



AUDITOR GENERAL

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MIAMI-DADE COUNTY DISTRICT SCHOOL BOARD CAPITAL CONSTRUCTION FUNDING ACTIVITIES

Operational Audit

SUMMARY

This audit report is the ninth in a series of reports to be issued on audits conducted pursuant to Chapter 2001-253, Laws of Florida, Specific Appropriation 118; Chapter 2002-394, Laws of Florida, Specific Appropriation 105; Chapter 2003-397, Laws of Florida, Specific Appropriation 59; and Section 11.45, Florida Statutes.

This operational audit focused on Miami-Dade District School Board's operating units, programs, activities, functions, and classes of transactions related to capital construction funding. For each of these areas, our audit primarily included examinations of transactions, as well as events and conditions, occurring during the period July 1, 2002, through June 30, 2003, and selected actions taken through May 2004. Financial information for the prior fiscal year is included for comparison purposes.

Finding No. 1: Reports periodically prepared for the Board and management's review did not provide sufficient information for effectively monitoring the status of individual construction projects and the effects of individual projects on the overall capital construction program. Providing budgeted and actual information based on existing and planned projects would enhance the ability of the Board, management, and other stakeholders to assess the effectiveness and efficiency of the capital construction program.

Finding No. 2: Our review of the District's capital projects tracking procedures noted that project numbers were not consistently assigned to capital construction transactions. We noted that capital projects were identified with program numbers; however, each program number could

have several specific projects associated with it. The inaccurate identification of capital construction transactions by project and program hinders the District's ability to capture and report capital outlay expenditures accurately.

Finding No. 3: The District has initiated staff reductions and the implementation of an automated time accounting system as directed by the Board, based on recommendations from an outside consultant. The District plans to use the automated system to determine the construction department's efficiency and the achievement of goals recommended by the outside consultant. However, we noted that the design of the automated system does not include budget information for certain significant work categories that may be used to further the recommended goals. In addition, the compiled information will not be used to determine the reasonableness of salary cost allocations to the capital construction projects.

Finding No. 4: The District submitted a facilities work program to the State Office of Educational Facilities in September 2003 that included facilities needs for five years (i.e., 2003-04 through 2007-08), but did not include information for the 10-year and 20-year periods, as prescribed by Section 1013.35, Florida Statutes. An amended facilities work program submitted in March 2004 did not provide additional information for the 10-year and 20-year periods. In addition, our review of the District's facilities work programs for 2002-03 and 2003-04 fiscal years noted that the amounts reported in the facilities work programs for the first year did not agree with the adopted annual capital outlay budget for the corresponding fiscal year, contrary

to the requirements in Section 1013.35, Florida Statutes.

Finding No. 5: Our review of 30 construction projects, with adjusted contract amounts totaling approximately \$173 million, noted delays in the completion of the projects and costs in excess of the original project budgets. The delays in the time required to complete 25 of the projects ranged from 47 to 1,057 days, with an average of 284 days. The costs in excess of the original project budgets ranged from \$30,846 to \$3,096,447, with an average of \$411,689 for 18 of the projects.

Finding No. 6: Our analyses of the District's efficiency in utilizing funds available for capital construction for the three-year period of 2000-01 through 2002-03 show that the District's utilization of capital construction funding sources is not matching its capital construction plans. The District's average actual expenditures and transfers out over the three fiscal years were 37 percent of its average budgeted expenditures and transfers out.

Finding No. 7: Our review of 23 capital construction projects active as of March 26, 2004, noted that the timing between the receipt and expenditure of funds allocated to 15 of the selected projects were reasonable. The remaining 8 projects were funded with Qualified Zone Academy Bonds (QZABs) and had a significant part of their allocations unexpended. The time elapsed between the initial allocation of QZAB funds and March 26, 2004, ranged from 2.47 to 3.62 years and the percentages of unexpended allocation ranged from 71.5 percent to 98.9 percent. Since QZABs are debt issued to fund specific renovations and remodeling projects, the proceeds should be expended in a relative short time.

INTRODUCTION

The Miami-Dade County District School Board's Office of Budget Management and the department of Facilities Operations, Maintenance and Planning, through a collaborative effort, are charged with overseeing and managing the District's capital construction funding activities.

The Office of Budget Management identifies the funds available for capital construction from several

sources, as discussed in the Background Information section, and has the overall responsibility to coordinate the timely preparation and submission of the District's annual budget in accordance with pertinent statutes and regulations. The Office of Budget Management was supervised by the Chief Budget Officer, who reports to the Chief Financial Officer. During the audit period, the Chief Financial Officer reported to the Superintendent. Effective July 2004, the Chief Financial Officer reports to the Deputy Superintendent of Business, Operations, Finance and Construction, who reports to the Superintendent.

The department of Facilities Operations, Maintenance and Planning was responsible for prioritizing capital construction needs based on pertinent information, such as the Educational Plant Survey, and needs assessments supplied by the Area Community Centers for Educational Support Services (ACCESS). The department of Facilities Operations, Maintenance and Planning was under the supervision of an Interim Assistant Superintendent, who reported to the Chief Business Officer. Effective August 2004, a Chief Facilities Officer was hired to supervise the Facilities Operations, Maintenance and Planning department. The Chief Facilities Officer reports to the Deputy Superintendent of Business, Operations, Finance and Construction.

The Miami-Dade County District School Board has adopted rules that govern the District's capital construction funding activities in accordance with Florida Statutes and State Board of Education (SBE) Rules. Some of the areas covered by these rules include the responsibility of the Superintendent of Schools to establish the necessary procedures for the preparation, review, and approval of an annual budget; the development of an annual and long-range plan that reflects the District's facilities needs; and the development of an allocation formula for the equitable distribution of relocatable classrooms.

The District's capital construction funding consists of revenues from State, local and other financing

sources. A detailed description of these sources and the District's procedures to prepare, approve, amend, and monitor its capital construction budget is included below in the section titled "Background Information."

FINDINGS AND RECOMMENDATIONS

Finding No. 1:

Capital Construction Monitoring

We reviewed for adequacy the reports prepared for the District's management and Board members on the capital construction program. We noted that both the Office of Budget Management (OBM) and the District's Facilities Operations, Maintenance and Planning department prepare several reports available to management and the Board, either on-line or as printouts, which provide information to monitor the status of the capital construction program. These reports, while providing summary information on the overall capital construction program, were not adequate for effectively monitoring and managing the capital construction program.

Reports periodically prepared for the Board and management's review did not provide sufficient information for effectively monitoring the status of individual construction projects and the effects of individual projects on the overall capital construction program. While it may not be practicable for the Board and management, at all levels, to monitor each individual project within the District, preparing reports that provide information at the project level would provide the increased accountability necessary for monitoring and evaluating the status of the capital construction program.

Reports periodically prepared for the Board and management's review provided information at the "program" level. In many instances, a program constituted a cost center location under which several projects may be included. The program level reports included amounts for previously completed projects, as well as projects in progress, combined together.

As further discussed in Finding No. 2, the District, in previous years, did not assign a unique project number identifier to transactions and, therefore, reporting the status of individual projects was not practicable based on the recorded data. In these circumstances, comparison of the actual or revised estimated costs of individual construction projects to the original budgeted costs was not practicable and readily available for the Board or management. Additionally, management reports to the Board and other stakeholders did not show a comparison of the actual or projected completion dates to the original estimated dates for individual construction projects.

Also, we noted the District's method of reporting budget information did not readily provide information on available budget balances. For example, current capital budget plan reports provided to the Board in the budget development and approval process showed accumulated budget amounts by program beginning with the 1988-89 fiscal year through the beginning of the current fiscal year. The proposed budget plan documents for the 2003-04 fiscal year showed budget balances by program which had accumulated over 14 years without eliminating budgets for previously completed projects or otherwise eliminating the budget data for project budget overruns or excess residual project budgets. Reporting accumulated budget amounts by program did not appear to provide meaningful and useful information to the Board, management, or stakeholders for planning, managing, and monitoring the financial status of the capital construction program. Also, the effectiveness of the budget plan as a tool for monitoring the status of the District's capital construction plan is limited in these circumstances.

Providing budgeted and actual information based on actual existing and planned projects would enhance the ability of the Board, management, and stakeholders to assess the effectiveness and efficiency of the capital construction program and provide accountability and transparencies in the monitoring of

construction projects. A similar finding regarding management reporting was noted in report No. 02-188.

Recommendation: We recommend that the District enhance its monitoring procedures to promote completion of construction projects on schedule and within budgeted cost. Management reports should be submitted to the Board and other stakeholders at its regularly scheduled meetings. At a minimum, these reports should show comparisons of actual or projected completion dates for construction projects to the original estimated dates and of the actual or revised estimated costs to the original budgeted costs. The reports should be verifiable to the District’s accounting and other records, and should be periodically reviewed by persons independent of the facilities planning function.

Finding No. 2:

Identifying Capital Construction Transactions

The District should identify its capital construction transactions in a consistent and unique manner in order to provide management and other stakeholders with the necessary information to monitor the cost of the construction projects efficiently.

Our review of the District’s capital projects tracking procedures noted that project numbers were not consistently assigned to all transactions. As noted in Finding No. 1, capital construction projects were identified with program numbers; however, each program number could have several specific projects associated with it. In January 2004, District personnel informed us that they were identifying all transactions to date with the corresponding project number and expected to complete the process by the end of the month.

We selected 18 capital construction programs for review in March 2004 to determine the District’s progress in identifying the capital construction transactions with the corresponding project numbers. These 18 capital construction programs contained

approximately 10,500 transactions with a total value of \$125.6 million. Our review of these programs and transactions disclosed the following exceptions:

Description	No. of Transactions	Dollar Value of Transactions
Project No. Approved Under Different Program No. (1)	1,834	\$ 18,705,461
Documentation of Project Number Approval Not Available (2)	376	2,748,683
No Project Number Assigned	9	17,030
Transaction Identified with Project No. "0000" (3)	33	(35,305)
Total	2,252	\$ 21,435,869

- (1) The program number shown on the approval documentation for the given project number did not agree with the program number under which the project expenditures were recorded.
- (2) Documentation showing approval of project number was not provided for examination.
- (3) Project No. "0000" was used by accounting or budget departments for adjustments.

The inaccurate identification of capital construction transactions by project and program hinders the District’s ability to accurately capture and report the costs of capital outlay expenditures and the efficient monitoring of the District’s capital construction funding needs by management and other stakeholders.

Recommendation: We recommend that the District continue its review of the District’s capital construction project tracking procedures to ensure that all transactions are identified by project as well as program number.

Finding No. 3:

Allocation of Salaries to Capital Projects and Reduction of Staff Levels and the Implementation of Time Accounting System

Section 1013.64(6)(a), Florida Statutes, provides that the salaries of employees whose duties consist solely of labor necessary to accomplish capital outlay functions may be charged to capital outlay funds. However, the salaries of employees whose duties

consist partially of performing functions related to capital outlay are to be prorated based on the time dedicated to performing such functions, then charged to capital outlay funds.

Allocation of Salaries to Capital Projects

The District has established procedures to allocate salaries to capital projects. This allocation is referred to as “salary abatement” because the salary costs are transferred from the General Fund to the Capital Outlay Fund.

The District employs a two-step test, known as the “litmus test,” to determine whether an employee’s salary is abatable. This test requires that: (1) the employee’s position must be required to conduct the capital construction program, and (2) the employee’s time must be at least 95 percent related to capital construction. All District salaries are originally charged to the General Fund. Those salaries related to the capital construction program are assigned to either the Facilities Acquisition and Construction or the Maintenance of Plant expenditure category. Salaries assigned to Facilities Acquisition and Construction, that meet the “litmus test” mentioned above, are transferred to the Capital Outlay Fund. The amount of salaries determined to be abatable is then charged to each capital construction project using an 8 percent capital rate. This overhead rate was derived by the District through an evaluation of capital expenditures allocable to the Capital Outlay Fund over the three-year period between 1995 and 1998. The difference between the amount of salaries expenditures transferred from the General Fund to the Capital Outlay Fund and the total abated salaries allocated to the individual capital projects is charged to the District’s Central Abatement Account in the Capital Outlay Fund.

Salary costs assigned to the Maintenance of Plant category are for positions related to remodeling, maintenance, and repairs of facilities. These salary costs are partially financed through the transfer of

funds from the Capital Outlay Fund to the General Fund, as allowed by Section 1011.71, Florida Statutes.

In March 2003, the District conducted a survey to determine which positions outside the capital construction program departments were being allocated to the Capital Outlay Fund and as a feasibility study to explore alternative methods of allocating salary costs. The survey requested each department head to identify employees within the department, whose duties were related to capital construction program functions, along with the percentage of time dedicated to such functions.

We tested 20 of the 375 positions being charged to facilities construction and maintenance to determine whether salaries were being properly allocated to the Capital Outlay Fund. The total estimated cost for these 375 positions was approximately \$23 million. Nine of the 20 positions (45 percent) were incorrectly charged to the Capital Outlay Fund, although supporting documentation showed they should have been charged to the General Fund. In addition, 2 (10 percent) of the positions selected for testing were excluded from charges to the Capital Outlay Fund, although supporting documentation showed their duties were entirely related to capital construction program functions. For 1 of the remaining 9 positions, the supporting documentation indicated a 75 percent participation in capital construction program functions. However, the salary for this position was charged to the General Fund because the percentage of participation was less than the 95 percent threshold for the “litmus test.” The net effect of these incorrect allocations of salary costs for 12 positions was a \$133,770 overcharge to the Capital Outlay Fund.

Based on our review, we determined that the District’s procedures to allocate salary costs to the capital construction projects and charge them to the Capital Outlay Fund were not reasonable, given the inconsistencies in the application of the “litmus test,” salary costs incorrectly charged to the Capital Outlay Fund, and salary allocation procedures which

excluded employees who did not meet the 95 percent participation threshold. In addition, the current application of the 8 percent overhead rate adopted in the 1997-1998 fiscal year does not reflect changes in the operation of capital construction projects during the last six years due to the changes in personnel and volume of construction activities.

Reduction of Staff Levels and Implementation of a Time Accounting System.

The District engaged the FMI Corporation (FMI) on July 9, 2003, to review and assess the District's Facilities Construction Department (FCD), and provide necessary recommendations. Facilities Construction Department is the term used by FMI in its report to encompass all the District's capital construction functions. FMI's report was issued in October 15, 2003, and included among its recommendations that the District flatten and streamline FCD's staffing to more appropriate levels. FMI specified that FCD's overall staffing be reduced to a range of 107 to 134, from a level of 203 approved positions, with 179 filled, and that 91 positions outside FCD abated to the capital construction program be reduced to a range of 50 to 60.

The District's Board, at its January 14, 2004, meeting, directed the Superintendent to reduce the total payroll for construction and to implement a labor cost accounting system, effective February 1, 2004, as recommended by the FMI report.

District management, in accordance with the School Board's instructions, recommended the elimination of 27 unfilled positions in the FCD, effective February 1, 2004, for an estimated cost reduction of approximately \$1.3 million. On April 22, 2004, the Office of Budget Management indicated that the 27 unfilled positions had been eliminated. In addition, ten positions outside the FCD, totaling approximately \$670,000 in salary costs, which were previously charged to the Capital Outlay Fund, were transferred to the General Fund before June 30, 2004.

On February 1, 2004, the District implemented a time accounting system to track the time spent by individuals whose salaries were being charged to capital construction projects. District personnel informed us that the system was to apply to all positions in the FCD, all overhead positions in the Maintenance Operations Department, and all positions outside the Construction and Maintenance Operations Department abated to the capital construction program. This system was considered a preliminary effort to account for time spent on construction related activities by each employee, until the implementation of an automated time accounting system effective June 2004.

Through inquiries with District personnel and a review of the available report generated by the automated system for July 2004, we determined that each employee is required to enter daily the time dedicated to each category of work activity. The system provides established work activity categories for the employees to enter. District management personnel have designated some general categories of activity and will expand them as necessary. Any additional categories must be requested and approved before they are available in the system. Each employee is allowed access to the system through an access approval process, which will uniquely identify the employee. The system can generate reports such as total time worked by each employee on each work category, total time charged to each work category, and total amount of hours charged to each work category at each location.

District management indicated it intends to request the District's internal auditors to conduct desk audits, as suggested by the FMI report, to evaluate the effectiveness and efficiency of the system. District management also indicated it plans to use the automated time accounting system to determine the construction department's efficiency and the achievement of goals recommended by FMI. However, we noted that the design of the system does not include budget information for certain work

categories such as construction project management and maintenance project management that may be used to further those goals. Also, the information compiled will not be used to determine the reasonableness of salary costs allocations to the capital construction projects. The District plans to continue applying the fixed 8 percent overhead rate described above to allocate salaries to the capital construction projects.

Recommendation: The District should continue its efforts to develop an automated time accounting system that provides complete and timely information regarding the actual time each employee dedicates to capital construction functions by projects, as well as categories of activity. The automated time accounting system should provide District management sufficient information to determine reasonable benchmarks to assess the economy, efficiency, and effectiveness of the administration of the capital construction projects, such as budgets for work activity categories. Also, in view of the errors noted by our tests of salaries allocated to capital construction projects, this system should allow for an equitable allocation of salary costs to capital construction projects based on the actual time each employee dedicates to capital construction functions.

Finding No. 4:

Facilities Work Program

Section 1013.35, Florida Statutes, requires that the Board annually prepare a tentative district educational facilities plan (i.e., facilities work program), prior to the adoption of the district school budget, that includes planning for facilities needs over 5-year, 10-year, and 20-year periods. This tentative educational facilities plan is to be submitted to the State Office of Educational Facilities and SMART Schools Clearinghouse and the affected local governments. Furthermore, the first year of the adopted district educational facilities plan must constitute the capital outlay budget required in Section 1013.61, Florida Statutes.

Section 1013.61, Florida Statutes, requires that the Board adopt an annual capital outlay budget that communicates the Board's capital outlay needs for the entire year so they may be well understood by the public. The annual budget shall designate the proposed capital outlay expenditures by project for the year from all fund sources.

Compliance with Statutory Filing Requirements

The Board adopted the 2003-04 facilities work program required by Section 1013.35, Florida Statutes, at its September 10, 2003, meeting and submitted it to the State Office of Educational Facilities, effective on the same date. Our review of the facilities work program submitted determined that the District reported the planning for facilities needs for five years (i.e., 2003-04 through 2007-08), but did not include the information for the 10-year and 20-year periods, as prescribed by Section 1013.35 (2)(a), Florida Statutes.

District personnel informed us that, since a current template for the facilities work program that provides sections for the 10-year and 20-year information was not available from the Florida Department of Education before September 10, 2003, when the Board adopted the 2003-04 budget, the previous template was used. Upon further inquiries, we determined that the filing date for the 2003-04 facilities work program was extended for all school districts to November 21, 2003.

On March 24, 2004, the District electronically re-submitted an amended 2003-04 facilities work program including the 10-year and 20-year facilities needs information. However, the facilities needs information included for the years 6 through 10 in the facilities work program was the unfunded cost for projects listed for the 5th year of the facilities work program. Also, the District did not include any information for years 11 through 20 of the facilities work program, but a notation that the data was being developed. The resubmission of the 2003-04 facilities work program did not provide additional information

for years 6 through 20 and, as such, did not satisfy the filing requirements in law.

Differences between Facilities Work Program and Adopted Capital Outlay Budget

Our review of the District’s facilities work programs for the 2002-03 and 2003-04 fiscal years included a comparison of the first year of the facilities work program to the adopted capital outlay budgets for the corresponding fiscal years. This comparison indicated that the amounts reported in the facilities work programs for the first year did not agree with the adopted annual capital outlay budget for the corresponding fiscal year, contrary to the requirements in Section 1013.35(5), Florida Statutes. The results were as follows:

	2002-03 Fiscal Year Major Repairs and Renovations	2003-04 Fiscal Year Major Repairs and Renovations
Facilities Work Program	\$ 439,557,848	\$ 244,182,968
Adopted Capital Outlay Budget	<u>1,268,871,425</u>	<u>1,456,368,228</u>
Difference	<u>\$ (829,313,577)</u>	<u>\$ (1,212,185,260)</u>

In response to our inquiries, District personnel explained that the facilities work program included only new appropriations for the first year of the work program, while the adopted capital outlay budget shows the appropriations to date for all the projects that are open as of the beginning of the fiscal year, including appropriations carried forward from prior years. The total appropriations are classified by object category (example: buildings and additions, equipment, site purchases). Consequently, the total of capital outlay and major repairs and renovations reported in the adopted capital outlay budget for the current year would always exceed the amounts reported in the first year of the facilities work program by the amount of appropriations brought forward from prior years. This difference in reporting hinders the ability of the public and the Board to understand the Board’s capital outlay needs for the year, which is contrary to the intent of Section 1013.61, Florida Statutes.

Recommendation: We recommend that the District review its capital construction planning and budgeting procedures to ensure that the capital construction program is adequately communicated to the District’s stakeholders. The capital needs information reported in the facilities work program should include 10-year and 20-year information in accordance with law. In addition, the information for the first year of the District’s adopted facilities work program should be reconciled with the current year’s adopted capital outlay budget.

**Finding No. 5:
Construction Delays and Costs in Excess of Budgets**

Our review noted delays in the completion of the projects and costs in excess of the original project budgets. We selected 30 construction projects with adjusted contract amounts totaling approximately \$173 million for review. We noted that, based on approved adjustments to project schedules, 25 of the 30 (83 percent) construction projects reviewed were not expected to be completed within the originally projected time. The delays in the time required to complete the projects ranged from 47 to 1,057 days, with an average of 284 days. We noted that, for the 25 projects, time delays were due to factors such as errors in the definition of the design and scope of the capital projects, defective work not detected through timely inspections, delays in the final closing of the projects, and changes in contractor, due to default by the original contractor.

In addition, our review disclosed that 18 (60 percent) of the 30 selected projects exceeded, or are expected to exceed, the originally budgeted cost. The range of the excess costs ranged from \$30,846 to \$3,096,447, with an average of \$411,689. The causes for the excess costs included the same factors indicated above for the time delays. In all 18 instances, change orders were submitted to the School Board and approved.

Delays in completing capital projects and exceeding the project budgets contribute to the inefficient use of funds available to satisfy the District's capital construction projects needs.

In response to our inquiries, District personnel informed us that procedures are being implemented to expedite the process of awarding, designing, and completing the necessary construction projects. These procedures include:

- Combining under one advertisement the requests for design professionals needed for all new school construction projects. Projects will be developed as prototypes, which will allow for future use of established design criteria. Our review of available documentation noted several instances of this type of advertisement. For example, on May 12, 2004, District staff prepared an advertisement requesting qualification proposals. This advertisement combined new construction projects (approximately \$100 - 150 million), additions to existing facilities (approximately \$10 - 30 million), and remodeling, renovation and repair projects (approximately \$100 - 150 million). In addition, we reviewed documentation indicating that the District advertised requests in November and December 2003 for qualifications of design criteria professionals for the development of prototype elementary, middle, K-8, and senior high schools with an estimated construction cost of \$225 million during the 2003-04 fiscal year.
- Combining under one advertisement the requests to contract architects and engineers for all approved deferred maintenance projects. Our review of available documentation noted that, on January 8, 2004, District staff combined into one advertisement the requests for qualifications of architects and engineers for deferred

maintenance projects throughout the District, including Americans with Disabilities Act modifications, with an estimated total cost of \$691 million through fiscal year 2007-08.

- Developing compressed project schedules for the design and construction of new facilities that comply with the School Board's approved recommendations. The development of these schedules will be a cooperative effort by the District's Departments of Advance Planning, Architect/Engineers (A/E) Selections and Construction Budgets and Controls. Our review of available documentation showed that the new timelines for the construction of school facilities were approved by the Board at its December 19, 2003, meeting. District staff estimated that these new compressed schedules may reduce the construction timelines of elementary, middle, and senior high schools by at least ten, eight, and six months, respectively.

Recommendation: We recommend that the District continue its efforts to implement procedures that expedite the process of awarding, designing, and completing the necessary construction projects on time and within budget.

Finding No. 6:

Analysis of Capital Outlay Fund

To determine the District's efficiency in utilizing funds available for capital construction, we analyzed changes in the Capital Outlay Fund's fund balance and the comparison of budget appropriations to actual expenditures and transfers out, for the three most recent fiscal years.

As shown on the *Analysis of Changes in Capital Outlay Fund Balance*, exhibit A, the fund balance has grown

an average of \$91,100,778 each year. A comparison of the beginning fund balance for fiscal year 2000-01 (\$501,894,712) to the ending fund balance for fiscal year 2002-03 (\$775,197,047), noted a total increase of \$273,302,335 (54 percent). As shown on the *Analysis of Capital Outlay Budget Appropriations vs. Actual Expenditures and Transfers Out*, exhibit B, the Capital Outlay Fund's average budgeted and actual expenditures and transfers out for the three year period totaled \$1,187,437,282 and \$444,712,487, respectively. This shows that the District's average actual expenditures and transfers out over the past three fiscal years was 37 percent of its average budgeted expenditures and transfers out. The analyses indicate that the District's utilization of capital construction funding sources is not matching its capital construction plans, which are the basis for its capital outlay appropriations. The increase in fund balance and under utilization of capital construction funds appears to be due to delays in finalizing approved construction projects, as discussed in Finding No. 5, and delays in releasing funds encumbered for purchase orders that are no longer necessary. A report presented to the School Board on April 14, 2004, by the District's Office of Management Audits and Compliance, included a similar comment.

District personnel informed us that procedures have been implemented to finalize the processing of capital construction projects and release funds on a timely basis. Some of these procedures are as follows:

- Project managers and supervisors plan to complete a review of purchase orders outstanding in excess of two years and close those that are no longer necessary. Our review of available documentation noted that District staff is in the process of closing purchase orders no longer necessary. For example, on May 17, 2004, the Department of Capital Construction Budgets and Controls (Capital Construction) personnel identified purchase orders totaling \$1.6

million that were no longer necessary, and requested that they be closed.

- Capital Construction staff started reviewing reports generated monthly by the District's Information Technology Services department with appropriate supervisory personnel before the end of the 2003-04 fiscal year. In addition, Capital Construction staff is reviewing fund balances monthly to determine whether funds can be redistributed.

Recommendation: We recommend that District personnel continue their efforts to ensure the efficient use of funds available to the District for capital construction. District procedures to finalize the processing of capital construction projects and the release of construction funds should be formalized in writing. The procedures should include time-benchmarks for the periodic review of outstanding purchase orders and the periodic comparison of fund balances and projected capital expenditures.

Finding No. 7:

Unexpended Project Funds

Our review of the District's capital construction program included an examination of the outstanding balances for active capital construction projects as of March 26, 2004, at specific locations. Our objective was to analyze the reasonableness of the timing between the receipt and expenditures of capital construction funds for approved projects. Based on our review, we selected 23 projects for further analysis.

For the selected construction projects, we determined the date when funds were originally allocated and the total amounts of revenue and expenditures through March 26, 2004, using the District's transaction registers. We determined that the timing between the receipt and expenditure of funds allocated to 15 of the selected projects were reasonable. The remaining

8 projects were funded with Qualified Zone Academy Bonds (QZABs) and had a significant portion of their allocations unexpended.

Qualified Zone Academy Bonds (QZABs) are non-interest bearing bonds with tax credits provided to lenders by the Federal government to facilitate the financing of school renovations and repairs in qualifying areas. Schools eligible for this funding are those located in an Empowerment Zone, an Enterprise Community, or where at least 35 percent of students are eligible for free or reduced lunches under the National School Lunch Act.

Our review of the description of the proposed work associated with each of the eight QZAB-funded projects determined that they consisted of remodeling and renovation at locations that met the QAZB requirements stated above.

As shown on exhibit C, our analysis indicates that the time elapsed between initial allocation and March 26, 2004, ranged from 2.47 to 3.62 years and the percentages of unexpended allocation ranged from 71.5 percent to 98.9 percent.

Since QZABs are debt issued to fund specific renovations and remodeling projects, we considered that the debt proceeds should be expended in a relative short time. Consequently, the length of time elapsed and the percentage of funds unexpended appear significant.

Recommendation: In connection with the District’s actions to expedite construction projects as discussed in Finding Nos. 5 and 6, the District should also enhance its efforts to expedite the completion of remodeling, renovation, and repair projects in qualifying areas for which funding is readily available.

SCOPE, OBJECTIVES, AND METHODOLOGY

The objectives of this operational audit included a review of those operating units, programs, activities, functions, and transactions related to capital

construction funding. Our objectives were as follows:

- To obtain an understanding and make an overall judgment as to whether management controls over capital construction funding promote and encourage compliance with applicable laws, administrative rules, and other guidelines; the economic, effective, and efficient operation of the District; the reliability of records and reports; and the safeguarding of assets.
- To evaluate the performance of the District’s management in achieving compliance with controlling laws, administrative rules, and other guidelines; the economic, efficient, and effective operation of the District; the reliability of records and reports; and the safeguarding of assets.
- To analyze 2003-04 fiscal year capital projects funds budgets and the facilities work program for consistency in the funding and timing of projects.
- To analyze 2003-04 fiscal year capital projects funds budgets and the published advertisement for the Local Optional Millage levy (LOML) for consistency and reasonableness.
- To analyze the reasonableness of the timing between the receipt and expenditure of capital projects funds.
- To determine the reasonableness of the balances of funds on hand in comparison with the budget balances at the beginning of the 2003-04 fiscal year.
- To determine the validity of capital construction projects, and the reasonableness and age of the project budgets.

- To determine the number, types of positions, and the amount of employee salaries charged to capital projects funds.
- To determine the reasonableness of the District’s procedures (method) for charging facilities department salaries to the capital projects funds.
- To determine the adequacy of capital projects reports available to management and to the District School Board members.
- To review the District’s litigation activities related to capital construction projects.
- To determine whether any recoveries from litigation involving facilities construction are returned to capital outlay funds.
- To report any identified fraudulent transactions and deficiencies in internal control that increase the risk of fraudulent transactions.

We conducted this audit in accordance with applicable standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

BACKGROUND INFORMATION

Funding Sources

Major revenue sources of capital outlay funds for the District include:

- **State**
 - Public Education Capital Outlay (PECO) funds. PECO funds for construction are allocated to the District based on FTE membership. PECO funds for maintenance and repair are allocated to the District based on the size and age of District buildings. Capital projects funded with PECO must be recommended in the District’s Educational Plant Survey and encumbered within 31 months or they revert to the State.

- Capital Outlay and Debt Service (CO & DS) funds. CO & DS funds are annually distributed from State motor vehicle license receipts. The funds are available for capital purposes after any annual debt service requirements are fulfilled. The CO & DS distribution decreases as the District leverages this revenue source to issue State Board of Education (SBE) bonds for capital projects. Capital projects funded with CO & DS distributions must be on the District’s Project Priority List.
- Effort Index Grants. Effort Index Grants are non-recurring State grants funded from lottery revenue bonds, which are allocated to the District based on local capital outlay funding effort. Funds must be expended for State approved projects.

➤ **Local**

- Local Optional Millage Levy (LOML) funds. LOML funds are derived from an annual millage levy up to 2 mills, as capped by the State, and set annually by the School Board for capital outlay purposes. These proceeds can be used for new construction and remodeling; site acquisition and improvements; ancillary facilities; maintenance and repair of existing facilities; purchase of motor vehicles and buses; correction of environmental hazards; and the lease purchase of equipment, facilities, and sites.
- General Obligation Bonds (GOBs). GOBs represent long-term debt issued by the School District after being authorized by a referendum. The debt proceeds may be used only for capital expenditures described in the referendum. GOBs pledge the full faith and credit of the issuing authority, but usually authorize the levy of local property tax millage to repay the principal and interest.
- Impact fees. Impact fees are paid by builders and developers when applying for residential building permits. The fees are intended to partially mitigate the

impact to the District caused by the growth in students associated with new construction and development.

- Interest on investments. Funds on hand are invested by the District's Treasury Management staff to maximize the amount of funding available to meet capital construction expenditures.

➤ **Other Financing Sources**

- Certificates of Participation (COPs). A form of debt financing involving the sale of interests in a dedicated revenue stream (e.g., lease purchase payments) that are used by the District to purchase or construct facilities, equipment, school buses, and other capital assets. Projects funded from this source must be recommended in the District's Educational Plant Survey.
- Qualified Zone Academy Bonds (QZABs). QZABs are non-interest bearing bonds with tax credits provided to lenders by the Federal government to facilitate the financing of school renovations and repairs in qualifying areas. Schools eligible for this funding are those located in an Empowerment Zone, an Enterprise Community, or where at least 35 percent of students are eligible for free or reduced lunches under the National School Lunch Act.
- State Board of Education (SBE) Bonds. Bonds sold by the State on behalf of the District. Future motor vehicles license revenues are pledged to repay these bonds. Projects funded with this source must be on the District Project Priority List and on an approved state bond resolution.

The funding sources received by the District during the 2000-01, 2001-02, and 2002-03 fiscal years as reported by the District in its Annual Financial Report were as follows:

	Fiscal Year		
	2000-01	2001-02	2002-03
State Sources			
Public Education Capital Outlay	\$ 27,431,254	\$ 19,742,643	\$ 11,979,501
Effort Index Grant	17,836,312	8,842,955	-
Miscellaneous State Revenue	16,164,595		
Capital Outlay & Debt Service (CO&DS) Distributions	1,669,295	1,653,012	1,587,760
Interest on Undistributed CO&DS	320,309	336,064	285,600
Total State Sources	63,421,765	30,574,674	13,852,861
Local Sources			
District Local Capital Improvement Tax	\$ 185,539,942	\$ 201,411,370	\$ 220,818,934
Miscellaneous Local Revenue	27,703,394	2,376,210	1,825,315
Impact Fees		29,295,848	27,859,892
Interest on Investments	21,390,180	15,719,238	10,454,522
Total Local Sources	234,633,516	248,802,666	260,958,663
Other Financing Sources			
Proceeds of Certificates of Participation	\$ 325,208,400	\$ 42,235,000	\$ 315,210,000
Premium on Certificates of Participation		979,900	11,766,626
Sale of Capital Outlay Bonds	491,184	1,932,726	
Transfers In	13,721,943		43,649,872
Total Other Financing Sources	339,421,527	45,147,626	370,626,498
Total of Funding Sources	\$ 637,476,808	\$ 324,524,966	\$ 645,438,022

Budget Preparation

The District's Office of Budget Management staff initiates the capital construction funding process by estimating budget revenues for the Capital Outlay Fund, based on the following information:

- Estimates obtained from the Florida Department of Education:
 - Public Education Capital Outlay (PECO).
 - Capital Outlay and Debt Services (CO & DS).
 - State Board of Education (SBE) bonds.
 - Effort Index Grants.
- The estimated proceeds from Local Optional Millage Levy (LOML), based upon the tax roll certified by the Property Appraiser and the millage rate approved by the School Board.
- Estimates of impact fees obtained from the staff in the county's Department of Planning and Zoning.
- Estimates of proceeds from borrowing instruments (e.g., obligations authorized by Sections 1011.14 and 1011.15, Florida Statutes, COPs), which are scheduled for issuance.
- Interest revenue estimates for each Capital Outlay fund provided by the District's Office of Treasury Management.

- The estimated undesignated fund balance brought forward from the prior year to fund new projects.

Capital Outlay Funds budget appropriations are developed through the following procedures:

- The District's Office of Budget Management staff brings forward the prior year's unexpended fund balances and identifies other funds available from revenue sources and debt issuances. The appropriations corresponding to prior year's unexpended fund balances are budgeted in the same Capital Outlay funds, capital projects and expenditure categories.
- The department of Facilities Operations, Maintenance and Planning staff prioritizes the capital projects, based on consultation with the Area Community Centers for Educational Support Services (ACCESS) staff.
- The staff in Capital Construction Budgets and Controls, a department within the department of Facilities Operations, Maintenance and Planning, evaluates the capital needs for facilities submitted by the ACCESS centers and scopes them into individual capital projects based on the available funding information provided by the District's Office of Budget Management's Executive Director for Capital Budgeting. The Executive Director for Capital Budgeting determines the amount of available funds by considering the restrictions pertinent to each funding source. For example, debt service payments have first funding priority. Once all the restrictions are satisfied, the remaining funds are considered available to satisfy other capital construction needs.

Budget Approval

The Executive Director for Capital Budgeting reviews the capital projects submitted by the Capital Construction Budgets and Controls staff to determine that the application of funding sources is appropriate and compiles the District's tentative capital outlay budget. After review by the Chief Budget Officer, Office of Budget Management's (OBM) staff includes the capital outlay budget in the District's tentative budget that is published for consideration by the District's stakeholders.

The District's tentative budget is compiled in accordance with procedures and time intervals prescribed by Florida Statutes and State Board of Education Rules. According to pertinent legal guidelines, the District must advertise the tentative budget and millage rates in a daily newspaper of general circulation in the county within twenty-nine days after receiving the certification of the assessed value of non-exempt property in the county from the Property Appraiser. This advertisement must contain a budget summary, the proposed millages rates, and a notice of the date, time, and location for the first public hearing of the budget.

The School Board schedules two public hearings. The first hearing is held in July to discuss the tentative budget. This hearing must be held at least two days, but no later than five days, after the publication of the budget advertisement. The District's stakeholders are allowed to address the School Board regarding the tentative budget and proposed millage rates. At the end of the meeting, the Board adopts the tentative budget and a resolution indicating the millage rates to be levied, and sets the date for the second public hearing.

The second public hearing is held in September for the final approval of the adopted budget. This hearing must be held between 65 and 80 days after receiving the certification from the Property Appraiser. The Board, after the conclusion of the public hearing, adopts the final budget and resolution

indicating the tax millage rates to be levied. The District submits the adopted budget to the State's Commissioner of Education and the Florida Department of Revenue. In addition, the Board certifies the final adopted millage rates to the county's Tax Collector and Property Appraiser.

Budget Amendments

The Executive Director for Capital Budgeting prepares budget amendments based on changes in the availability of funding sources or in the projects scheduled for the District. These amendments affect the total amount of the District's Capital Outlay Budget. After review and approval by the Chief Budget Officer, OBM's staff consolidates these amendments and submits them to the Board for approval.

Similarly, Capital Construction Budgets and Controls staff submits to the Board for approval changes that affect the applications of funds between individual capital projects, but do not affect the total Capital Outlay Budget.

Appropriations are controlled at the object level (e.g., construction; furniture, fixture, and equipment; renovation; remodeling) and may be amended by resolution at any Board meeting prior to the due date for the annual financial report. The final amendments to the District's budget are submitted to the Board after the closing of the fiscal year's financial records.

Budget Monitoring

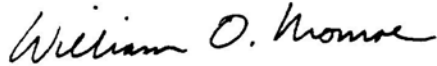
The Office of Budget Management (OBM) is responsible for monitoring the District's operations to avoid the risk of unauthorized expenditures or exceeding the approved budget. As part of this monitoring, OBM staff prepares projections of revenues and expenditures monthly to ascertain any potentially serious budget problems.

The District's automated accounting system includes a budgetary subsystem that provides management budget monitoring capabilities. The capital outlay budget and all budget amendments approved by the Board are entered into the automated accounting system. Access to the budgetary information found in the automated accounting system is controlled through an access authorization process managed by the District's Information Technology Services department.

There are several reports available either on line or as printouts that provide the necessary information to monitor the budgetary status of capital construction projects.

AUTHORITY

Pursuant to the provisions of Section 11.45, Florida Statutes, I have directed that this report be prepared to present the results of our operational audit.



William O. Monroe, CPA

Auditor General

AUDITEE RESPONSE

The District's response includes a letter from the Superintendent dated November 19, 2004, and three memoranda from District management.

In the General Comments section of the District's response, the District requested clarification regarding the audit period, and the related lines of reporting and District organization during this period. These matters are addressed in the Summary section of our report to provide the requested clarification.

This audit was conducted by Enrique A. Alonso, CPA, and supervised by Ramon A. Gonzalez, CPA. Please address inquiries regarding this report to David W. Martin, CPA, Audit Manager, via e-mail at davidmartin@aud.state.fl.us or by telephone at (850) 487-9039.

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

EXHIBIT – A
ANALYSIS OF CHANGES IN CAPITAL OUTLAY FUND BALANCE

	Fiscal Years			Three-Year Average
	2000-01	2001-02	2002-03	
Revenues and Other Financing Sources	<u>\$ 637,476,808</u>	<u>\$ 324,524,966</u>	<u>\$ 645,438,022</u>	<u>\$ 535,813,265</u>
Expenditure and Transfers Out:				
Library Books	1,525,969	663,437	424,131	871,179
Audio Visual Materials	292,960	261,150	194,843	249,651
Buildings and Fixed Equipment	179,278,881	150,896,104	117,388,989	149,187,991
Furniture, Fixtures, and Equipment	28,098,131	19,840,687	12,816,288	20,251,702
Motor Vehicles	10,744,490	12,531,398	10,326,443	11,200,777
Land	2,501,480	987,843	4,142,020	2,543,781
Improvements Other than Buildings	1,494,836	2,946,967	3,819,976	2,753,926
Remodeling and Renovations	71,461,950	58,007,012	66,654,437	65,374,466
Computer Software	2,032,668	1,933,694	448,252	1,471,538
Interest	1,190,856		320,190	503,682
Dues and Fees		534,786	3,313,173	1,282,653
Transfers to General Fund	114,346,868	115,286,280	107,140,530	112,257,892
Transfers to Debt Service Fund	43,965,199	63,697,351	65,255,376	57,639,309
Transfers-Interfund			43,649,872	14,549,957
Transfers to Capital Improvements	13,721,943			4,573,981
Total Expenditures and Transfers Out	<u>470,656,231</u>	<u>427,586,709</u>	<u>435,894,520</u>	<u>444,712,487</u>
Net Changes in Fund Balance	166,820,577	(103,061,743)	209,543,502	91,100,778
Beginning Fund Balance	<u>501,894,712</u>	<u>668,715,289</u>	<u>565,653,545</u>	<u>578,754,515</u>
Ending Fund Balance	<u>\$ 668,715,289</u>	<u>\$ 565,653,546</u>	<u>\$ 775,197,047</u>	<u>\$ 669,855,294</u>
Percentage Growth in Fund Balance	<u>33%</u>	<u>-15%</u>	<u>37%</u>	<u>16%</u>

EXHIBIT – B
ANALYSIS OF CAPITAL OUTLAY BUDGET APPROPRIATIONS VS. ACTUAL EXPENDITURES
AND TRANSFERS OUT

	Fiscal Years			Three Year
	2000-01	2001-02	2002-03	Average
Final Budget Amounts:				
Expenditures and Transfers Out	\$ 1,195,977,058	\$ 1,077,218,674	\$ 1,289,116,115	\$ 1,187,437,282
Actual Amounts:				
Expenditures and Transfers Out	470,656,231	427,586,709	435,894,520	444,712,487
Variance-Final Budget Over Actual Amounts	\$ 725,320,827	\$ 649,631,965	\$ 853,221,595	\$ 742,724,796
Variance as a Percentage of Budget	61%	60%	66%	63%
Expenditures as a Percentage of Budget	39%	40%	34%	37%

EXHIBIT – C
ANALYSIS OF QUALITY ZONE ACADEMY BOND BALANCES

Locations:	George T. Baker Aviation	Greynolds Park Elementary	Naranja Elementary	Norland Elementary	Allapattah Middle	Howard D. McMillan Middle	Palm Springs Middle	Miami Central Senior
Allocations:								
Date of Allocation	<u>8/11/2000</u>	<u>2/16/2001</u>	<u>6/27/2001</u>	<u>6/27/2001</u>	<u>2/16/2001</u>	<u>10/6/2001</u>	<u>2/16/2001</u>	<u>2/16/2001</u>
Initial Allocation	\$ 3,000,000	\$ 1,000,000	\$ 925,000	\$ 582,900	\$ 1,425,000	\$ 1,452,282	\$ 802,000	\$ 1,382,000
Increase/Decrease in Allocation	75,008	(282,001)	(342,100)	342,099		(451,600)	198,000	147,635
Total Allocation	<u>3,075,008</u>	<u>717,999</u>	<u>582,900</u>	<u>924,999</u>	<u>1,425,000</u>	<u>1,000,682</u>	<u>1,000,000</u>	<u>1,529,635</u>
Expenditures:								
Expenditures as of March 26, 2004	<u>877,350</u>	<u>21,785</u>	<u>6,462</u>	<u>33,418</u>	<u>26,771</u>	<u>27,088</u>	<u>20,553</u>	<u>31,390</u>
Balances Unexpended/Unencumbered/Uncommitted at March 26, 2004	<u>\$ 2,197,658</u>	<u>\$ 696,214</u>	<u>\$ 576,438</u>	<u>\$ 891,581</u>	<u>\$ 1,398,229</u>	<u>\$ 973,594</u>	<u>\$ 979,447</u>	<u>\$ 1,498,245</u>
Percent of Allocations Available at March 26, 2004	71.5%	97.0%	98.9%	96.4%	98.1%	97.3%	97.9%	97.9%
Time Elapsed Between Initial Allocation and March 26, 2004 (days)	1,323	1,134	1,003	1,003	1,134	902	1,134	1,134
Time Elapsed in Years	3.62	3.11	2.75	2.75	3.11	2.47	3.11	3.11

STATEMENT FROM AUDITED OFFICIAL


Miami-Dade County Public Schools
giving our students the world

Superintendent of Schools
Rudolph F. Crew, Ed.D.

Miami-Dade County School Board
Frank J. Bolaños, Chair
Dr. Robert B. Ingram, Vice Chair
Agustin J. Barrera
Evelyn Langlieb Greer
Perla Tabares Hantman
Dr. Martin Karp
Ana Rivas Logan
Dr. Marta Pérez
Dr. Solomon C. Stinson

November 19, 2004

Mr. William O. Monroe, Auditor General
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450

Dear Mr. Monroe:

Thank you for providing us the opportunity to respond to the preliminary and tentative findings in your audit of *Miami-Dade County District School Board Capital Construction Funding Activities*. Enclosed with this letter are our comments and responses to the individual findings and recommendations.

We would like to take this opportunity to commend your staff for their professional conduct throughout the assignment. We take all reviews of our District very seriously in particular that provide opportunities to improve our performance. We particularly welcome those opportunities that allow us to better serve our children.

Your report is timely, as our Capital Program is at the forefront of District priorities if the education mission of the District is to be achieved. Our current educational facilities' capacity is woefully inadequate to house the number of students in the Miami-Dade County Public Schools. The current deficit of student stations exceeds 22,500, without taking into account the future implementation of the class size reduction and voluntary universal pre-kindergarten constitutional amendment.

A significant reorganization and restructuring of Facilities Management and Construction is in the works. It will strengthen project management, improve accountability and provide effective leadership. Our focus will be on significantly increasing the number of new student stations available for the opening of the 2005-2006 school year. We are already aware of many of the observations in your report and are taking actions to address them.

Should you need additional information, please feel free to contact me or Ms. Rose Diamond, the District's Chief Facility Officer at 305-995-1401.

Sincerely,

Rudolph F. Crew, Ed.D.
Superintendent of Schools

RFC:cpi
L749
Enclosure

cc: Ms. Ofelia San Pedro
Ms. Carolyn Spaht
Ms. Rose Diamond
Mr. Allen M. Vann

School Board Administration Building • 1450 N.E. 2nd Avenue • Miami, Florida 33132
305-995-1430 • Fax 305-995-1488 • www.dadeschools.net

STATEMENT FROM AUDITED OFFICIAL (CONTINUED)

MEMORANDUM

MANAGEMENT AND COMPLIANCE AUDITS
2004 NOV 16 PM 2:01

RD/2004-05/#178
November 15, 2004
(305) 995-1401

TO: Mr. Allen Vann, Chief Auditor
Office of Management and Compliance Audits

FROM: Rose Diamond, Chief Facilities Officer *RAD*
Office of School Facilities

SUBJECT: PRELIMINARY AND TENTATIVE AUDIT FINDINGS AND RECOMMENDATIONS

Attached, is a memorandum from Dr. Richard H. Hinds, Interim Chief Financial Officer, Ms. Connie Pou, Controller, Ms. Ana Rijo-Conde, Planning Officer, and Ms. Isora Castro, Executive Director with the response to the preliminary and tentative audit findings and recommenations. I concur with their response.

If you have any questions, please feel free to call me.

RD:sma

Attachments

cc: Ms. Ofelia San Pedro
Dr. Richard H. Hinds
Ms. Connie Pou
Mr. Victor Alonso
Ms. Ana Rijo-Conde
Ms. Isora Castro

STATEMENT FROM AUDITED OFFICIAL (CONTINUED)

MEMORANDUM

November 10, 2004

TO: Ms. Rose Diamond, Chief Facilities Officer

FROM: Richard H. Hinds, Interim Chief Financial Officer
Office of Financial Operations

Connie Pou, Controller
Office of the Controller

Ana Rijo-Conde, Planning Officer
Facilities Planning

Isora Castro, Executive Director
Capital Construction Budgets and Control

OFFICE OF
DEPUTY SUPERINTENDENT
04 NOV 16 PM 2:31

SUBJECT: PRELIMINARY AND TENTATIVE AUDIT FINDINGS AND RECOMMENDATIONS

We reviewed the preliminary and tentative audit findings prepared by the State's Auditor General and offer the comments/responses below.

General Comments

1. The audit appears to cover FY 2000-2001 through and including FY 2002-2003, although this is unclear since the FY '03-'04 budget cycle and work program are also referenced. It would be helpful to have clarification from the auditing team on the exact term of the audited period since process improvements have been implemented in a number of areas that address many of the findings.
2. The lines of reporting and District organization are described inaccurately if the audited period is in fact July 1, 2000 through June 30, 2003. During that time, there was a Chief Facilities Officer in charge of Facilities Operations, which included both Construction and Maintenance. This individual reported directly to then Superintendent Roger Cuevas. Effective April 2001, this position was bifurcated into two Chief Facilities Officer positions: one in charge of Construction and the other in charge of Maintenance. Both positions reported directly first to then Superintendent Cuevas, and later to a Chief Business Officer. Effective April of 2003, the Chief Business Officer (CBO) position was vacated, and an Interim Assistant Superintendent position was created to oversee all aspects of the facilities division until the CBO position was filled, which occurred in October 2003 and pending a reorganization of the facilities division.

STATEMENT FROM AUDITED OFFICIAL (CONTINUED)

PRELIMINARY AND TENTATIVE AUDIT FINDINGS AND RECOMMENDATIONS**November 10, 2004****Page 2**Comments on Specific Findings

Finding #1: Up until late 2003/early 2004, there was no routine or systematic way of providing project status information to the Administration and School Board although some system improvements were already underway. Effective January 2004, the Facilities Division began issuing monthly construction project updates denoting budget, status, scope and other pertinent information. These updates were also posted on the Facilities Website (<http://facilities.dadeschools.net>). Parallel with that effort, the District automated the process on a shared server to enable project managers to update their projects' status on a routine basis; this effort was fully implemented in September 2004. The final tier of this effort is now on-going and Magellan K-12 has been selected as the District's Long-term IT Solution for facilities.

By way of additional background, in July 2002, the District implemented the practice of budgeting and recording expenditures at the project level. During FY 2002-2003 staff in the Office of Capital Construction Budgets and Controls (CCB&C), in collaboration with Information Technology Services (ITS), populated all expenditures for active capital funded projects with project numbers. In addition, staff continues to populate the historical data (as far back as 1989) with project numbers. This endeavor comprises over 475,000 records.

In April 2003, a Capital IT Task Force was formed, comprised of all stakeholders, (Facilities, Maintenance, Accounting, Finance, Budget, IT, Internal Audits, etc.) with the intent to develop and implement a short-term solution to the data and reporting issues, as well as develop a vision for the long-term solution. The outcome was the implementation of COMPASS for the capital projects. This allowed staff to track budget, expenditures and generate reports at the project level and to put in place cost controls by cost categories. A pilot project run in July 2003, went into production September of 2003. All major capital projects initiated and/or awarded to a construction contract after July 1, 2003 are now processed through COMPASS. In addition, a financial inquiry screen was developed and put in production by ITS in May 2003, to track expenditures and budget at the project level. (This continues to be reviewed and validated by staff). Weekly reports are produced by ITS and reviewed and reconciled by CCB&C to ensure that budget and expenditure postings are accurate and that they balance to the General Ledger.

Concurrently with the implementation of COMPASS, in June 2003, staff in the CCB&C began the development of a short-term database intended to track project status. A scope document, users' manual and a training program were implemented and staff in Facilities, Maintenance, Budget, Accounting, etc. was trained. Project Managers are responsible for

STATEMENT FROM AUDITED OFFICIAL (CONTINUED)

PRELIMINARY AND TENTATIVE AUDIT FINDINGS AND RECOMMENDATIONS**November 10, 2004****Page 3**

updating their project information and reports have been created and posted on the Intranet for stakeholders' use.

The development and deployment of the FMS system and the management reports that can and are being generated provide a level of accountability and transparency not previously available in the District. Information is available to users from their desktop and the re-engineered facilities website provides information to the public.

Finding #2: Lack of consistency in the project numbering system was an issue of concern to the District, and the staff of CCB&C addressed much of this during FY 2003-04. In September of 2004, ITS put in production a Project Numbering application. This application forces the project initiators to provide basic information regarding the project which results in a system-generated unique project number. CCB&C must approve and fund the project and the project number and collateral information interfaces to FMS and the District's financial system, MSA. The previously referenced Facilities Capital Construction Budgets and Controls (CCB&C) office approves project requisitions on line. It is set up so that the District's Budget Office is not on the approval chain for capital requisitions for internal control purposes (this is since the office actually loads the budgets into the general ledger). Provisions were made in the application for pullout projects. Additionally, project number assignment has been centralized with the Advanced Planning unit to avoid duplication and promote project integration across all disciplines.

On October 11, 2004, an additional control was put in production requiring the marriage of a project number to a fund structure in order for it to be valid. This deliverable will ensure the accuracy of project number use and budget availability. In addition, a cost category feature is required to identify further the type of expenditures. This will allow staff in the Office of Capital Construction Budgets and Control to closely monitor expenditures by cost category and report budget vs. actual expenditures. This tightens the controls on expenditures and enhances the budgeting process.

Finding #3: As of March 2004, the District had eliminated twenty-seven (27) positions from the Facilities Construction department and as of July 2004 had reduced by 20 the number of positions in other departments, charged to the capital program (abated positions). Additionally, at the October 20, 2004 meeting, the Board approved a reorganization of the facilities department, with a total of 159 positions, down from a total of 203 positions (179 filled and 24 open) in December of 2003. Although a time accounting system is in place for all positions charged to the capital program, the current administration is reviewing the benefits of this system in its present form, since the data does not yield measurable results at the project level, as discussed below in more detail.

STATEMENT FROM AUDITED OFFICIAL (CONTINUED)

PRELIMINARY AND TENTATIVE AUDIT FINDINGS AND RECOMMENDATIONS**November 10, 2004****Page 4**

While some may equate Overhead Costs with Fixed Costs, Indirect Costs is probably a better, but not perfect, analogy for M-DCPS. In cost accounting theory the distinction between direct and indirect costs are as follows:

- Direct Costs are readily identifiable and traceable to specific products (or projects).
- Indirect Costs are not readily identifiable and traceable to specific products (or projects).

It is important that accurate distinctions be made between Direct Costs and Indirect Costs in order to accurately allocate costs to capital assets. For cost accounting purposes it is not uncommon to allocate indirect costs among products (or projects) on the basis of direct costs, especially if there is a reasonable correlation.

The recent practice of requiring all abated employees to maintain detailed timesheets throughout the year in order to determine the percentage of costs that are appropriately abated is neither practical nor necessary. We are considering alternative methodologies for validating the amount of indirect costs/overhead to be abated as well as alternatives to the use of an 8% flat rate for distributing indirect costs/overhead to individual projects.

Our recommendations can be summarized as follows:

- Reduce the minimum (threshold) percentage of time spent on activities related to capital construction that is necessary for a position to be abated from 95% to 75%.
- Periodically collect timesheets from randomly selected staff, whose positions are to be abated, only to validate the propriety and percentages being abated.
- Allocate indirect costs/overhead only to projects to be capitalized under GASB 34 as well as other non-capitalized renovation projects for which direct costs exceed a threshold to be established based on the percentage of total direct costs charged to each project. We do not believe that there are any tangible benefits for allocating indirect costs/overhead to small, renovation projects.

Regarding the test of 20 positions abated to capital outlay funds, it is our understanding that the positions tested were not randomly selected. Therefore, the reported overcharge of \$133,770, which in itself is not material, cannot be extrapolated to the entire population of abated positions.

Finding #4: Staff concurs with the recommendation and has taken the following steps towards communicating the capital program to all stakeholders. The Board has approved the investment of over \$3 million towards the development of a comprehensive facilities

STATEMENT FROM AUDITED OFFICIAL (CONTINUED)

PRELIMINARY AND TENTATIVE AUDIT FINDINGS AND RECOMMENDATIONS**November 10, 2004****Page 5**

planning system that will be available to all stakeholders through the web. For the 2004-2005 year, the Facilities Work Program has the 10-year and 20-year information, in accordance with law, and is available on the following District Facilities website: http://facilities.dadeschools.net/files/pdfs/District%20Facilities%20Work%20Program_090804.pdf. The District's 2004-2005 Budget is also available to all stakeholders on the web at the following address: <http://financialaffairs.dadeschools.net/ES2004/index.htm>.

Also available is information for the first year of the District's Facilities Work Program. As noted, the current year's capital outlay budget includes the prior year's fund balance (appropriations) as well as new appropriations for the fiscal year (those listed in the Facilities Work Program). All capital funds are reconciled annually before Board adoption of the budget. The ability to determine whether a project is a new appropriation or an appropriation brought forward from prior years is also available through the use of existing District appropriations reports that are generated before and after the new budgets are loaded for the fiscal year.

Finding #5: A number of initiatives have worked and/or are expected to work well in curtailing both project cost overruns and time delays. A proposed measure is the use of CM@Risk in the delivery of prototypical new facilities and the other is the adoption by the Board in December 2003 of compressed timelines for completion of new elementary, middle and senior high facilities. The first measure has proven effective in the past in controlling project cost. The second will be tested as new projects recently commissioned or awarded under the new timelines move through construction and on to completion. Tighter project controls and project management through the District's new long-term IT solution will further help to minimize cost and time overruns.

Finding #6: Since May 2003, staff in the office of CCB&C has reviewed monthly the capital outlay budget and brought forward to the Board budget recommendations to re-program over \$50 million in available fund balance to other projects or reserves for future appropriation. These funds are comprised of inactive and aged purchase orders that have been closed, balances in projects that have been closed out, and processing of over 60 final change orders since September 2003. This is a continuing effort as staff reviews the capital budget on a monthly basis.

The following procedures are in place:

- 1- Monthly review of all purchase orders older than two years.
- 2- Monthly review of all AFE (Authorization for Expenditure) by project phase
- 3- Monthly review of all requisitions.

STATEMENT FROM AUDITED OFFICIAL (CONTINUED)

PRELIMINARY AND TENTATIVE AUDIT FINDINGS AND RECOMMENDATIONS

November 10, 2004

Page 6

- 4- When a project achieves substantial completion, a determination is made as to the projected cost to close out the project. Excess funds are recommended for re-programming.
- 5- When a project is closed out all remaining construction funds are recommended for re-programming at the time of close-out.
- 6- Eighteen months after occupancy of a new facility or addition, remaining FF & E funds are recommended for re-programming.
- 7- Fund balances from all projects awarded under budget are recommended for re-programming at the time of award.

Extensive coordination takes place between CCB&C and the Construction and School Operations area to ensure transparency. No increases or decreases are implemented without Board authorization.

RH/CP/ARC/IC:aj

M-382 (R958)

STATEMENT FROM AUDITED OFFICIAL (CONTINUED)

MEMORANDUM

MANAGEMENT AND COMPLIANCE AUDITS
2004 NOV 24 AM 9:12

RD/2004-05/#194
November 23, 2004
(305) 995-1401

TO: Mr. Allen Vann, Chief Auditor
Office of Management and Compliance Audits

FROM: Rose Diamond, Chief Facilities Officer *RD*
Office of School Facilities

SUBJECT: PRELIMINARY AND TENTATIVE AUDIT FINDINGS AND RECOMMENDATIONS

We reviewed the preliminary and tentative audit findings prepared by the State's Auditor General and offer the comments/responses below.

Finding #7: Facilities Staff concurs with the recommendations and has taken aggressive steps to accelerate the execution of the capital construction program by:

1. Eight of the larger QZAB projects have been bundled with other capital renovation and remodeling projects in order to expedite. Thirty smaller projects have been assigned to Construction Management @ Risk firms that can do the work quicker. Of these, sixteen are currently in construction and we anticipate the balance to be under contract by March 2005.
2. The District has just signed several Architectural/Engineering Project Consultant (A/EPC) contracts that will allow the assignment of work order for design and construction administration on projects under \$1M. The construction will be either assigned to a Job Order Contractor (JOC) or to a Term-Bid contract based on the nature of the work.
3. The District will be commissioning three Program Managers (two primary and one back-up) at the December 15, 2004 School Board Meeting. This will allow the District to assign block of projects.
4. Monthly, Capital Construction Budgets and Controls, conducts reviews of fund balances to determine the availability of funds that can and should be reprogrammed to meet other Facilities' project needs. Also, open purchase orders are reviewed, monthly, to determine which ones are still applicable or should be closed. The funds balances are also re-programmed to meet other needs within the capital program.

If you have any questions, please feel free to call me

RD:aj

- cc: Ms. Ofelia San Pedro
 Dr. Richard H. Hinds
 Ms. Connie Pou
 Mr. Victor Alonso
 Ms. Ana Rijo-Conde
 Ms. Isora Castro