

14

Cost Control Systems

The Santa Rosa County School District's cost control systems include internal auditing, financial auditing, asset management, inventory management, risk management, financial management, purchasing, and payment processing.

Conclusion

The Auditor General of the State of Florida audits the Santa Rosa County School District (district) on an annual basis. The audit is both a financial audit and a legal compliance audit. The district's most recent audit appears favorable, and the district has a consistent record of favorable audits for prior years. The audit process involves an extensive evaluation of the district's internal controls; consequently, the positive audit reports support the conclusion that the district's cost control systems are generally effective. Opportunities for improvement identified by SchoolMatch consultants are discussed below.

During the course of this review, SchoolMatch consultants also identified notable strengths in the district's cost control systems, some of which are included in Exhibit 14-1 below.

Exhibit 14-1

The District's Notable Accomplishments in Cost Control Systems in the Last Three Years

- The district's implementation of a procurement card program has made purchasing more efficient and convenient.
 - The district has excelled at compiling useful budgetary information and data and presenting the information and data to the school board in an easy-to-understand format. The district also makes its budgetary data available to the general public through its website.
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Source: Santa Rosa County School District.

Overview of Chapter Findings

SchoolMatch consultants evaluated the district's cost control systems using the Best Financial Management Practices and associated indicators adopted by the Commissioner of Education. The consulting team employed several methodologies to develop chapter conclusions and action plans. For instance, SchoolMatch consultants conducted on-site interviews with district level managers and gathered information on the district's cost control systems. Budgets, financial reports, audit reports, transaction documents, and the accounting system were examined. Additionally, policies and procedures that relate to cost control systems were reviewed in evaluating the effectiveness of the district's cost control systems. As a means of affirming its impressions regarding the strength of the district's cost control systems, SchoolMatch consultants received authorization and reviewed the Auditor General's work papers relative to the effectiveness of cost control systems in the district.

An overview of chapter findings is presented below.

Internal Auditing

1. The district has not established an internal audit function. (Page 14-6)

Financial Auditing

2. The district obtains an external audit that is performed in accordance with government auditing standards. (Page 14-8)
3. The district provides for timely follow-up of findings identified in the external audit. (Page 14-8)
4. The district obtains and reviews required financial information relating to school internal accounts, direct service organizations (DSOs), and charter schools. (Page 14-9)

Asset Management

5. Segregation of Duties: The district segregates responsibilities for custody of assets from record keeping responsibilities for those assets. (Page 14-12)
6. Authorization Controls: The district has established controls that provide for proper authorization of asset acquisitions and disposals. (Page 14-12)
7. Authorization Controls: The district has established records that accumulate project costs and other relevant data to facilitate reporting construction and maintenance activities to the board, public, and grantors. (Page 14-13)
8. Asset Accountability: The district provides recorded accountability for capitalized assets. (Page 14-13)
9. Asset Safeguards: Assets are safeguarded from unauthorized use, theft, and physical damage. (Page 14-13)

Inventory Management

10. Segregation of Duties over Inventory: The district segregates responsibilities for custody of inventories from record keeping responsibilities for those assets. (Page 14-15)
11. Inventory Requisitioning Controls: The district has established and implemented controls that provide for proper inventory requisitioning. (Page 14-15)
12. Inventory Accountability and Custody: The district has established controls that provide for inventory accountability and appropriate safeguards for inventory custody. (Page 14-15)
13. Inventory Management: The district periodically evaluates the inventory function to determine its cost-effectiveness. (Page 14-16)

Risk Management

14. General: The district has a process to set objectives for risk management activities, identify and evaluate risks, and design a comprehensive program to protect itself at a reasonable cost. (Page 14-16)
15. Providing for Coverage Against Risk Exposure: The district has comprehensive policies and procedures relating to acquiring and reviewing coverage for risks of loss. (Page 14-17)

Financial Management

16. Management Control Methods: District management communicates its commitment and support of strong internal controls. (Page 14-19)
17. Financial Accounting System: The district records and reports financial transactions in accordance with prescribed standards. (Page 14-19)

18. Financial Reporting Procedures: The district prepares and distributes its financial reports timely. (Page 14-20)
19. Budget Practices: The district has a financial plan serving as an estimate of and control over operations and expenditures. (Page 14-20)
20. Cash Management: The district has effective controls to provide recorded accountability for cash resources. (Page 14-21)
21. Investment Practices: The district has an investment plan that includes investment objectives and performance criteria designed to maximize return consistent with the risks associated with each investment, and specifies the types of financial products approved for investment. (Page 14-22)
22. Receivables: The district has established effective controls for recording, collecting, adjusting, and reporting receivables. (Page 14-22)
23. Salary and Benefits Costs: The district has effective controls that provide accountability for the payment of salaries and benefits. (Page 14-22)
24. Debt Financing: The district analyzes, evaluates, monitors, and reports debt-financing alternatives. (Page 14-25)
25. Grant and Entitlement Monitoring: The district effectively monitors and reports grant activities. (Page 14-25)

Purchasing

26. Segregation of Duties: The district segregates purchasing responsibilities from the requisitioning, authorizing, and receiving functions. (Page 14-27)
27. Requisitioning: The district has established controls for authorizing purchase requisitions. (Page 14-27)
28. Purchasing: The district has established authorization controls over purchasing. (Page 14-28)
29. Receiving: The district has established controls to ensure that goods are received and meet quality standards. (Page 14-29)

Payment Processing

30. Disbursements: The district has established controls to ensure that disbursements are properly authorized, documented, and recorded. (Page 14-30)
31. Invoice Processing: The district has established controls for processing invoices to ensure that quantities, prices, and terms coincide with purchase orders and receiving reports. (Page 14-30)

Fiscal Impact of Recommendations ---

The recommendation to complete a risk assessment and create an internal audit function has a direct fiscal impact. Exhibit 14-2 shows this recommendation. Assuming an average salary of \$61,250 (including employee benefits), the district would incur an additional cost of \$306,250 over five years if this recommendation were adopted. The consultants believe that the addition of this function is essential to making improvements and ensuring continued integrity in the maintenance of the district's cost control systems. As a means for the district to justify to the school board and general public the establishment of an internal audit function, the first part of our recommendation includes performing a comprehensive risk assessment of the financial functions of the district. We estimate the cost of such a risk assessment, if out-sourced, to be \$15,000.

Exhibit 14-2

One Cost Control Systems Action Plan Recommendation Has a Fiscal Impact

Recommendation	Five Year Fiscal Impact
<ul style="list-style-type: none">Complete a comprehensive risk assessment to identify the level of risk associated with the district's various financial areas and functions. Assuming the risk assessment supports the creation of an internal audit function, we recommend the district proceed accordingly.	<ul style="list-style-type: none">The one-time cost of a comprehensive risk assessment would be \$15,000, plus, the five-year cost in salary and benefits of hiring an internal auditor would be \$306,250.

Source: SchoolMatch consultants.

Background

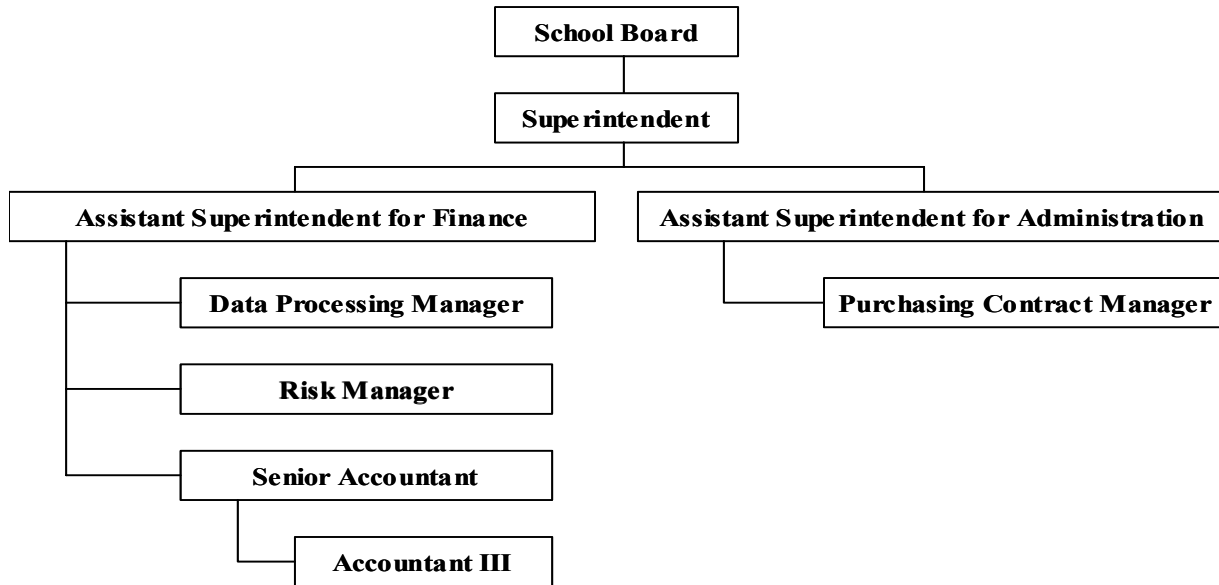
Pursuant to s. 237.01, *Florida Statutes*, the Superintendent of Schools is responsible for keeping records and accounts of all financial transactions in the manner prescribed by the State Board of Education. The district follows procedures established by Florida law and State Board of Education rules in establishing budgets. With an annual budget of approximately \$168 million, it is essential that effective cost control systems have been established.

The district's accounting policies conform with generally accepted accounting principles applicable to state and local governmental units. Accordingly, the district's accounting system is organized on the basis of funds and account groups. A fund is an accounting entity having a self-balancing set of accounts for recording assets, liabilities, fund equity, revenues, either expenditures or expenses depending on fund type, and other financing sources and uses. The district is also in the process of updating its accounting policies and financial reporting model for the fiscal year ended June 30, 2002, to comply with recent changes in governmental accounting standards.

The following is a table of organization for the finance function at the Santa Rosa County School District.

Exhibit 14-3

**Organization For the Finance Function
at the Santa Rosa County School District**



Source: Santa Rosa County School District.

Internal Auditing

An Established Internal Audit Function Can Add Value to District Operations

The Institute of Internal Auditors defines internal auditing as “an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.” A completely established internal audit function’s responsibilities (scope) can include verifying the reliability and integrity of information; determining compliance with laws, regulations, policies, procedures, and contracts; ensuring the safeguarding of assets; appraising the economical and efficient use of resources; and determining and/or measuring whether established objectives and goals for operations or programs have been accomplished.

Another benefit of an internal audit function is that it would provide the district assurance that internal control processes in the organization are adequately designed and functioning effectively. This would, in turn, promote public confidence that public funds entrusted to the board are handled with integrity and are used solely for the support and delivery of educational services.

Typically, internal audit functions are used to perform risk assessments so that identified risks can be prioritized and addressed. Risks addressed by internal audit functions, depending on their nature, can be eliminated or minimized, through the recommendation of enhanced control processes or other practices that reduce exposure to identified risks. These benefits can possibly offset the costs of an internal audit function.

In addition to resources received at the district level, the individual schools also receive moneys for club and class activities. These moneys are deposited in each school’s internal accounts, which are commonly

referred to as school internal funds. Rule 6A-1.087, FAC, requires school districts to provide for annual audits of the school internal funds. As a practicality, internal auditors employed pursuant to s 230.23(10)(l), FS (2001), may also be assigned the responsibility for auditing the school internal funds. Although the district employs an internal accounts auditor to perform annual audits of the school internal accounts, this employee does not have other responsibilities typically assigned to a true internal audit function.

The scope of many internal audit functions may not include all of the above responsibilities. Management decisions, the scope of entity's operations, and the regulatory environment that the entity exists in can impact the degree of responsibility given an internal audit function. Section 230.23(10)(l), FS (2001), provides that school districts may employ an internal auditor to perform ongoing financial verification of the financial records of the school district. This law also provides that the internal auditor shall report directly to the board or its designee.

1 The district has not established an internal audit function.

The district desires to establish an internal audit function; however, it has not done so because of budget constraints. Consequently, the district continues to rely on the annual external audit by the Auditor General and its own internal control system to ensure the integrity and effectiveness of its cost control systems. Though important, such external reviews do not substitute for the responsibilities assigned to an internal audit function.

Regardless of whether or not the district has an internal audit function, it should perform a risk assessment of its operations and activities on an annual basis to determine and prioritize risks that should be addressed and corrected. Risk assessments are typically conducted in all large organizations as a means to protect against undesirable acts and to identify means to improve the efficiency and effectiveness of operations. Without a properly conducted risk assessment, the district cannot determine what risks exist that should be addressed.

Typically, internal audit functions are used to address risks identified in a risk assessment. Recommendations made by the internal audit function to resolve these identified risks often result in cost savings and avoidances. The value of these cost savings and avoidances often justify the costs of an internal audit function. As the district attempts to resolve risks identified in annual risk assessments, it may find that the most efficient means to do so is with an in-house internal audit function.

The annual risk assessment will also help the district determine the workload requirements for an in-house internal audit function, should it decide to establish one. A factor to consider is whether to hire one part-time, one full-time, or multiple internal auditors. This factor may not be known until after the risk assessment is complete. In addition, the qualifications and level of experience needed in a potential internal auditor may be dependent on the risk assessment. Some factors to consider are: hiring a Certified Public Accountant (CPA) versus a non-certified accountant; how many years of experience is needed; and whether or not specific experience with school districts is needed. Also, the in-house internal audit function could perform the annual risk assessment, saving the cost of out-sourcing it.

Based on demographic salary statistics from human resource databases, we estimate that a moderately experienced internal auditor (four to six years of experience as an internal auditor) could be hired for a salary of \$49,000 per year, plus employee benefits approximating an additional 25% (based on fiscal year 2000-01 benefit costs), for a total of \$61,250 per year. The various factors discussed in the above paragraph may impact this cost either positively or negatively. As an alternative, the district should consider realigning the job responsibilities of certain personnel who may be qualified for such a position, in order to create the position internally. This may be a less expensive alternative; however, we

understand from discussions with district staff that the current staff is not able to take on additional responsibilities at this time.

We estimate a one-time risk assessment could be performed for \$15,000, if out-sourced. This amount is based on an estimate of 175 hours at an average rate of \$85 per hour (\$14,875 rounded up to \$15,000). However, the district should consider completing the assessment in-house, if an internal audit function is established.

Recommendation

- *We recommend that the district authorize a comprehensive risk assessment to identify the level of risk associated with the district's various financial areas and functions. Assuming the risk assessment supports the creation of an internal audit function, we recommend the district proceed accordingly.*

Action Plan 14-1 provides the steps needed to implement this recommendation.

Action Plan 14-1

Establish a professional level internal auditor position	
Strategy	Justify the necessity of hiring an internal auditor and determine the district's needs by completing a comprehensive risk assessment.
Action Needed	<p>Step 1. Determine whether the risk assessment will be performed by internal staff or out-sourced to an independent firm.</p> <p>Step 2. Should the decision be made to out-source the risk assessment, send qualified firms a RFP to conduct the risk assessment. Review returned proposals and engage the most qualified firm.</p> <p>Step 3. Review the results of the risk assessment and determine the level of risk borne by the district. Assuming a significant level of risk, recommend to the board the creation of an internal auditor position.</p> <p>Step 4. Prepare a job description for the position. The description should specify that the position report directly to the school board.</p> <p>Step 5. Establish a policy and/or charter describing the duties of the position and have it adopted by the school board.</p> <p>Step 6. Complete the hiring process.</p>
Who Is Responsible	Superintendent
Time Frame	July 1, 2003, or as soon thereafter as funding is available
Fiscal Impact	<p>An out-sourced comprehensive risk assessment would cost the district approximately \$15,000. If an internal auditor is hired, the cost would be approximately \$61,250 per year with a five-year cost of \$306,250.</p> <p>It is likely that addressing the risks identified in the risk assessment and the hiring of an internal auditor will result in cost savings and avoidances that will offset the associated costs of these activities. However, the cost impact of these potential savings and avoidances cannot be determined at this time.</p>

Source: SchoolMatch Consultants.

Financial Auditing

Section 11.45(c), FS, defines a financial audit as an examination of financial statements in order to express an opinion on the fairness with which they are presented in conformity with generally accepted accounting principles, 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.

In many instances, school districts are primary governments that include one or more component units. Component units can either be “blended” into the financial transactions of a particular fund, or they may be “discretely presented” in separate column(s) in the financial statements. Accounting standards provide specific criteria that are used to identify component units and to determine whether they should be blended or discretely presented.

As of June 30, 2001, the district had one foundation (direct-support organization), The Santa Rosa Educational Foundation. The Foundation is considered to be a discretely presented component unit. As permitted by Section 228.056, Florida Statutes, the district also has a charter school, The Learning Academy, Inc., of Santa Rosa County, which is to provide an alternative educational system for “at risk” students.

2 The district obtains an external audit that is performed in accordance with governmental auditing standards.

The Auditor General of the State of Florida conducts annual financial and compliance audits

Florida law governs the district’s responsibility to obtain annual financial audits. Section 11.45(2)(i), FS, provides that the Auditor General will conduct financial audits of the accounts and records of all school districts in the population category that Santa Rosa County School District is in.

The Auditor General timely conducts annual audits of the district. The district has received favorable audit reports for the fiscal years ended June 30, 2000, and 2001.

3 The district provides for timely follow-up of audit findings identified in the external audit.

Audit findings are appropriately followed-up by district staff

Audit findings are discussed in Finance Department staff meetings. Corrective measures are developed, and the Assistant Superintendent for Finance monitors the implementation of these measures. The three audit findings noted in the audit report for the 1999-00 fiscal year are in the process of being resolved and corrective measures will be reported to the board, as appropriate.

School districts are required to submit monthly financial statements to the board and the Auditor General. The last audit report pointed out that this was not being done as required. SchoolMatch reviewed the

status of these monthly financial statements and found that they are now being presented to the board on schedule. Further, SchoolMatch suggested that the district add to the monthly financial statements a comparison of actual revenues and expenditures to budget and confirmed that this is now being done (effective December 13, 2001).

4 The district obtains and reviews required financial information relating to school internal accounts, direct service organizations (DSOs), and charter schools.

The district obtains and reviews required financial information for the school internal accounts

In addition to resources received at the district level, the individual schools also receive moneys for club and class activities. These moneys are deposited in each school’s internal accounts, which are commonly referred to as school internal funds. Rule 6A-1.087, FAC, requires school districts to provide for annual audits of the school internal funds. Most school districts, including Santa Rosa County School District, employ internal accounts auditors to perform the audits of the internal funds. Others contract with certified public accountants to perform the audits. Exhibit 14-4 summarizes the district’s internal accounts activity for the past three fiscal years.

Exhibit 14-4

Three Year Summary of Internal Accounts Activity

	1998-99	1999-00	2000-01
Revenues	\$3,857,865	\$4,431,019	\$4,525,282
Expenditures	3,861,469	4,377,394	4,419,236
Fund Balance	1,583,715	1,637,340	1,743,385

Source: Santa Rosa County School District – Audit by the Auditor General.

The district has policies and procedures that govern the handling of internal accounts, and these guidelines are patterned after and are consistent with the State Accounting Manual promulgated by the Department of Education. These policies and procedures were being integrated into financial procedures manuals that were still in the development stage at the time of this review.

The internal accounts auditor and other district finance staff members advised SchoolMatch consultants that the conduct of the audits has not always been timely in the past, a condition which is undesirable because the more timely the audits are, the more effective remedial action will be. Fortunately, for the fiscal year ended June 30, 2001, the audits were completed for presentation to the board for review on December 13, 2001.

Presentation of Internal Accounts Audit Reports and findings to the board follow procedures similar to those for audits of other district funds. Findings are presented to school principals either formally in an audit exit conference, or, informally, via phone or e-mail; however, findings are frequently left uncorrected and are repeated in following year audits. The accountability for audit findings is not well defined.

The district obtains and reviews required financial information for DSO's and charter schools

The Santa Rosa Educational Foundation is a separate not-for-profit corporation whose primary purpose is to raise funds for supplementing and assisting the Santa Rosa County School District. Total expenditures for the Foundation for the fiscal year ended June 30, 2001, were \$139,805. The Foundation is audited annually by an independent certified public accountant, and the audit report is submitted to the district, as required by the agreement between the Foundation and the district.

Total expenditures for the Learning Academy, Inc. of Santa Rosa County (charter school) for the fiscal year ended June 30, 2001, were \$717,625. The charter school agreement specifies that the school shall provide for an audit within 75 days of the close of the fiscal year. The Director of Middle Schools presents copies of the annual report to board members. The current agreement between the district and the charter school requires annual financial information relating to charter school activities. The district is considering an additional requirement for quarterly financial information from the charter school, which we believe would enhance the district's understanding of the school's financial activity. Though not a critical best practice, we encourage the district to implement the quarterly requirement.

Recommendation

- *Principals and others responsible for internal accounts should be held more accountable for resolving adverse internal accounts audit findings. In all cases, audit findings and the related corrective actions should be formalized and documented in writing between the internal accounts auditor and principals, with increased monitoring and oversight of the resolution process by the Superintendent.*

Action Plan 14-2 provides the steps needed to implement this recommendation.

Action Plan 14-2

Internal Accounts Audit Findings	
Strategy	Establish a better accountability system for resolving adverse internal accounts audit findings. Audit findings and the related corrective actions should be formalized and documented in writing between the Internal Accounts Auditor and the principals, with increased monitoring and oversight of the resolution process by the Superintendent.
Action Needed	<p>Step 1. The internal accounts auditor will prepare letters detailing adverse findings to the principals for the Superintendent's signature.</p> <p>Step 2. Principals will be required to make a written response to the Superintendent within a reasonable length of time. The responses should explain the reason(s) for the cited deficiencies and give the details of corrective actions taken.</p> <p>Step 3. The internal accounts auditor will keep careful records of letters from the Superintendent and responses by the principals.</p> <p>Step 4. The internal accounts auditor will inform the Superintendent of any failures to properly respond to adverse findings letters and will monitor all of the situations until they are appropriately resolved.</p>
Who is Responsible	Internal Accounts Auditor and Superintendent
Time Frame	Begin with the 2001-2002 fiscal year's internal accounts audit report.
Fiscal Impact	No fiscal impact

Source: SchoolMatch Consultant.

Asset Management

The district has a fiduciary responsibility to protect publicly financed fixed assets and tangible personal property acquired to educate students. To carry out this fiduciary responsibility, the district must develop effective accounting and tracking processes that will ensure that these assets are properly accounted for, reported, and safeguarded.

Accounting for fixed assets involves tracking and reconciling additions and deletions to property and performing physical verifications of the existence of the property. The most important purposes for keeping and maintaining accurate accounting records of fixed assets are:

- Properly kept property records furnish taxpayers with information about the investment of tax dollars in the district;
- Adequate property records provide the basis for insurance coverage;
- Reliable information about currently owned fixed assets and tangible personal property can provide material assistance in determining future requirements (replacement, etc.); and
- Periodic physical inventories identify lost or stolen items so that insurance claims can be filed, additional controls instituted, and accounting records adjusted to reflect the losses.

The district records expenditures for the acquisition or construction of fixed assets in the governmental fund type or expendable trust fund that paid for the acquisition or construction. The fixed assets so acquired are recorded at cost in the general fixed assets account group on the financial statements. The depreciation of general fixed assets is not recorded in the district's accounts. Effective with the 2001-02 fiscal year, accounting practices relating to the reporting of fixed assets, including depreciation on these assets will change as the district implements Governmental Accounting Standards Board Statement 34. However, for the purposes of this report, information is presented using current accounting standards.

Florida law and *Rules of the Auditor General* govern school district responsibilities relative to fixed assets. Florida law defines property as fixtures and other tangible personal property of a nonconsumable nature, the value of which is \$750 or more and the normal expected life of which is one year or more. School districts are permitted to use lower capitalization thresholds if they choose. Santa Rosa County School District uses a capitalization threshold of \$750.

Information related to general fixed asset balances over the most recent three fiscal years is shown in Exhibit 14-5.

Exhibit 14-5

Three Year Summary of General Fixed Assets

General Fixed Assets	1998-99	1999-00	2000-01
Land	\$ 3,364,251	\$ 3,363,063	\$ 4,560,749
Improvements Other than Buildings	7,520,371	8,126,283	12,646,761
Buildings and Fixed Equipment	120,080,846	120,716,520	164,370,327
Furniture, Fixtures, and Equipment	14,501,760	13,896,828	16,433,290
Motor Vehicles	8,629,604	8,148,447	8,142,213
Construction in Progress	19,949,223	14,226,732	2,928,430
Audio Visual Materials & Computer Software	1,602,822	2,309,356	3,418,972
Total General Fixed Assets	\$175,648,877	\$170,787,229	\$212,500,742

Source: Santa Rosa County School District – Audit by the Auditor General.

The Furniture, Fixtures, and Equipment; Buildings and Fixed Equipment; and the Construction In Progress categories are the most active and are the accounts for which effective cost controls are most needed.

5 Segregation of Duties: The district segregates responsibilities for custody of assets from record keeping responsibilities for those assets.

The control of assets is separated from those who maintain asset records

The organizational chart for the district illustrates the fact that the responsibilities for acquiring, purchasing, and maintaining custody of capital assets are appropriately separated. Purchases of capital assets are initiated by schools or district-wide departments and must follow purchasing policies and procedures established by the board. Requisitions are prepared by requesting schools and departments and are reviewed by the Purchasing Department for conformance with relevant policies and procedures. Expenditures for all capital assets are processed through the Finance Department, and then the property control accountant maintains control over all capital assets. School principals and department managers have custodial responsibilities for property charged to and under their area of responsibility.

The responsibility for property records and an annual inventory of tangible personal property is assigned to the Purchasing Manager, who reports to the Assistant Superintendent for Administration, and the annual audit of tangible personal property, which is required by law, is performed by an independent contractor.

6 Authorization Controls: The district has established controls that provide for proper authorization of asset acquisitions and disposals.

Appropriate policies and procedures govern the acquisition and disposal of assets

All asset acquisitions, which are initiated by cost center heads, are controlled by the Purchasing Department, which reports to the Assistant Superintendent for Administration. Competitive bids are required for purchases over \$25,000, and informal quotes are required for purchases over \$8,333. Decisions regarding financing alternatives and the use of appropriate accounting procedures are made by the Finance Department because of their special expertise in these areas.

Separate capital project budgets and accounts are maintained, and the board has promulgated policy requiring its approval of all material capital asset projects or acquisitions. Board policy and the property control manual ensure that all property dispositions are made in accordance with legal requirements.

When capital assets are acquired with grant funds, the terms of the grant govern the approval procedures followed; however, these funds are subject to the same accounting procedures and controls that are used for internally funded purchases.

7 Authorization Controls: The district has established records that accumulate project costs and other relevant data to facilitate reporting construction and maintenance activities to the board, public, and grantors.

The district's accounting system accommodates project accounting

Separate accounts are maintained for all capital outlay projects and for maintenance projects of a material amount, for both in-progress and completed projects. Files for completed projects are transferred to Property Control, the cost of in-progress projects is properly reported, and the cost of completed projects is transferred to the appropriate fixed asset accounts on a timely basis. Though the district uses a largely manual process for tracking multiple-year projects and project costs, the process appears to be effective.

Where contractors do construction work, procedures are in place for ensuring that the terms of the contract are followed. Progress payments must be in accordance with the terms of the contract.

Though federally funded projects are rare (currently, there is only one federally funded construction project in progress), contractors are monitored to ensure compliance with EEO, Davis-Bacon, and other regulations and non-financial contract provisions.

8 Asset Accountability: The district provides recorded accountability for capitalized assets.

Capital assets are accounted for pursuant to law and acceptable accounting principles.

As required by law and as dictated by generally accepted accounting principles, capital assets, including self-constructed, donated, and leased assets, are properly marked and inventoried by the district.

In accordance with Board Policy 6.08(3), a threshold for the capitalization of assets is established and approved by the board, and this amount is presently \$750. Additionally, the district follows appropriate procedures to properly distinguish between capital and operating expenditures, including distinguishing between capital and operating leases.

Detailed property records are required to be maintained per the Property Accounting Manual. The Florida Public Lands Research Program provides the district with an annual listing of property rights. Property Accounting periodically reviews this list.

9 Asset Safeguards: Assets are safeguarded from unauthorized use, theft, and physical damage.

The district's tangible personal property is adequately safeguarded

Capital property is safeguarded and controlled pursuant to policies adopted by the board. These assets are acquired in accordance with established procedures and their ownership is documented in property records. Each item of tangible personal property is assigned to a custodian who is responsible for

Cost Control Systems

safeguarding the property. The custodian is held accountable through an annual inventory (performed by contract through an outside firm) of her/his property, whereby all items are either located or identified as missing. Reports of missing property are prepared and custodians are required to make every effort to locate each item. If a custodian cannot locate an item that is missing, she/he must give a satisfactory explanation. Reports detailing missing property items are prepared by the Property Manager and presented to the board.

While detailed property records are compared to existing assets on an annual basis as a part of the above-referenced audit process, there is less accountability when there is a change in property custodian. Ideally, the out-going custodian should certify the property under her/his control at the time of the change in custodians.

Tangible personal property is tagged when purchased, thereby facilitating the periodic inventories and assisting in searches for missing items. Detailed property records are maintained and are periodically reconciled to the general ledger control accounts.

Property dispositions are made in accordance with Florida statutes and procedures in the district's Property Accounting Manual, and accounting records are properly adjusted when dispositions occur. Dispositions of tangible personal property are made, to the economic advantage of the district, through the periodic sale of surplus property via public auctions.

Inventory Management

Inventories consist of expendable supplies held for consumption in the course of district operations. The maintenance, warehouse, transportation, and gas supplies are recorded in the General Fund; purchased food, commodities, and related non-food items are reported in the Special Revenue Fund. Inventories are stated at cost using a weighted-average basis except that United States Department of Agriculture surplus commodities are stated at their fair value as determined at the time of donation to the district's food service program by the Florida Department of agriculture and Consumer Services, Bureau of Food Distribution. The costs of inventories are recorded as expenditures when used rather than purchased. Exhibit 14-6 below illustrates inventory balances in the General and Special Revenue Funds over the past three years.

Exhibit 14-6

Three Year Summary of Inventories

Inventories	1998-99	1999-00	2000-01
General Fund	\$ 221,789	\$ 307,144	\$ 361,125
Special Revenue Fund	293,055	163,428	204,696
Total	\$514,844	\$470,572	\$565,821

Source: Santa Rosa County School District – Superintendent's Annual Financial Reports.

10 Segregation of Duties over Inventory: The district segregates responsibilities for custody of inventories from record keeping responsibilities for those assets.

Inventories are under the custody of the warehouse staff

The purchasing buyer initiates the purchase of inventory items, and the warehouse manager and his staff are custodians of the district's inventories, but the accounting control records for the inventories are maintained in the Finance Department. This purchasing and accounting control and oversight, combined with periodic physical inventories conducted by employees who are not warehouse employees, effect appropriate controls over inventories.

11 Inventory Requisitioning Controls: The district has established and implemented controls that provide for proper inventory requisitioning.

Inventory items are delivered only on the basis of approved requisitions

Requests for warehouse stock are initiated using a warehouse catalog and warehouse requisition form. These requisitions must be reviewed and approved by the principals or department heads (or their formally appointed designees) responsible for the budget to which the requisitions will be charged. (Computerized controls are in place to prohibit unauthorized individuals from initiating a requisition.)

Warehouse personnel make ongoing comparisons of inventory requisitions to reductions in inventory balances, and periodic (both during the fiscal year and annually at the end of the year) physical inventories and reconciliations of detailed inventory records combine to control inventory items.

12 Inventory Accountability and Custody: The district has established controls that provide for inventory accountability and appropriate safeguards for inventory custody/protection.

The district's two inventory facilities have alarm systems to which only selected personnel have access codes. Additionally, warehouses are checked and cleaned daily. Items are securely stored on pallets or shelves, and the inventories are insured.

Perpetual inventory records are maintained for the inventories, and district staff reconcile inventory issues and purchase transactions on a weekly basis. As mentioned previously, periodic physical inventories are conducted and detailed inventory records are reconciled to control records. Significant differences in physical quantities and inventory records are carefully investigated.

13 Inventory Management: The district periodically evaluates the inventory function to determine its cost-effectiveness.

Though not a formal process, it is apparent that the district does evaluate the cost-effectiveness of its inventory function. As an example of this, the district recently closed its maintenance parts warehouse. This was done after the district evaluated the cost-effectiveness of keeping the parts inventory and of the maintenance function in general. The district decided that it would be more cost-effective to bid annual contracts for some supplies like paint. In addition, bid contracts are now used with home improvement and hardware companies to allow staff to acquire needed supplies. Approximately four years ago, transportation-related inventories (e.g., oil, parts, tires) were eliminated when the district determined it would be more effective to out-source the transportation function in its entirety. The Finance Department performs detailed inventory analyses to monitor inventory levels over time at the district's warehouses.

Also in an effort to reduce inventory costs, the district provides procurement cards to certain employees for purchases up to \$750. The primary benefit of the procurement card program is that it ensures that needed items, such as supplies and parts, can be purchased without delay. The card also allows the district to maintain a smaller stock of items in inventory and reduce the number and types of items stored.

Risk Management

The district is 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. Section 230.23(9)(d), F.S., requires a school district to carry insurance on school property, including contents, boilers, and machinery. Section 230.239(10)(h), F.S., requires that school districts carry insurance (bonds) on all employees who are responsible for school funds. Section 230.23(10)(l), F.S., requires school districts to provide adequate protection against any loss or damage to school property or loss resulting from any liability for which the district or its officers, agents, or employees may be responsible for under law. This section also provides that a school district is authorized 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.

14 General: The district has a process to set objectives for risk management activities, identify and evaluate risks, and design a comprehensive program to protect itself at a reasonable cost.

The district has an effective risk management program

The Santa Rosa County School District has established a policy for risk management. The district's Risk Management Department is charged with the responsibility of implementing the district's risk management policy and ensuring that the district has acquired all insurance coverage required by law.

The district is a member of a consortium of school districts, sponsored by the Florida School Boards Association, to provide a combined self-insurance program and risk management services to participating

members. The 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 consortium is self-sustaining through member assessments (premiums). The consortium purchases coverage through commercial companies for claims in excess of specified amounts. The intent of the consortium is to provide insurance coverage in an efficient and cost-effective manner.

Health, hospitalization, life, and dental coverages are provided through purchased commercial insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. Being fully insured in these areas, it is not necessary for the district to provide for coverage in excess of any stop-loss limits.

Through the combined efforts of the insurance consortium, its insurance agent, and the district's Risk Management Director, the risk management function appears to be administered well.

15 Providing for Coverage Against Risk Exposure: The district has comprehensive policies and procedures relating to acquiring and reviewing coverage for risks of loss.

The district maintains appropriate insurance coverage

Each year, the district completes a comprehensive questionnaire about its risk exposure in all conceivable areas. This serves as the basis for securing the insurance coverage that the district needs, without overlooking any significant exposures. Additionally, the district has developed a risk management policy (Policy 7.80) that has been adopted by the board. The district has a disaster recovery plan to ensure the continuity of operations in the case of disaster.

In addition to the coverage obtained through the insurance consortium, the district secures on its own group insurance coverage for district officers and employees. Approximately every three years, the district uses a RFP process to obtain group insurance coverage. In the interim, premium amounts may be renegotiated each year.

Procedural matters such as the removal of terminated employees from insurance coverage and comparing those receiving benefits to payroll records are handled systematically with appropriate forms, which are processed through the Payroll, Personnel, and Risk Management Departments. The technical aspects of risk management such as obtaining actuarial services, establishing appropriate retention levels, and safeguarding claims revolving funds are being properly managed.

Additionally, official bonds are obtained and filed with the Florida Department of State and all board members are properly bonded.

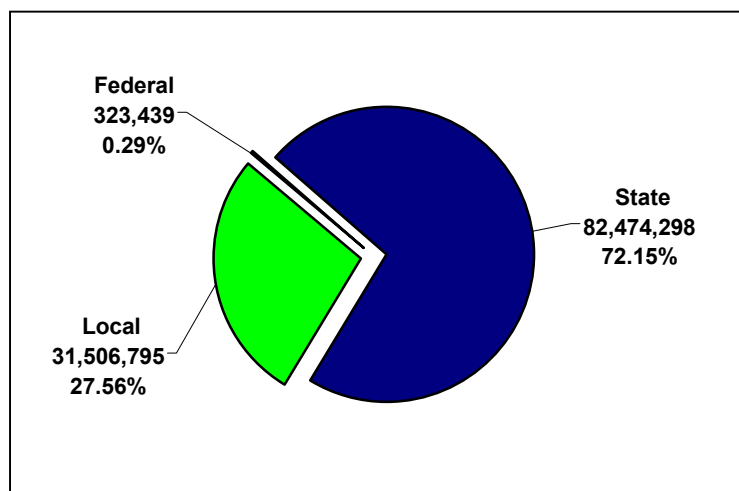
Financial Management

During the 2000-01 fiscal year, the most recent complete fiscal year for which data is available, the district's revenues from all governmental funds were approximately \$147,491,224, and expenditures were approximately \$157,356,711. These amounts include both restricted and unrestricted sources and uses of resources. The district's general fund is used to account for most of the general operating activities of the

district. During the 2000-01 fiscal year, the district reported general fund revenues and other sources of funds of approximately \$114,304,532, and general fund expenditures and other uses of approximately \$119,725,224. Revenues were generated from federal, State, and local sources. Exhibit 14-7 provides information related to the district's general fund revenues and other sources.

Exhibit 14-7

The State Provided Most of the District's 2000-01 Fiscal Year General Fund Resources



Source: District Annual Financial Report.

Three state revenue sources, administered by the Florida Department of Education, comprise most of the state revenue accounted for in the district's general fund. These were:

- The Florida Education Finance Program (FEFP) whose funding is used for current operations.
- Categorical education programs whose funding is earmarked for certain programs such as instructional materials and transportation. This includes Lottery funds earmarked for educational enhancement and school advisory council activities.
- Workforce development funds used for adult and other vocational educational services.

Local revenues are primarily generated from ad valorem (property) taxes. Exhibit 14-8 shows the taxes levied for education for the 2000-01 fiscal year.

Exhibit 14-8

Ad Valorem (Property) Taxes Levied for District Purposes

Type	Millage	Taxes Levied
General Fund:		
Required Local Effort	5.957	\$25,010,435.00
Basic Discretionary Local Effort	0.510	2,141,232.00
Supplemental Discretionary Local Effort	0.250	1,049,624.00
Capital Project Funds:		
Local Capital Improvements	1.400	5,877,893.00
Total	8.117	\$34,079,184.00

Source: District 2000-01 fiscal year audited financial statements.

The general fund and capital project funds' levies are non-voted levies provided by law and appropriations act provisions. The required local effort is tied to Florida Education Finance Program (FEFP) funding and represents the amount school districts must levy in order to receive FEFP funding. Also, school districts are authorized by law to levy up to 2 mills for local capital improvements.

16 Management Control Methods: District management communicates its commitment and support of strong internal controls.

Management has created an environment that encourages the use of strong internal controls

The district has established a toll free number for employees to report fraud, irregularities, and improprieties, and it provides feedback to people who call with concerns. Additionally, the district has a written ethics policy. Further, the district's accounting system has built-in safeguards, which prevent employees from making unauthorized changes in the district's records. Through interviews with key Finance Department personnel, it is clear that upper management has a strong commitment to promulgating an effective internal control system.

17 Financial Accounting System: The district records and reports financial transactions in accordance with prescribed standards.

The district's accounting system enables the district to comply with prescribed financial accounting standards

The district's computerized accounting system is a proven accounting system that is used by many Florida school districts. The district actually assists the vendor in altering, maintaining, and adding features to the accounting system, and it has developed subsystems (e.g., warehouse/inventory accounting, internal funds accounting, and depreciation accounting) that interface with the system. The district participates in user groups and keeps up with changes in the system. The accounting system is fully compliant with the Commissioner's accounting manual, "Financial and Program Cost Accounting and Reporting for Florida School Districts (Redbook)." The system records all transactions and produces all financial statements required of Florida school districts.

While the accounting system meets all of the accounting and reporting needs of the district, as noted in the most recent findings of the Auditor General, the consultant has observed the need for procedures manuals for use by employees in training for and utilizing the system. The district is following through on this expressed concern by preparing system procedures manuals, which are about two-thirds of the way complete.

Procedures manuals are more important now than ever. Employee turnover or just short-term absences for health or vacation reasons can force staff unfamiliar with certain processes into different or very difficult positions. Most computer access for payroll, check writing, or even general ledger posting requires the use of passwords and transaction orders that must be precise. Only written procedures manuals, together with staff training and cross-training, can assure the uninterrupted processing of important work.

Because of the controls inherent in the design of the system, the accounting system facilitates the establishment and maintenance of good internal controls and the recording of transactions. The district utilizes the forms necessary to document all entries into the accounting system. Also, the district segregates the duties of employees in accordance with good internal control practices to the greatest extent possible given current staffing levels.

Recommendation

- *The accounting procedures manuals that are in the process of being completed should be finalized.*

Action Plan 14-3 provides the steps needed to implement this recommendation.

Action Plan 14-3

Completing Accounting Procedures Manuals	
Strategy	Assign the responsibility for completion of the procedures manuals and set a date for completion. Critical processes should be identified and efforts focused on completing the manuals for those areas first.
Action Needed	Step 1. Identify and assign responsibility for completion of the manuals. Step 2. Coordinate this effort with the effort to establish an internal audit function. Adding an internal audit position should facilitate the completion of the procedures manuals preparation work.
Who Is Responsible	Assistant Superintendent for Finance
Time Frame	July 1, 2003
Fiscal Impact	This recommendation can be implemented with existing resources.

18 Financial Reporting Procedures: The district prepares and distributes its financial reports on a timely basis.

All required financial reports are issued in a timely manner

The Finance Department prepares monthly financial reports and submits them to the board, as required. The information contained in these reports is summary in nature and provides the board with vital management information, including comparisons of actual revenues and expenditures to budget.

All appropriate financial reports needed for grants/projects funded with restricted sources are prepared, and an annual financial report, which is the subject of the audit of the Auditor General, is prepared on time, approved by the board, and submitted to the Department of Education as required.

19 Budget Practices: The district has a financial plan serving as an estimate of and control over operations and expenditures.

Exhibit 14-9 summarizes the district's budgeted versus actual revenues and expenditures for all governmental funds (includes general, special revenue, debt service, and capital projects funds) for the

last two fiscal years. Note that budgeted expenditures are normally estimated on the high side to avoid deficit spending.

Exhibit 14-9

Two Year Budget Summary

	1999-00			2000-01		
	Budget	Actual	Variance	Budget	Actual	Variance
Revenues	149,001,333	148,065,293	(936,040)	149,987,021	147,491,224	(2,495,797)
Expenditures	170,735,063	148,281,505	22,453,558	173,689,577	157,356,711	16,332,866

Source: School district general ledger.

The district follows sound budget practices

The budget process in all Florida school districts is uniform and is monitored carefully by the Department of Education. In Santa Rosa County School District, all legal requirements are met in a timely manner and the Assistant Superintendent for Finance prepares the budget, on the basis of input received from the schools and district departments plus funding information received from the Florida Legislature and the Department of Education.

Approximately 74% of the district’s total budget is allocated to personnel costs, including salaries, benefits, and purchased services. The personnel portion of the budget is prepared on the basis of staffing allocations provided in the district staffing plan. Control of personnel budgets is assured through the use of an effective, manual position control system.

Budget data is entered into the accounting system from the approved budget, and the system effects budget control as transactions are processed. Non-personnel items are accounted for using an encumbrance system to ensure that budget allocations are not exceeded, and budget amendments are prepared and approved by the board as needed. The budget is available for viewing on the district’s website.

20 Cash Management: The district has effective controls to provide recorded accountability for cash resources.

The district follows acceptable procedures for handling and accounting for revenues

Most of the budgeted funds are received by the district by electronic transfer of funds into bank accounts maintained in approved depository banks. Funding from the state is deposited directly into the district’s State Board of Administration (SBA) investment account. School level procedures for handling cash receipts and checks are prescribed in the Internal Accounts Manual. The Risk Management Department collects funds from retirees for health, dental, and life insurance, and for COBRA insurance.

The integrity of the process of receiving funds is monitored through a timely and thorough bank reconciliation process that is performed by an account clerk separate from the cash receipt and disbursement functions. All bank accounts, including the operating, SBA, and food service accounts are reconciled. Uncollected amounts from non-sufficient funds checks are referred to the State Attorney’s office for collection. The district keeps its bank accounts in state approved public depositories.

The financial system is designed so that revenues for the different fund sources are accounted for separately and transfers of monies between funds and accounts are carefully documented and closely

monitored. The school board approves all budget amendments that would require interfund transfers. Funds from the Department of Education are receipted and recorded like all other revenue transactions. The Senior Accountant prepares the federal cash advance requests based on anticipated expenditures. These requests are submitted on-line. The district utilizes the SBA overnight account for investing idle funds.

21 Investment Practices: The district has an investment plan that includes investment objectives and performance criteria designed to maximize return consistent with the risk associated with each investment, and specifies the types of financial products approved for investment.

The district follows effective procedures for investing available funds

The board has an investment policy (No. 6.06) that provides for the use of a variety of types of investment vehicles; however, the district is investing its available funds with the SBA's Local Government Surplus Funds Trust Fund investment pool. The investment pool, authorized by Section 218.405 FS, is a Securities and Exchange Commission Rule2a7-like external investment pool.

The SBA pool earns a relatively strong investment return that is enhanced by investments in commercial paper. Therefore, the district can earn a good rate of return without being involved with repurchase agreements and their related administrative costs, or other types of investments that would involve administrative time and procedures. This fund offers highly liquid investments with competitive rates and provides a simplistic and conservative investment approach by allowing investments to remain with the fund. Withdrawal requests are based on periodic cash needs with no type of withdrawal penalties.

22 Receivables: The district has established effective controls for recording, collecting, adjusting, and reporting receivables.

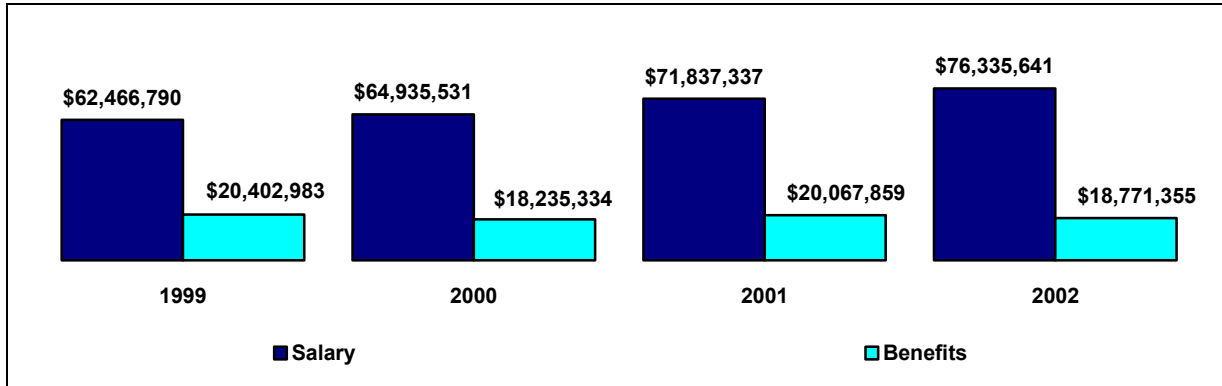
As a service provider of free public education to children, the district generally does not have activities that would require that it bill for and attempt collection from others. Essentially all of the district's receivables relate to accounting entries to account for amounts due from other State and local governments. These amounts due from other governments are considered to be fully collectible. Based on the limited volume and nature of receivables that the district has, its procedures are generally effective to provide for the proper reporting of receivables.

23 Salary and Benefit Costs: The district has effective controls that provide accountability for the payment of salaries and benefits.

Exhibit 14-10 illustrates the changes in the district's budgeted salary and benefit costs for the current and past three fiscal years.

Exhibit 14-10

Employee Salary and Benefit Costs



Source: Santa Rosa County School District financial statements and budget documents.

The district uses sound procedures in payroll processing

Section 236.02(4), F.S., and State Board of Education Rule 6A-1.052, F.A.C., require school districts to annually adopt salary schedules for employees that shall be the sole instrument used in determining employee compensation. The district annually adopts and includes in the board minutes, the approved salary schedules for school personnel. Additionally, the district has established procedures to ensure that amounts paid to employees are consistent with the amounts provided in the salary schedules. The Human Resources Department prepares a staffing plan on an annual basis to determine the staffing needs at each school. New hires must be made in accordance with the staffing plan.

The process of paying employees begins in the Personnel Department when employees are hired. There, the rate of pay, leave entitlement, retirement status, and other relevant information are keyed into the payroll system. Subsequent changes in employment are documented and approved on a Personnel Action Form. An Employment Separation Document is prepared for terminating employees.

Overall, internal controls over the payroll process appear to be strong. There is an appropriate division of duties between the Personnel and Payroll Departments. The district utilizes a computerized accounting system that has built-in internal controls. Furthermore, the Finance Department posts the payrolls and maintains ultimate control over payroll and fringe benefit costs. The senior accountant can monitor month-to-month payroll costs to identify unusual fluctuations.

The district has researched the possibility of out-sourcing its payroll function in order to save costs, but after obtaining information from other districts that have gone through the out-sourcing process; they have determined doing so would be too problematic for the district.

The district should promote direct deposit of payroll checks.

Although each new employee of the district is afforded the opportunity to sign up for the direct deposit method of payroll, the district does not currently have a mandatory direct deposit requirement for new employees. The district could enhance accountability and the efficiency and effectiveness of the payroll payment process by paying all employees by direct deposit. In addition, the district has not taken a proactive approach to encouraging current district employees to participate in the direct deposit program. Exhibit 14-11 shows that approximately 51% of the district’s employees use direct deposit.

Exhibit 14-11

Approximately 51% of the District’s Employees Use Direct Deposit

Type	Employees	Percentage	Amount	Percentage
Received Payroll Checks	1,132	49.07%	\$24,447,047	49.08%
Used Direct Deposit	1,175	50.93%	25,364,350	50.92%
Total	2,307	100.00%	\$49,811,397	100.00%

Source: District general ledger.

Payroll checks require tracking and follow-up from the time they are issued through the time that these checks clear the district’s bank account. They additionally require subsequent reconciliations by district personnel, require payroll check filing by district personnel, require storage in district facilities, and eventual destruction by district personnel in accordance with applicable public record retention periods. Many of these time-consuming processes are eliminated or are greatly reduced with the direct deposit payroll method. Also, processes can be developed that would provide for the electronic distribution of “pay stub” information to district employees, thereby eliminating the need for mailing or delivering the information by manual means.

Although there may not be significant cost savings, the numerous control benefits associated with the direct deposit method of payroll processing would add greater efficiencies to the overall payroll transaction process. The efficiencies gained will allow the district to reallocate resources to other district priorities.

Recommendation

- *We recommend that the district proactively encourage both new and current employees to enroll in the direct deposit payroll method. The district should also consider making the direct deposit method mandatory for new employees.*

Action Plan 14-4 provides the steps needed to implement this recommendation.

Action Plan 14-4

Direct Deposit Initiative	
Strategy	The district should proactively encourage both new and current employees to enroll in the direct deposit payroll method. The district should also consider making the direct deposit method mandatory for new employees.
Action Needed	Step 1. Develop strategies for encouraging both new and current employees to convert to direct deposit. Step 2. Obtain board approval for encouraging direct deposit. Step 3. Begin campaign to encourage direct deposit for those employees currently receiving paychecks. Information can be included in paycheck materials, in employee newsletters, etc. Step 4. Determine whether a mandatory direct deposit policy for new employees would be feasible for the district and implement accordingly. Step 5. Periodically report to the board the progress towards achieving 100 percent direct deposits.
Who is Responsible	Assistant Superintendent of Finance and Assistant Superintendent of Human Resources
Time Frame	June 30, 2002

Fiscal Impact	This recommendation can be implemented with existing resources. Although cost savings are likely to be insignificant, implementing this recommendation will bring about increased efficiencies and strengthen controls in the payroll process.
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24 Debt Financing: The district analyzes, evaluates, monitors, and reports debt-financing alternatives.

Debt financing is managed professionally and efficiently

Bonded debt of the district consists of various local bond and State Board of Education bond issues. When long-term financing is needed for financing capital improvements, the district hires a professional financial advisor. The district uses a RFP process to select a financial advisor. The Assistant Superintendent for Finance supervises and coordinates the process, but relies on the advisor for the technical aspects of this function.

Alternative methods of financing and choosing the method of sale are duly considered, and careful attention is given to costs of financing, credit enhancement, arbitrage calculations and considerations, preparation of all appropriate legal documents, and other details involved in obtaining financing for long-term debt. Based on the advice of the financial advisor, the district determines the best financing alternatives given the district’s specific needs.

A third-party company performs arbitrage rebate calculations. The calculations are provided to the trustee that then notifies the district of the rebate amount. The trustee notifies the district when any other required actions are necessary.

The district did not issue any new long-term debt in the fiscal year ended June 30, 2001. The district’s June 30, 2001, outstanding debt financing and associated maturity dates and interest rates are summarized in Exhibit 14-12.

Exhibit 14-12

The District Had \$27,490,000 in Borrowed Debt at June 30, 2001

Debt Instrument	Balance June 30, 2001	Date of Maturity	Interest Rates	
			Low	High
Certificates of Participation	17,485,000	Various dates from 2002 through 2018	3.70%	6.38%
Bonds Payable	10,005,000	Various dates from 2007 through 2019	4.38%	5.89%
Total	\$27,490,000			

Source: District annual financial report.

25 Grant and Entitlement Monitoring: The district effectively monitors and reports grant activities.

Grants are administered in accordance with terms of agreements

The district receives significant resources from federal grantors. During the 2000-01 fiscal year, resources from federal grantors totaled \$13,078,709. These grants provide resources for a variety of district programs. For example, during the 2000-01 fiscal year, the district received the following:

Cost Control Systems

- The Child Nutrition Cluster (National School Lunch Program, School Breakfast Program, and Summer Program for Needy Children) provided \$2,684,843 to supplement the district's food service program and to provide free and reduced-price meals to eligible children.
- The Special Education Cluster provided \$2,694,921 in special education grants and preschool grants.
- The Title I – Grants to Local Educational Agencies Program provided \$2,653,837 to enhance delivery of educational services to elementary schools located in economically disadvantaged areas.

Most of these resources are derived from recurring grants that have been received by the district for many years. Accordingly, procedures to ensure compliance with these grants are well established. District personnel monitor changes in these grant requirements, and as appropriate, procedural changes are made to meet changing grant requirements.

Grant administrators are responsible for administering and monitoring all grants for the district in accordance with the terms of the grants. The Finance Department is a partner in this administration process, with an accountant assigned to the administration of grants and grant files maintained for each grant. The Finance Department accountant monitors financial reporting requirements, the use of funds in accordance with grant terms, and the meeting of encumbrance, expenditure, and reporting timelines of the grants.

Grants are accounted for separately utilizing the accounting system, so that these funds are not commingled with other funds. The accounting for grant funds follows the same control procedures as followed for other funds, with additional attention to special deadlines and terms of the grants. In effect, the grant funds are held in trust and administered in accordance with grant terms.

For indirect costs, such as salaries that are split among more than one grant an indirect cost allocation plan has been established and is maintained by the district. The plan is reviewed and approved by the Assistant Superintendent for Finance prior to submission to the U.S. Department of Education for approval.

Reporting requirements for grants are determined and procedures are established to ensure that grantor-required reports are submitted within established deadlines. The district does not pass through federal funds to subrecipients, so there is no requirement for the district to monitor or report on the activities of subrecipients.

A Supplementary Schedule of Expenditures of Federal Awards is compiled each year and is part of the district's annual financial report. The Auditor General's office audits program compliance as part of the district's annual federal Single Audit. The federal Office of Management and Budget issues program requirements and regulations in the form of OMB Circular A-133. This Circular is readily available to the district and to auditors.

Purchasing

26 Segregation of Duties: The district segregates purchasing responsibilities from the requisitioning, authorizing, and receiving functions.

Responsibilities for purchases are appropriately segregated

Section 237.02(1)(a), F.S., provides that each school district shall develop and adopt policies establishing the plan to be followed in making purchases as may be prescribed by the State Board. State Board of Education Rule 6A-1.012, F.A.C., prescribes purchasing requirements for school districts. Generally, school districts must establish purchasing procedures that, at a minimum, meet these requirements. Through their developed policies and procedures, school districts may establish more comprehensive purchasing requirements.

The district has established a Purchasing Department to ensure that board-adopted purchasing policies have been followed. District procedures provide for the decentralized requisitioning and receiving of goods and services, and the Purchasing Department is physically and functionally separate from these activities.

The schools and departments prepare requisitions that are processed in the Purchasing Department. If all is in order, the Purchasing Department then issues purchase orders. Receiving then occurs as specified in the purchase orders, but without any contact with those in the Purchasing Department responsible for having issued the purchase orders. Receiving reports/pay authorizations and approved invoices are then forwarded to accounts payable clerks in the Finance Department who prepare the invoices for payment. The Accounts Payable Department consists of three clerks. Payments are approved and effected in the Finance Department, with appropriate separation of responsibilities for approval and recording cash disbursements and general ledger entries.

27 Requisitioning: The district has established controls for authorizing purchase requisitions.

The processing of purchase requisitions follows good internal control procedures

The district has established a comprehensive budgeting process that allocates budget to departmental and cost center (including school) levels. Department heads and principals in charge of activities at these levels are responsible for ensuring that required expenditures are kept within available budget. Consequently, authorization to request the expenditure of budgeted funds is also vested in these employees.

The requisitioning process is well controlled with appropriate separation of responsibilities. As the need arises, the department head or principal submits to the Purchasing Department on-line requisitions for the purchase of goods and services. Depending on the type and amount of the requisition, Purchasing Department employees process the requisitions, and if sufficient budget exists, a purchase is subsequently authorized.

Schools and departments initiate requisitions as authorized and controlled by the accounting system. Authorization to enter the on-line purchase orders is approved on a Financial Computer Security Services form. No one can begin the process, unless properly authorized. Requisitions go through the Purchasing Department and are encumbered by the Finance Department before they are issued as purchase orders.

Requisitions are assigned control numbers and the account numbers to which they are to be charged. The information needed by the Purchasing Department and the vendor to consummate the purchase is entered on the requisition/purchase order, or included as an attachment. The request number and cost center number prints on the requisition verification report. The appropriation to be charged is entered by the school or department requesting the purchase. The appropriation code is a required field when entering requisitions. The accounting system will not allow expenditures in excess of the budgeted amount for that line item.

28 Purchasing: The district has established authorization controls over purchasing.

Established authorization controls are used for all purchases

In addition to Florida law and State Board of Education rule purchasing requirements, the district's policies and procedures have established additional purchasing authorizing requirements and processes. For example, verbal quotations and written quotations are required for purchases that exceed specified amounts enumerated within the district's policies and procedures.

In the Santa Rosa County School District, the central Purchasing Department, board policies governing the purchasing function, and the control-oriented accounting system combine to effect proper controls over purchases. These controls include proper authorization of purchases; procurement in accordance with bid requirements, acquisition of quality products at fair prices, and overall integrity in the purchasing process.

Alternatives such as buying from bids of other governmental agencies are considered and used for the sake of efficiency in the purchasing process and efforts are made to avoid unacceptable practices such as the splitting of orders to stay within bid limits or buying from vendors who are not independent of district officers and employees. All vendors are registered through the district's purchasing website.

The purchasing agent reviews all purchases for recurring items to determine if bids are necessary. Procedures for consolidating recurring purchases are in the Purchasing Manual. Blanket purchase orders are still issued, but only for items like fuel or printing supplies and for one-time shopping purchases of \$500 or less.

Three quotes are obtained for purchases more than \$8,333 per board policy. Competitive bidding is required for purchases over \$25,000. The bid list requirements are the same for all competitive sourcing. The criteria for rating proposals are included in the Request for Proposals. All bid prices are reviewed and approved by the board. Cost Center heads (Principals, Directors, Coordinators) review other purchase prices. To account for federally funded purchases, federal and state grant funds are assigned a specific project number. The grant/project manager is responsible for monitoring the expenditures.

The Purchasing Department subscribes to the NIGP Code of Ethics as listed on the Purchasing website and in the Purchasing Manual. All three Purchasing Department employees are NIGP certified. All three Purchasing Department employees can handle the purchasing function. The Purchasing Department encourages cross-training of school employees. Three training sessions are offered to schools each summer.

The district has made purchasing more efficient and convenient through the implementation of a purchase card program

About four years ago, the district adopted the state's purchase card program for use by district employees to make small purchases without going through the process of generating a purchase order. This program allows district staff to more efficiently obtain low cost items such as materials and supplies for immediate use. Examples of allowable purchases include, but are not limited to: books and software, postage, repair parts, small equipment, supplies, and videos. Although the purchase card provides a new tool for making small-dollar purchases, existing Florida laws governing purchasing, accounts payable, records retention, and other applicable laws must be followed. Purchase cards have been issued to most administrative staff, including school principals.

The district has established effective controls for monitoring the use of the cards. First, before a purchase card is issued, users must attend and complete training on the Purchasing Card Program. Cost Center Heads review and approve purchasing card transactions and initial each receipt. A reconciler is assigned to reconcile the cardholder receipts to the monthly statements. In addition, a Purchasing Department employee routinely audits a sample of purchase card charges for appropriateness.

One of the benefits of the purchase card program is a reduction in the number of purchase orders issued. This frees up staff resources that were normally committed to the processing of purchase orders. Purchases made with the purchasing card increased from approximately \$1,326,089 in calendar year 2000, to \$2,254,354 in calendar year 2001. With the increase in the use of purchase card transactions, purchasing function resources are used to review support for charges, reconcile the purchasing card statements, and other related activities to ensure that charges are for appropriate school purposes and that they are charged to the appropriate departments. To the extent that purchase card usage is increased, resources needed for processing the charges offset some of the resources that were saved from issuing fewer purchase orders.

Another benefit of the State purchase card program is that purchase rebates are earned for purchases made with the purchase cards. The rebate is equal to 40 basis points (.4%) of total purchases made with the card. To take full advantage of the rebate program, the district should consider promoting greater use of the purchase card as an alternative to the traditional purchase order system. Many purchases are still made through the traditional purchase order system. During the 2000-01 fiscal year, the district issued approximately 7,400 purchase orders for amounts less than \$750, the current capitalization threshold for tangible personal property. We realize that some purchases, by their nature, are better suited to issuing purchase orders. Though most likely minimal, the savings generated from taking better advantage of the rebate program would be of benefit to the district.

29 Receiving: The district has established controls to ensure that goods are received and meet quality standards.

Procedures are established to affirm that goods are received as ordered

The Purchasing Manual prescribes standards for receiving goods and for ensuring that they are of the quality ordered. Those who receive ordered goods first inspect them for damage and for quality, and make careful counts. If goods are received as specified in the related purchase order, they then prepare Pay Authorization forms. The Pay Authorization forms (receiving reports) use the same computer-generated tracking number as the corresponding purchase order. Following the prescribed purchasing procedures, shortages are documented and loss or damage claims are made as necessary.

Cost Control Systems

Cost Centers receive and account for the goods with the exception of fixed assets, which are shipped to central receiving. When goods are received outside of central receiving, control is achieved through the requirement of two signatures on the pay authorization form; the department head must sign, as well as the individual who actually received the goods. At the warehouse, personnel compare the goods received to the purchase order. The schools maintain copies of materials received.

Other controls at both the Accounts Payable Department and receiving sites help ensure that the proper goods are received prior to making and recording the related payments.

The Purchasing Manager is the contract administrator for custodial services. The directors of food service and transportation service monitor those contracts. Other contracts are monitored by the Project Manager requesting the contract.

Payment Processing

30 Disbursements: The district has established controls to ensure that disbursements are properly authorized, documented, and recorded.

The disbursement process follows good internal control procedures

Within the finance function is an accounts payable section that is responsible for processing bills and invoices for payment. The finance function reports to the Assistant Superintendent for Finance. The district has established controls for processing invoices by requiring that all invoices received for payment be forwarded to the accounts payable section of the Finance Department. The Accounts Payable Department ensures that vouchers are prepared properly and include the appropriate supporting documentation.

During the requisition process, purchases are coded to ensure that sufficient budget exists for the payment. During the process of approving requisitions for payment, the coding information is verified and corrected if necessary. When approved requisitions are processed, district purchasing staff search for unusual account coding and re-verify as necessary.

The flow of disbursement documents, the approvals required for the documents, the separation of responsibilities of employees involved in creating a disbursement, and controls built into the accounting system, all form the basis of a sound internal control system for the disbursement of funds.

31 Invoice Processing: The district has established controls for processing invoices to ensure that quantities, prices, and terms coincide with purchase orders and receiving reports.

The district uses good internal controls in the processing of invoices

Approximately 11,300 regular warrants and 37,900 payroll warrants are processed on an annual basis. All original invoices are received in the Accounts Payable Department. The Accounts Payable Department consists of three clerks.

Schools and department heads acknowledge the receipt of ordered goods. The Purchasing Department investigates shipping, quality, and pricing discrepancies.

The finance function has established procedures that provide for invoices to be reviewed, verified, and approved for completeness of supporting documents and required clerical checking before disbursements are made. Payment of invoices is effected through the preparation of voucher documents. Appropriate procedures are in place to ensure timely resolution of discrepancies that may arise. Numerous validation and edit checks are embedded in the accounting system to prevent errors in the processing of invoices.

Long-term contract payments are properly approved before being posted for payment. Detailed construction files are maintained for each project. Separate procedures are in place for approving and processing utility payments and travel expense payments.

After a voucher has gone through the entire review and approval process, payment is made and the prior encumbrance of funds is liquidated.