Orange County Public Schools

Internal Audit Report

OWNER CONTROLLED INSURANCE PROGRAM AUDIT

September 11, 2009

To: Richard Collins, Chief Finance Officer
Margaret Nicolls, Senior Director, Risk Management

From: Frank Kruppenbacher, General Counsel, Legal/Audit
Linda Lindsey CPA, CGAP Senior Director Internal Audit
Michael Smith, CGAP, Director Internal Audit
Robert Sicolo, CIA, Auditor

The audit is an independent activity that is used to evaluate the effectiveness and efficiency of a business operation. Our responsibility is to express an opinion on selected processes and procedures. We are required to report material deficiencies in accordance with International Standards for the Professional Practice of Internal Auditing, Orange County Public School policies and procedures and Florida Statutes.

Table of Contents

OWNER CONTROLLED INSURANCE PROGRAM AUDIT
September 11, 2009

	Page Number
BACKGROUND	**1**
OBJECTIVES, SCOPE AND METHODOLOGY	**2**
ISSUES AND RECOMMENDATIONS	**3-4**

OWNER CONTROLLED INSURANCE PROGRAM AUDIT

BACKGROUND

Pursuant to the Owner Controlled Insurance Program (OCIP) audit we conducted upon the request of the COVE Committee in the 2006-2007 Fiscal Period, we conducted an audit of the Risk Management control procedures for the OCIP program. Although we noted in our first audit instances in which Willis of Florida could not support certain costs which resulted in our having differences the Willis Reports, the position of Willis was that their contract allowed for a "90% accuracy rate. Neither Willis nor OCPS Risk Management to date can explain what or how to calculate the 10 percent error rate; consequently the variances we noted in our first report were not considered material. Therefore, we did not seek to obtain supporting documentation for selected amounts as submitted on Willis reports for review; we did seek to ensure that Risk Management had procedures to vouch for the integrity of the Willis reports as they related to shared savings and program projections.

OWNER CONTROLLED INSURANCE PROGRAM AUDIT

OBJECTIVES, SCOPE & METHODOLOGY

OBJECTIVE:

To determine if the Risk Management Department is adequately monitoring the OCPS Owner Controlled Insurance Program (OCIP) for construction projects.

SCOPE:

Our audit is limited to a review of the Owner Controlled Insurance Program results which are provided by Willis of Florida on a quarterly basis.

METHODOLOGY:

We reviewed Owner Controlled Insurance Program (OCIP) quarterly reports dating back from January 2007 to December 2008.

OWNER CONTROLLED ISURANCE PROGRAM AUDIT

ISSUES & RECOMMENDATIONS:

WRITTEN PROCEDURES LACKING

We requested written procedures that would document Risk Managements monitoring procedures of the Owner Controlled Insurance Program. Although the Senior Director of Risk Management provided a listing of their monitoring procedures by email, there is no existing policies and procedures manual to document their current monitoring procedures. Without written procedures as guidance, we are not assured that the current monitoring procedures have been approved nor does it lend itself to providing guidance for new employees.
We did examine the "OCIP" Program results documentation provided by Willis of Florida for the audit period during which time the OCIP program reported savings to the district in the amount of $4,089,021.

RECOMMENDATION:

We recommend that Risk Management document its monitoring procedures in a written procedures manual.

CALCULATION OF WILLIS FEE

In examining the final pay calculation for the Apopka High School Relief project we determined that Willis of Florida failed to account for a deductive change order as well as the "Final GMP Adjustment" amounting to $968,144. Willis made their Final Construction Value calculation of $58,361,508 based on information received from the Project Manager for the Construction Manager rather than OCPS facilities management. These differences resulted in a fee overcharge by Willis of approximately $2,200.

RECOMMENDATION:

We recommend that management establish procedures to ensure that the third party administrator accurately calculates its fee.

CONTRACTS

Our current review was conducted under the "Client Service Agreement Wrap-Up" between OCPS and Willis of Florida dated March 1, 2003, which had been extended through September 30, 2008. The agreement includes a clause within section 3.(d) which states in part:

Willis will meet the following performance standard for the program:

- 90% accuracy on all OCIP financial reports, starting with the August 31, 2003 reports.

ISSUES & RECOMMENDATIONS-CONTINUED;

In the District's current agreement with Willis, Exhibit E, part 5, sets the following performance standard:

> At least 95% accuracy on all OCIP financial reports which will be determined by an annual audit of six randomly selected closed projects

Neither the previous nor the current agreements define a method of determining the actual accuracy (error) rate. We also note that the provision that we presume relates to the Internal Audit Department annually auditing six closed projects was not discussed with any Internal Audit management staff and has not been included in our annual audit schedule.

RECOMMENDATION:

We recommend that further agreements not include language relating to undefined accuracy (error) rates and that Risk Management require Willis of Florida to remove the audit provision in the contract language provided it is referring to OCPS Internal Audit.

RESPOND IN WRITING TO MIKE SMITH USING THE AUDIT REPONSE MATRIX FORM WITHIN TEN BUSINESS DAYS FROM THE DATE ON THE FINAL REPORT. PLEASE INDICATE THE STEPS THAT WILL BE TAKEN TO ADDRESS THE ISSUES RAISED IN THE AUDIT.

AUDIT RESPONSE MATRIX **FISCAL PERIOD 2008-2009**

DEPARTMENT/SCHOOL 6614 Risk Management
ADMINISTRATOR/PRINCIPAL M. E. Nicolls
CABINET REPRESENTATIVE. Mr. Richard Collins

Exception Noted	Management Response	Responsible Person	Outcome Timeline
Although, the Senior Director of Risk Management provided a list of the outcome measures that have been put in place in the past four years for OCIP, the auditors felt that without a manual that describes the use of these processes the data processes could not be supported and maintained.	The Senior Director of Risk Management has prepared a manual that outlines all of the OCIP monitoring processes, copies of all reports and descriptions of meetings. The manual also includes all current contracts and Board Actions thus supporting all OCPS expenditures made by the Administrator of Finance who also has reviewed the manual.	Senior Director, Risk Management	Manual completed 9/19/09
There was not a clear definition of when the construction value should be calculated in the Willis contract.	The following definition of calculating the construction value was agreed to on 9-21-09. This definition will be added as an amendment to the contract which was effective 10-1-08. "Construction value equates to the final guaranteed maximum price (GMP) excluding owner direct purchases and OCIP deductions at substantial completion plus thirty (30) calendar days."	Senior Director, Risk Management	10/1/2009
Remove any audit language from the Performance Standards as noted in the Willis contract	Item number 5 will removed from the Performance Standards by an amendment to the contract. Risk Management is going to audit Zurich's claim payment process in June annually and Willis is going to provide OCPS with the Zurich audit of hours worked at each site.	Senior Director, Risk Management	10/1/2009