’s budget for the 2002-03 fiscal year was \$344,338.

Finance and accounting functions are centralized; however, input of time and attendance information for payroll processing and purchase requisition information is decentralized. A centralized warehouse is used for receiving goods purchased and for maintaining school, transportation, maintenance, and food service inventories. The current finance director is a certified public accountant and has been with the district for 2 years. Additionally, the finance director has approximately 13 years of previous experience in accounting and auditing with private and governmental employers, including one and one-half years with another Florida school district. The finance function’s current organizational structure is shown in Exhibit 11-1 below:

**Exhibit 11-1
Organizational Structure for the District’s Finance Activities**



Source: Bradford County School District.

The district uses governmental accounting to report its financial position and results of operations. Governmental accounting segregates a governmental entity’s operations and activities into funds based on the nature and restrictions placed on the revenue sources of each fund. The district’s governmental funds include the general fund, special revenue funds, debt service funds, and capital projects funds. The district also reports fiduciary funds (agency and trust funds) and a proprietary fund (an internal service fund that accounts for a consortium program). Substantially all of the district’s resources are accounted for in the governmental funds. Exhibit 11-2 shows that the district reported revenues of \$26.8 million in its governmental funds during the 2001-02 fiscal year.

**Exhibit 11-2
Governmental Funds Revenues—2001-02 Fiscal Year**

General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total
\$21,819,376	\$3,656,609	\$117,586	\$1,249,177	\$26,842,748

Source: Audited financial statements.

Certain governmental funds account for non-operating activities of the district. For example, debt service and capital projects funds are used to account for resources restricted specifically for the payment of debt and for the acquisition of real property and the construction, renovation, remodeling, and maintenance of district facilities. These resources are not used to finance ongoing operating activities of the district.

The general fund accounts for most of the operating resources and expenditures of the district and provides most of the operating resources for K-12 education programs. Exhibit 11-3 shows federal, state, and local sources reported in the general fund for the 2001-02 fiscal year.

**Exhibit 11-3
General Fund Revenues—2001-02 Fiscal Year**

Federal	State	Local	Total
\$424,947	\$17,663,525	\$3,730,904	\$21,819,376

Source: Audited financial statements.

The state provided over 80% of the district’s general fund resources during the 2001-02 fiscal year. Four sources administered by the Florida Department of Education comprise the majority of state revenue accounted for in the district’s general fund. First is the Florida Education Finance Program (FEFP) funding which is used for current operations. Second is resources provided for categorical education programs which are earmarked for certain programs such as supplemental academic instruction, instructional materials, and transportation. Third is workforce development funds used for adult and other vocational educational services. Fourth is lottery funds earmarked for educational enhancement and school advisory council activities.

Local revenues are primarily generated from ad valorem (property) taxes and represent 15% of the district’s general fund resources.

As is characteristic of governmental accounting, the district presents expenditures by character or functional purpose. Within the governmental funds, functional expenditures are segregated into current and non-current capital outlay and debt service categories. General fund current expenditures comprise the largest portion, representing approximately 80% of the total 2001-02 fiscal year governmental funds expenditures. Current expenditures are broken down into three major functional classifications; instruction, instructional support services, and general support services. Exhibit 11-4 shows general fund current expenditures on a functional basis.

**Exhibit 11-4
General Fund Functional Expenditures—2001-02 Fiscal Year**

Instruction	Instructional Support Services	General Support Services	Total
\$12,700,660	\$1,656,114	\$7,149,673	\$21,506,447

Source: Audited financial statements.

Instruction and instructional support expenditures represented approximately 67% of total general fund expenditures for the 2001-02 fiscal year. Expenditures for instruction include activities directly related to teaching students, including the interaction between teachers and students. Instruction expenditures include those for basic K-12 programs, exceptional student instruction, vocational-technical instruction, adult general instruction, and other instruction, such as pre-kindergarten, lifelong learning, and workforce development. Instructional support services include those activities related to administrative, technical, and logistical support for the instruction program. It includes such activities as attendance, guidance, health, and psychological services. General support services expenditures represented approximately 33% of total general fund expenditures for the 2001-02 fiscal year. Although technically not a part of general support services, community services are included in this category because they represent a very small portion of the overall general fund expenditures. General support services include expenditures related to the functional categories of board activities, general administration (superintendent’s office), school administration (principal’s office), fiscal services (financial accounting, payroll, etc.), central services (information technology, staff services, supplies inventories, etc.), pupil

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transportation services (school buses), operation of plant (utilities, insurance, etc.), and maintenance of plant (grounds keeping, repairs, preventative maintenance, etc.).

Exhibit 11-5 shows the district's general fund current expenditures by natural classification (object) for the 2001-02 fiscal year. This schedule shows the expenditures in Exhibit 11-4 by type of expenditure in broad categories.

Exhibit 11-5 General Fund Object Expenditures—2001-02 Fiscal Year

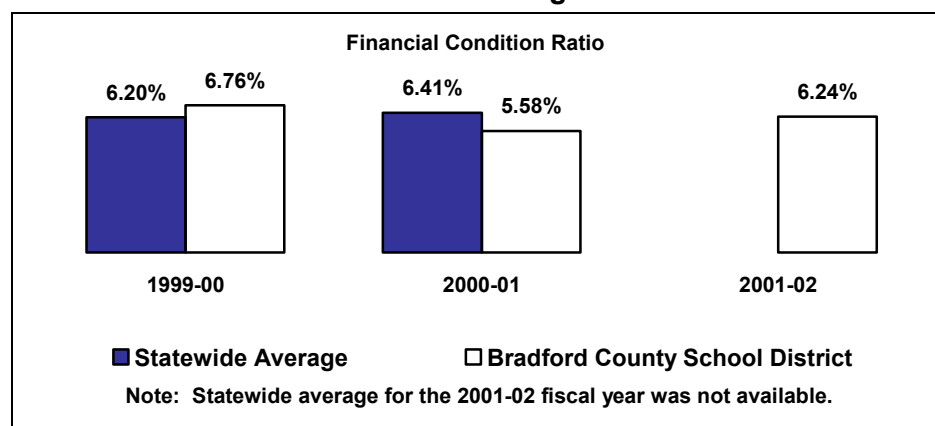
Salaries	Employee Benefits	Purchased Services	Energy Services	Materials and Supplies	Capital Outlay	Other Expenses	Total
\$14,245,761	\$3,863,978	\$1,585,618	\$636,430	\$796,256	\$58,047	\$320,357	\$21,506,447

Source: Audited financial statements.

As primarily a service organization, the district's major expenditure objects are salaries and employee benefits, which comprise approximately 84% of total expenditures. Purchased services, energy services, materials and supplies, capital outlay, and other expenses were consistent with prior years, although total current expenditures decreased by \$864,881, or 3.9% compared to the previous year, due mainly to hiring and spending restrictions implemented to address state funding cuts made subsequent to the September 11, 2001, terrorist attacks.

We analyzed the fund balance in the general fund to determine whether the district's efforts to control costs have had a beneficial impact on its financial position. The most common measure of financial position is the ratio of fund balance to operating activity. The fund balance of most districts includes reserved and unreserved portions. Fund balances are often reserved for legal and other commitments of the entity. Common examples of reserves in Florida school districts include amounts reserved for outstanding purchase orders and contracts (encumbrances) and amounts reserved for restricted purposes (categorical programs). As a result, only the unreserved portion of the fund balance, often referred to as the "rainy day" fund, is actually available to offset unexpected needs. For the purposes of our analysis, we used a common financial condition ratio that compares the general fund unreserved fund balance with operating revenues. Exhibit 11-6 compares the financial condition ratio for the district with statewide averages for the three-year period ending June 30, 2002.

Exhibit 11-6 The District's General Fund Financial Condition Ratio is Consistent with the Statewide Average



Source: Audited financial statements.

As can be seen in Exhibit 11-6, the district's ratio of unreserved fund balance to revenues was consistent with the statewide average.

Conclusions and Recommendations

Summary of Conclusions for Cost Control Systems Best Practices

Practice Area	Best Practice	Using the Best Practice?	Page No.
Financial Management	1. The district periodically analyzes the structure and staffing of its financial services organization.	Yes	11-7
	2. Management has developed and distributed written procedures for critical accounting processes and promotes ethical financial management.	No	11-7
	3. The district has adequate financial information systems that provide useful, timely, and accurate information.	Yes	11-9
	4. District financial staff analyzes significant expenditure processes to ensure that they are appropriately controlled.	Yes	11-10
Internal Controls	5. The district has established adequate internal controls.	Yes	11-10
	6. Management proactively responds to identified internal control weaknesses and takes immediate steps to correct the weaknesses.	Yes	11-11
	7. The district produces an annual budget that is tied to the strategic plan and provides useful and understandable information to users.	Yes	11-11
	8. Management analyzes strategic plans for measurable objectives and results.	No	11-12
External and Internal Auditing	9. The district ensures that it receives an annual external audit and uses the audit to improve its operations.	Yes	11-12
	10. The district has an effective internal audit function and uses the audits to improve its operations.	No	11-13
	11. The district ensures that audits of internal funds and its discretely presented component units (foundations and charter schools) are performed timely.	Yes	11-14
Cash Management	12. The district periodically reviews cash management activities, banking relationships, investment performance, and considers alternatives.	Yes	11-15
Capital Asset Management	13. The district has established written policies and procedures and periodically updates them to provide for effective management of capital assets.	Yes	11-15
	14. The district ensures that significant capital outlay purchases meet strategic plan objectives.	Yes	11-16
Debt Management	15. The district has established written policies and procedures and periodically updates them to provide for effective debt management.	Yes	11-17
	16. The district ensures that significant debt financings meet strategic plan objectives.	Yes	11-17
Risk Management	17. The district has established written policies and procedures and periodically updates them to provide for effective risk management.	Yes	11-17
	18. District staff periodically monitors the district's compliance with various laws and regulations related to risk management.	Yes	11-18

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Practice Area	Best Practice	Using the Best Practice?	Page No.
	19. The district prepares appropriate written cost and benefit analyses for insurance coverage.	Yes	11-18
Purchasing	20. The district has established written policies and procedures to take maximum advantage of competitive bidding, volume discounts, and special pricing arrangements.	Yes	11-19
Inventory Management	21. The district has established written policies and procedures and periodically updates them to provide for effective management of inventories.	Yes	11-19
	22. The district periodically evaluates the warehousing function to determine its cost-effectiveness.	Yes	11-20

FINANCIAL MANAGEMENT

Best Practice 1: Using

The district periodically analyzes the structure and staffing of its financial services organization, but could improve its payroll function by cross-training staff in the payroll process to ensure timely and accurate payrolls.

In recent years, a variety of external factors have had direct and indirect effects on district finances. Some districts have experienced significant changes in student population size, most getting larger, but some getting smaller. Similarly, changes in existing laws and new laws have changed financial documentation and reporting requirements which have impacted workload requirements. Because of this, districts should regularly evaluate the financial services function’s organizational structure and staffing to ensure that needed financial services are being provided effectively and efficiently. Similarly, it is important that financial services staff receive timely and relevant training to ensure that the services they provide comply with current laws and reporting requirements.

The Bradford County School District’s organizational chart, which includes the financial services organization, is current and position descriptions exist for all positions included in the organizational chart. Our review of position descriptions showed that educational and experience requirements for established positions were commensurate with the responsibilities for each position. Because of budgetary constraints, the finance director and other management staff frequently evaluate the services provided by the financial services organization with a view towards minimizing the number of positions to effectively perform the responsibilities of this function. Financial services organization staff receive training in the use of the accounting system when hired and also receive annual training updates. Also, the finance director attends state finance officers’ association meetings and receives training for school finance-related emerging issues.

Although the district is using this best practice, there is one area in which the district could improve its financial services organization. As shown in Exhibit 11-2, *Organizational Structure for the District’s Finance Activities*, the district has only four employees assisting the finance director, and only one which is responsible for payroll processing. No other employees are cross-trained to assist with or handle the payroll process in the absence of the payroll officer. Because of the critical nature of the payroll function, another individual should be cross-trained and available to assist with the payroll process.

We recommend that the district cross-train staff in the payroll process to ensure timely and accurate payrolls.

Best Practice 2: Not Using

Management has not developed and distributed written procedures for critical accounting processes and does not have procedures to promote ethical financial management practices.

It is critical that districts be able to continue day-to-day financial operations. Even small districts must have numerous control processes and safeguards to ensure that district resources are adequately protected and used. These control processes should be documented to ensure consistency in their application. Written procedures frequently represent the best way to document these processes.

Every district has board policies that generally include policies related to accounting and financial services. However, these policies are not considered procedures. Procedures show district employees how to carry out board policies. Well written and organized procedures:

- Implement and assure compliance with board policies as well as document the intent of those policies;

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- Protect the institutional knowledge of an organization, so that as experienced employees leave, new employees will benefit from the experience of prior employees;
- Provide the basis for training new employees; and
- Offer a tool for evaluating employee performance based on their adherence to procedures.

The development and maintenance of procedures manuals can be cumbersome and time-consuming tasks. For this reason, districts should, at a minimum, identify critical accounting and finance processes and ensure that written procedures are maintained for these processes. For example, if a key accounting employee that has responsibility for generating a payroll leaves the district, are there sufficient written procedures that someone else can follow to generate a payroll? Other critical processes can include bank reconciliations, processing of accounts payable checks, budget amendment processes, and so on.

Similarly, even small districts benefit from having strong ethics standards (policies) for district accounting and financial staff and from processes that encourage reporting of suspected improprieties. When employees understand the importance of ethical conduct of their responsibilities and the ramifications of unethical conduct, the overall control environment is enhanced. Also, processes that encourage reporting of suspected improprieties without fear of reprisal further strengthen the control environment.

The Bradford County School District can improve its operations and be considered to be using this best practice by addressing three issues. First, it has not established written procedures manuals for its critical financial and accounting processes.

Action Plan 11-1

We recommend that the district establish comprehensive procedures manuals that address all critical financial and accounting processes.

Action Needed	Step 1.	Develop procedures manuals for critical financial and accounting processes.
	Step 2.	Standardize and index these manuals into comprehensive procedures manuals.
	Step 3.	Develop a methodology for revisions and updates to the manuals.
Who Is Responsible	Finance Director	
Time Frame	December 2004	

The second issue is that, although a strong emphasis is placed on professional and ethical conduct of district business, the district does not have a formal ethics policy that applies to all personnel.

Action Plan 11-2

We recommend that the district develop a formal ethics policy that applies to all personnel and that includes remedies for unethical behavior as a means to strengthen the overall control environment.

Action Needed	Step 1.	Develop a formal ethics policy and present the policy to the board for approval.
	Step 2.	Subsequent to board approval and adoption of the policy, all existing and all new employees should be required to sign a statement indicating that they are aware of the ethics policy and its ramifications.
Who Is Responsible	The Board and Superintendent	
Time Frame	June 2004	

The third issue is that the district has not developed procedures for the confidential reporting of suspected improprieties.

Action Plan 11-3

We recommend that the district develop a process for employees to report suspected improprieties without fear of reprisal.	
Action Needed	<p>Step 1. Develop a policy for the confidential reporting of suspected improprieties and present the policy to the board for approval.</p> <p>Step 2. Subsequent to board approval and adoption of the policy, distribute the newly developed procedures to all employees and post at all work sites.</p>
Who Is Responsible	Finance Director
Time Frame	June 2004

Best Practice 3: Using

The district has adequate financial information systems that provide useful, timely, and accurate information, but could improve its monthly financial reports to the board by providing information relating to the district’s overall financial condition and its progress in meeting the board’s strategic goals and priorities.

Florida school districts are subject to significant federal, state, and local (board) oversight of their financial activities. Also, given the limited financial resources provided to districts, it is important that they have adequate financial information systems that provide useful, timely, and accurate information. Users of this information must be able to understand the information provided so that they can make informed spending and resource use decisions.

The Bradford County School District uses an integrated accounting system that has various subsystem modules (such as accounts payable, fixed asset accounting, and payroll accounting) that interface seamlessly with the general ledger module. This system permits users to make entries at the subsidiary level and these entries automatically update the general ledger. As a result, the degree of manual reconciliations required between subsidiary ledgers and the general ledger are minimized. The reporting features of the system allow users to easily create user-defined reports at any time and detail balance reports (such as accounts payable details) agree with general ledger balances. The district’s finance staff works with users, including the board, to identify financial reporting needs. As these needs become known, finance staff develops financial report products to meet user needs. The district’s financial services staff are satisfied with the system’s reporting package and believe that its ease of use permits the timely completion of the annual financial report well before the required due date.

Although the district is using this best practice, there are two areas in which the district could improve its financial information systems. The first area relates to the information presented to the board with the monthly financial statements. The monthly financial statements show budgeted and actual revenues and expenditures from the district’s accounting system, and budgeted ending fund balances; however, these statements provide little or no information relating to the district’s overall financial condition or its progress in meeting the board’s strategic goals and priorities.

We recommend that the district improve its monthly financial reports to the board by providing information relating to the district’s overall financial condition and its progress in meeting the board’s strategic goals and priorities.

The second area relates to the direct deposit of payroll checks. Currently, only 43% of the district’s employees authorize the direct deposit of their pay. The district could achieve greater payroll processing and accounting efficiencies with 100% participation. District staff must account for payroll checks and track them from the time the district issues them through the time the checks are presented for payment at the bank. Also, district personnel must perform bank reconciliations and file and safeguard payroll checks (both blank checks and paid checks). The district must provide adequate and safe storage for the checks and follow appropriate public record retention periods and requirements for eventual destruction of the payroll checks. Many of these time-consuming processes could be eliminated or greatly reduced

by using direct deposit. Although the district may not derive significant cost savings from using direct deposit, the increased control over payroll processing would add greater efficiencies to the overall process. The efficiencies gained will allow the district to reallocate resources to other district priorities.

We recommend that the district try to achieve 100% employee participation in the payroll direct deposit program.

Best Practice 4: Using

District financial staff analyzes significant expenditure processes to ensure that they are appropriately controlled.

Other than salaries, the expenses of many districts are frequently concentrated among a few vendors who are paid for goods and/or services on a repetitive basis. Examples include employee benefits, utility payments, payments for frequently used supplies, progress payments on contracts, and periodic payments for the use of assets, such as lease payments. It is important that employees approving such bills for payment are knowledgeable about relevant contract, payment, and other provisions to ensure that the bills are accurate and to ensure that only appropriate amounts are paid. In the case of utility payments, appropriate stewardship includes analyses of the payments to identify and determine the reasons for unusual fluctuations in consumption.

The Bradford County School District assigns payment monitoring for specific high cost and complex contracts to the director of operations or department heads. These individuals review all bills and invoices related to the contracts and must approve them prior to payment. They are responsible for understanding contract terms and they discuss any questionable issues related to payment and request for proposal (RFP) terms with the finance director and the district's legal counsel. The district will pay bills and invoices containing these questionable issues only after the issues have been resolved to the district's satisfaction.

Specific expenditure categories, such as utility payments and travel expenditures are assigned to finance staff who is knowledgeable about payment patterns and legal requirements for these payments. We noted that utility payments were monitored by location to identify unusual fluctuations. District employees investigated any unusual changes that were noted.

INTERNAL CONTROLS

Best Practice 5: Using

The district has established adequate internal controls.

Districts must practice sound financial management in order to maximize the effectiveness of limited resources and to plan for future needs. Effective financial management ensures that internal controls are in place and operating as intended.

In addition to its annual external audit, the Bradford County School District is also subject to monitoring reviews by federal and state grant monitors. Our review of these reports issued for the past three fiscal years disclosed that, with the exception of minor internal control weaknesses, the auditors and monitors found that internal controls were generally adequate. Also, our review of critical revenue and expenditure classes, such as collection cycles, payroll processing, and disbursement processing indicated adequate internal control processes and that the processes appeared to be operating as intended.

Best Practice 6: Using

Management proactively responds to identified internal control weaknesses and takes immediate steps to correct the weaknesses.

As noted previously, districts must practice sound financial management in order to maximize the effectiveness of limited resources and to plan for future needs. Effective financial management ensures that internal controls are in place and operating as intended. Districts demonstrate effective financial management when they proactively respond to internal control weaknesses identified in external audits and other monitoring reviews.

We reviewed the Bradford County School District's efforts to resolve internal control weaknesses identified in the external financial audits and other monitoring reviews made over the past three years. Our review indicated that district staff took appropriate steps to promptly correct internal control weaknesses reported for critical asset categories and significant transaction processes.

Best Practice 7: Using

The district produces an annual budget that is tied to short-term (annual) priorities and provides useful and understandable information to users, but could enhance its budgetary process by linking the budget to long-term strategic goals and objectives.

Districts that make the best use of their resources and achieve high student performance rates generally practice some form of strategic planning that looks at all district operations, links support functions to the achievement of institutional goals, and has a direct link to the annual planning and budgeting process. Effective strategic planning includes:

- Identifying priorities through surveys of students, parents, teachers, administrators, and community leaders;
- School board input on goals and major priorities;
- Developing objectives for strategic plan goals that include measurable outcomes and achievement dates as appropriate;
- Assignment of responsibility for achieving objectives;
- Annual performance monitoring and adjusting of objectives as necessary to ensure achievement of strategic plan goals; and
- Budgets that require expenditures to be tied directly to the strategic plan priorities of the district.

The Bradford County School District has produced an annual budget that was developed and adopted pursuant to applicable state laws and rules. District staff uses appropriate revenue-estimating practices when developing estimated budget sources for appropriation, including comparisons to prior years and consideration of projected student enrollments. The district has also established a budget planning process and timeline that is clearly communicated to appropriate district staff, and includes the input of school principals and school advisory council members. As part of the budget process, the respective chairman of each school advisory council approves the school budget.

Although the district is using this best practice, there is one area in which the district could improve its budgetary process. The district does not have a formal strategic plan which identifies its long-term strategic goals and objectives. Action Plan 11-4 includes the steps necessary for the district to implement such a strategic plan. After the district develops its strategic plan, it should enhance its budgetary process by linking the budget to long-term strategic goals and objectives.

We recommend that the district enhance its budgetary process by linking the budget to long-term strategic goals and objectives.

Best Practice 8: Not Using

The district has not developed a strategic plan to provide management with measurable goals and objectives.

As mentioned previously, districts that make the best use of their resources and achieve high student performance rates generally practice some form of strategic planning that looks at all district operations, links support functions to the achievement of institutional goals, and has a direct link to the annual planning and budgeting process.

The Bradford County School District is not using this best practice because it has not established a strategic plan. The board did hold a strategic planning workshop during March 2003 to discuss the process for developing the strategic plan and related goals and objectives.

Action Plan 11-4

We recommend that the district develop a strategic plan that will provide management with measurable goals and objectives.

Action Needed	Step 1. Establish a strategic planning team to be responsible for developing the strategic plan. Step 2. Hold public hearings and workshops to solicit input on the strategic plan from the community, schools, district and school staff, and the board. Step 3. Based on the input received, develop a draft strategic plan, including measurable goals and objectives and specific strategies, responsibility assignments, and timelines for the superintendent and district administrative staff. Step 4. The superintendent and staff should review the draft and present it to the board for comment. Step 5. Incorporate the board's comments into a final draft. Step 6. The superintendent should present the final draft to the board for approval.
Who Is Responsible	The Board and Superintendent
Time Frame	December 2004

EXTERNAL AND INTERNAL AUDITING

Best Practice 9: Using

The district ensures that it receives an annual external audit and uses the audit to improve its operations, but could improve its processes to ensure that audit findings are timely resolved.

Sections 11.45(2)(d), and 218.39, *Florida Statutes*, require school districts to annually obtain a financial audit. Section 11.45(1)(c), *Florida Statutes*, defines a financial audit as an examination conducted in order to express an opinion on the fairness of the financial statements in conformity with generally accepted accounting principals and an examination to determine whether operations are properly conducted in accordance with legal and regulatory requirements. Financial audits must be conducted in accordance with generally accepted auditing standards and government auditing standards as adopted by the Board of Accountancy.

The Bradford County School District has received annual financial audits for each of the last three years. These audits were performed in accordance with generally accepted auditing standards and government auditing standards. The district has made reasonable efforts to resolve findings noted in the annual audit reports.

Although the district is using this best practice, there is one area in which the district could use its external audit to improve its operations. The district has historically taken steps to promptly correct internal

control weaknesses reported for critical asset categories and significant transaction processes; however, other audit findings that are not critical to day-to-day operations and more difficult to correct, such as those related to strategic planning, procedures manuals, capital asset records, property inventories, and facilities inspections, have been noted in several previous audit reports and not timely resolved. The district could improve its operations by taking steps to timely resolve all audit findings.

We recommend that the district improve its processes to ensure that all audit findings are timely resolved.

Best Practice 10: Not Using

The district does not have an internal audit function and it has not conducted annual risk assessments of its operations.

Section 1001.42(10)(l), *Florida Statutes*, permits school boards to employ internal auditors to perform ongoing verification of the financial records of the school district. This law requires the internal auditor to report directly to the board or its designee. Internal auditing is a managerial control that can be used to measure and evaluate the efficiency, effectiveness, and cost/benefit of operations, programs, other controls, and systems. The objective of internal auditing is to help management effectively discharge its responsibilities by providing analyses and recommendations on the activities reviewed. The internal audit function typically performs the annual risk assessments in private sector businesses.

The Bradford County School District does not have an internal audit function as anticipated by this best practice and the district does not conduct annual risk assessments of its financial operations and activities. As with many school districts, the district believes that it cannot afford the cost of establishing an internal audit function.

The district is responsible for having internal controls in place to provide reasonable assurance regarding the achievement of the following objectives:

- Safeguarding of assets;
- The reliability of financial reporting;
- The effectiveness and efficiency of operations; and
- Compliance with applicable laws and regulations.

In order to meet these objectives, the district should identify and analyze relevant risks using a risk assessment as a basis for determining how identified risks should be managed.

Some recurring risks are already addressed by various departments within the district. For example, the district monitors student full-time equivalent counts to ensure that significant errors in reporting are detected and corrected before the counts are reported to the state. The district has established procedures for ensuring that inventories and tangible personal property are counted annually and correctly to ensure stewardship for these assets. The district ensures that it obtains the required audits of the school internal accounts on an annual basis.

These activities, along with performing the annual risk assessment, are those that would typically be performed by an internal audit function. An established internal audit function could also address other risks identified in an annual risk assessment. Regardless of whether or not the district establishes an internal audit function, it should conduct financial risk assessments of its operations and activities annually.

Given existing budget constraints, the district should examine staff workload and priorities, and if at all possible, conduct this risk assessment in-house. However, if the district determines that it cannot effectively conduct its own risk assessment, it may choose to contract with a certified public accountant to conduct the first year risk assessment and provide a methodology for district staff to conduct its own risk

assessments in subsequent years. We estimate that the cost of contracting for the risk assessment would be a one-time cost of approximately \$20,000. This amount is based on an estimate of 225 hours at an average rate of \$90 per hour (\$20,250 rounded to \$20,000). As management addresses identified risks, the district will likely experience cost savings and avoidances that will offset the cost of the risk assessments. However, the cost impact of these potential savings and avoidances cannot be determined at this time.

Action Plan 11-5

We recommend that the district conduct annual risk assessments.	
Action Needed	<p>Step 1. Conduct annual risk assessment using district staff.</p> <p>Step 2. If district staff is unable to conduct assessments, develop and distribute a request for proposal for risk assessment services; review proposals for risk assessment services and select a firm that will perform the risk assessment for the district.</p> <p>Step 3. Review the results of the risk assessment, prioritize high-risk activities, and assign responsibility for addressing and resolving prioritized risks.</p>
Who Is Responsible	Finance Director
Time Frame	August 2004—the start of the 2004-05 school year

Best Practice 11: Using

The district ensures that audits of internal funds and its discretely presented component unit (foundation) are performed timely.

Pursuant to Florida law, school districts may have related organizations such as foundations and charter schools. Due to the nature of these organizations, their financial activity generally should be included with that of the school district. However, this law requires that these organizations provide for their annual financial audits. Similarly, the financial transactions of individual school activities and organizations are accounted for in the school internal accounts (funds). The law requires that the school districts provide for the annual audits of the school internal funds. Districts frequently provide little if any oversight of these organizations other than to monitor their activity. Districts frequently monitor these organizations’ activity by reviewing the annual audit reports. Accordingly, it is important that the districts receive timely audits of these organizations and perform appropriate review of the reports.

The Bradford County School District has one foundation, the Bradford County Education Foundation, Inc. State law provisions require that the foundation provide for its own annual financial audits. Although the foundation is responsible for its own audit, the district monitors the progress of the audit to ensure its timely completion for use in preparing the district’s annual financial report.

State law provisions require that the district provide for the audit of the district’s school internal accounts. The district has a contract in place for auditing the internal accounts after the June 30 fiscal year-end, and having an audit report prepared by August 25 for use in preparing the district’s annual financial report.

Each fiscal year, audits of the foundation and the school internal accounts are conducted, as required by law, and the district receives and maintains copies of the audit reports.

CASH MANAGEMENT

Best Practice 12: Using

The district periodically reviews cash management activities, banking relationships, investment performance, and considers alternatives.

Cash and investment management involves the systematic coordination of cash-flow forecasting, cash-flow management, investment of surplus cash, and sound banking and investment relationships. Even small districts have annual cash flows of millions of dollars and effective cash management and investing of these resources can generate beneficial results and resources which can be used to meet district needs. Similarly, beneficial banking services arrangements should promote the investment of idle cash and limit any banking service fees.

The Bradford County School District uses three bank accounts and an investment account in its cash management activities. The district currently uses two of three local banks for banking services. In addition, the district reviews the features offered by the two banks to ensure that the district receives competitive banking services.

The district's policy manual includes policies for cash and investment activities. The district receives the majority of its cash from the state by direct wire transfers to the district's investment account, or from the local tax collector by checks which are promptly deposited to a local bank account. The Finance Department has sufficient personnel to provide segregation of duties for the cash receipt and disbursement functions. The district's reconciliation process is performed by the purchasing officer, who has no access to cash assets.

District finance staff forecast cash needs based on bank balances and payroll and accounts payable runs. Based on these forecasts, excess funds are sent to the State Board of Administration for investment. The district places all of its investments with the State Board of Administration's Local Government Surplus Funds Trust Fund, a Securities and Exchange Commission Rule 2a7-like external investment pool. This fund offers highly liquid investments with competitive rates, and provides a simple conservative investment approach allowing deposits to remain invested and withdrawals to be made as needed without penalty.

CAPITAL ASSET MANAGEMENT

Best Practice 13: Using

The district has established written policies and procedures and periodically updates them to provide for effective management of capital assets.

Capital assets include all properties, vehicles, equipment, and building contents. School districts should keep and maintain accurate accounting records because:

- Accurate capital asset records provide the basis for adequate insurance coverage;
- Annual physical inventories of capital assets allow the district to survey the physical condition of its assets and assess the need for repair, maintenance, or replacement;
- Reliable information about currently owned capital assets provides assistance when determining future needs and provides a basis for budgeting capital asset needs; and
- Accurate capital asset records provide users with documentation of how taxes have been used to carry out the operations of the district.

The Bradford County School District has developed detailed procedures for accounting for capital assets. These procedures are supplemented by state law and *Rules of the Auditor General*, which govern school district responsibilities relative to capital assets. The district's Finance Department is responsible for purchasing tangible personal property and maintaining capital asset control accounts. The Operations Department is responsible for maintaining capital asset subsidiary records. School principals and department managers have custodial responsibilities for property charged to and under their area of responsibility.

Although the district is using this best practice, there are three areas in which procedures over capital assets could be improved. First, subsidiary records for the buildings and fixed equipment and improvements other than buildings capital assets categories should be established and maintained. The district reports balances for these categories that are based on an accumulation of capitalized expenditures; however, detailed cost information has not been maintained by location for buildings and fixed equipment and improvements other than buildings.

We recommend that the district establish and maintain detailed subsidiary records for buildings and fixed equipment and improvements other than buildings.

The second area relates to the district's accountability procedures for tangible personal property. The district maintains detailed subsidiary records for its tangible personal property; however, reconciliations of the subsidiary records to the respective capital assets control accounts were not prepared. Such a procedure would provide assurance that the balances reported in the control accounts are accurate and complete.

We recommend that the district perform periodic reconciliations of capital assets subsidiary records to the respective control accounts.

The third area relates to the adequacy of the district's procedures over tangible personal property inventories and disposals. The district did not complete physical inventories of tangible personal property for the 2001-02 fiscal year for 10 of the district's 23 cost centers with tangible personal property of approximately \$4.5 million. Also, the district did not maintain required information related to the disposal of tangible personal property items for updating of the individual property records. Complete annual physical inventories and adequate records of property disposals are necessary to ensure the accuracy of tangible personal property records and the propriety of tangible personal property disposals.

We recommend that the district provide for complete annual physical inventories of all tangible personal property, appropriate follow-up for items not located, and updating of the individual property records for dispositions.

Best Practice 14: Using

The district ensures that significant capital outlay purchases meet strategic plan objectives.

As mentioned previously, districts that make the best use of their resources and consistently have high student performance generally practice some form of strategic planning that addresses district operations, including the capital acquisition program, and links operational functions to the achievement of institutional goals.

Although the Bradford County School District does not have a formal board-established strategic plan, it has prepared capital project budgets which are consistent with district objectives. The district prepares a five-year facilities work program addressing long-range goals that is used in developing annual capital projects budgets. The five-year facilities work program is updated annually and, pursuant to state law, the district's annual capital project budget is developed concurrently with and is based upon the first year of

the five-year facilities work program. The district has also developed approval processes that ensure only appropriate expenditures are charged to capital project budgets.

DEBT MANAGEMENT

Best Practice 15: Using

The district has established written policies and procedures and periodically updates them to provide for effective debt management.

Many school districts must identify and procure other sources of financing to meet current facility needs and, in some instances, operating needs. There are specific provisions of state law that govern school districts' ability to incur debt. Also, most debt instruments are highly complex financial transactions that require a high level of expertise to ensure compliance with federal (primarily arbitrage), state, and district requirements as well as ensure that the transactions are appropriately accounted for and monitored.

Many school districts, depending on the extent of their debt program, must have effective procedures to ensure that debt service requirements are appropriately followed.

The Bradford County School District does not enter into long-term financing arrangements on a regular or frequent basis. The district does have some bonded debt; however, this debt is managed through the State Board of Education and the district's responsibility is limited to properly recording the transactions in its financial records. As such, detailed procedures are not required. When needed, the district contracts with an experienced financial advisor in evaluating the best financing alternatives given the district's specific needs, and uses the financial advisor or, when appropriate, the State Board of Education to assist in the issuance of debt instruments. The district has adequate accounting procedures in place to ensure tracking of existing liabilities and timely payment of those liabilities.

Best Practice 16: Using

The district ensures that significant debt financings meet strategic plan objectives.

As mentioned previously, districts that make the best use of their resources and achieve high student performance rates generally practice some form of strategic planning that covers all district operations, including the use of debt management to meet capital acquisition program goals, and links them to the achievement of institutional goals.

The Bradford County School District does not anticipate additional debt financing for capital asset acquisition at the present time. As capital project needs are identified, prioritized, and given a value, the district will evaluate revenue streams and fund balance resources as well as optional revenue streams such as the capital outlay millage levy and financing options. When evaluating financing options, the district will use a financial advisor. Based on the advice of the financial advisor, the board will be presented with the best financing alternative given the district's specific needs.

RISK MANAGEMENT

Best Practice 17: Using

The district has established written policies and procedures and periodically updates them to provide for effective risk management.

Managing risks has become a critical component of district operations. Rising costs of property, liability, and other insurance coverage has forced districts to carefully evaluate the risks they are insuring and to identify ways to contain costs. Effective risk management involves:

Cost Control Systems

- Evaluating insurance alternatives such as self-insurance and other current industry trends;
- Evaluating current insurance programs for deductible amounts, co-insurance levels, and types of coverage provided;
- Evaluating risks and implementing programs to minimize exposure to potential losses; and
- Monitoring district compliance with applicable laws and regulations.¹

The Bradford County School District participates in a risk management consortium, which performs most of the duties set forth above. The district's risk manager, the director of operations, oversees the process of providing the risk management consortium with all pertinent information and is responsible for ensuring that the district has acquired all insurance coverage required by law.

Best Practice 18: Using

District staff periodically monitors the district's compliance with various laws and regulations related to risk management.

School districts are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Florida law requires school districts to provide effective protection against these risks. Florida law allows school districts to purchase insurance, to be self-insured, to enter into risk management programs, or to have any combination of the above in any area to the extent the district is either authorized or required by law to contract for insurance. Due to the significant risks that school districts are exposed to, it is important that they effectively monitor compliance with the various laws and regulations related to risk management.

To meet these legal requirements, the Bradford County School District is a member of a consortium of school districts which was created to provide a combined self-insurance program and risk management services to participating members. This consortium is a public entity risk pool and provides a combined self-insurance program for property protection, general liability, automobile liability, workers' compensation, money and securities, employee fidelity and faithful performance, boiler and machinery, errors and omissions, and other coverage deemed necessary by members of the consortium. The insurance consortium is self-sustaining through member assessments (premiums) and purchases coverage through commercial companies for claims in excess of specified amounts.

Best Practice 19: Using

The district prepares appropriate written cost and benefit analyses for insurance coverage.

As mentioned previously, managing risks has become a critical component of school district operations. Rising costs of property, liability, and other insurance coverage has forced school districts to carefully evaluate the risks they are insuring and to identify ways to contain costs. Effective school districts regularly evaluate the costs of their risk management programs and compare their costs with their peers and continually evaluate new risk management products to determine the cost benefit.

The Bradford County School District's risk management function has established processes for evaluating insurance coverages. Annually, with the assistance of the consortium, the insurance lines are reviewed to determine adequacy of services provided relative to the cost of the insurance. The risk manager uses analyses provided by the consortium to evaluate the reasonableness of costs paid by the district.

¹ Risk management as it applies to this section relates to insurance coverage required by law other than employee group benefits, such as group health insurance, which are discussed in Chapter 6-Personnel Systems and Benefits.

PURCHASING

Best Practice 20: Using

The district has established written policies and procedures to take maximum advantage of competitive bidding, volume discounts, and special pricing arrangements; however, purchasing processes would be more efficient if the district raised its competitive bid threshold to the statutorily established amount and periodically considered the benefits of establishing a purchase card program.

An effective purchasing system allows a school district to provide quality materials, supplies, and equipment in the right quantity in a timely, cost-effective manner. A good purchasing system has established purchasing policies implemented through effective and well-developed procedures. Careful planning and cost-effective practices such as bulk-purchasing and price/bid solicitation provide the framework for the efficient procurement of goods and services. School districts must also ensure that goods and services are obtained to the specifications of the users; at the lowest possible costs; and in accordance with applicable state laws and regulations.

The Bradford County School District consolidates and bids recurring purchases when feasible. When practical, the district uses various state purchasing contracts and piggybacks on the bids of other school districts. The district generally follows its purchasing policy, which provides that purchases of items or groups of items exceeding \$15,000 shall be made on the basis of competitive sealed bids.

Although the district is using this best practice, there are two areas in which the district could potentially improve its purchasing processes. The first area involves the district's competitive bid threshold. Formal competitive bid processes are generally time and resource consuming. The district's current competitive bid threshold is \$15,000, which is lower than the statutorily established amount (currently \$25,000).

We recommend that the district raise its \$15,000 threshold for competitive bids to the statutorily established amount (currently \$25,000).

The second area relates to the fact that the district has not established a purchasing card program. The district's small size may limit potential cost savings resulting from establishing a purchasing card program; however, an effective purchasing card program could result in time and resource efficiencies.

We recommend that the district periodically review its purchasing practices and consider the benefits of establishing a purchase card program. These changes could possibly allow the district to achieve resource efficiencies that could be reallocated to other essential district needs.

INVENTORY MANAGEMENT

Best Practice 21: Using

The district has established written policies and procedures and periodically updates them to provide for effective management of inventories.

Many school districts have chosen to centralize their warehousing function. In many instances school district inventories include desirable items that are subject to misappropriation. Depending on the size of the warehousing function and the nature of the inventory items stored, it is essential that these school districts establish effective policies and procedures that ensure inventory assets are appropriately controlled, safeguarded, and accounted for.

The Bradford County School District has established a policy for inventory management. The district maintains limited inventories for school, transportation, maintenance, and food service operations. Due to the small amount of inventory, inventory balances are entered into the general ledger at the end of each fiscal year based on inventory counts.

Best Practice 22: Using

The district periodically evaluates the warehousing function to determine its cost-effectiveness.

School districts that have centralized warehousing functions can meet this best practice by evaluating the total cost of its warehousing operation and comparing this cost with alternative inventory procurement services. Recently, many organizations have been reassessing the need to maintain central warehousing facilities by assessing the potential economies of outsourcing warehouse operations to inventory supply companies. Organizational studies have found that some inventory suppliers can provide services comparable to the central warehouse function at costs equal to or lower than the central warehouse function. The end result for these school districts has been to fully eliminate central warehouses and replace them with inventory supply delivery services for applicable and appropriate items.

The Bradford County School District informally compares the costs of its warehousing operation located in Starke with inventory supply vendors to identify potential enhancements to its inventory operations. Transportation and maintenance inventories are maintained to facilitate timely repairs and maintenance. School and food service inventories are maintained for all schools in a central warehouse. The district has nine schools, only three of which are located outside of Starke, and all within 20 miles of the warehouse. Because of the close proximity, the district considers central warehousing to be the most practical and cost-effective method for providing supplies and materials to the various schools to eliminate duplication of effort. The district's warehousing operation requires only a full-time delivery person and a part-time fiscal assistant for maintaining inventory records. The district purchases in bulk to the extent practical to achieve cost savings. Additionally, schools do not have storage facilities for accommodating large quantities of inventory, particularly when controlled climate is required, and inventory safeguarding is enhanced when maintained centrally. The district meets this best practice when these factors are considered.