



AUDITOR GENERAL

WILLIAM O. MONROE, CPA



MIAMI-DADE COUNTY DISTRICT SCHOOL BOARD

Operational Audit

SUMMARY

This audit report is the tenth in a series of reports 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; Chapter 2004-268, Laws of Florida, Specific Appropriation 81; and Section 11.45, Florida Statutes.

This operational audit is for the period July 1, 2003, through June 30, 2005. The objectives of this operational audit are to determine whether the District has corrected, or is in the process of correcting, deficiencies disclosed in our report Nos. 02-126, 02-188, 03-026, 03-093, and 2004-036. Also, the audit objectives include identifying and reporting any noted fraudulent transactions and deficiencies in internal control which increase the risk of fraudulent transactions, pursuant to Chapter 2004-268, Laws of Florida, Specific Appropriation 81.

Our findings on the status of the District's corrective actions to address the deficiencies reported in the various audit reports previously mentioned are summarized below by topic in the order in which the deficiencies were originally reported to the District. In addition, findings 18 and 19 are the results of audit procedures performed pursuant to provisions of Chapter 2004-268, Laws of Florida, Specific Appropriation 81.

Audit of Overtime Payments and Procedures (report No. 02-126, January 2002)

Finding No. 1: Overtime payments. Overtime expenditures recorded in the General Fund have increased significantly during the 2002-03, 2003-04, and 2004-05 fiscal years, totaling approximately \$8.1, \$10.7, and \$16.7 million, respectively. District records indicated that 201 and 351 employees during the 2003-04 and 2004-05 fiscal years, respectively, were paid \$10,000 or more for overtime hours worked. A cost-benefit analysis to study possible alternatives to overtime payments had not been conducted.

Finding No. 2: Overtime Payments - Monitoring Procedures. Reports of overtime worked and paid in the individual departments should be evaluated periodically to determine the reasonableness of staffing and personnel utilization. An Office of Management and Compliance Audits (OMCA) report disclosed instances in which overtime payments did not comply with the District's Payroll Processing Procedures Manual.

Financial, Operational, and Federal Single Audit for the fiscal year ended June 30, 2001 (report No. 02-188, February 2002)

Finding No. 3: Capital Construction Management Reporting Guidelines. Various reports were used by District staff to track the status of capital construction projects. However, during our audit period, these reports were not routinely provided to the Board for purposes of the Board's oversight and monitoring of the capital construction program. Furthermore, management reporting guidelines which would identify particular data to be included in summary reports to the Board have not yet been developed.

Finding No. 4: Monitoring of Capital Construction Projects. Written procedures have not been established to ensure that information in the project management system is timely and routinely updated. District personnel informed us that input into the system may range from daily to monthly, depending on various factors such as the nature of the project, current status or progress, and time of year.

Finding No. 5: Capital Outlay Facility Inspections. Our review of the inspection records for five school facilities as of April 2005 indicated that the required inspections were performed. However, approximately 800 deficiencies or facility maintenance needs noted for these five school facilities remained unresolved for two or more years after the date the inspections were performed.

Audit of Capital Construction Activities (report No. 03-026, September 2002)

Finding No. 6: Review of Licensure and Continuing Training for Construction and Maintenance Staff. The

District did not require active architectural or engineer licensure or other specified training for particular positions of responsibility in the facility construction and maintenance areas as a condition of employment. Some employees maintain licenses at their own discretion, but the status of their licenses is not monitored. While those employees maintaining active licenses would receive continuing training, other employees in highly responsible positions that are not maintaining an active license are not required to receive specified continuing training.

Finding No. 7: Direct Purchase of Construction Materials. The District's construction contracting procedures did not provide for the direct purchase of construction materials and, as a result, sales tax is included in the construction costs of facilities. Consequently, the District did not utilize the most cost efficient method for purchasing construction materials for major construction projects.

Finding No. 8: Architect Errors and Omissions. Architectural and engineering contracts entered into by the District in the 2004 calendar year contained provisions which allow the District to recover, from the architect/engineer and their liability insurance carriers, only a portion of the additional construction costs resulting from architectural or engineering errors and omissions.

Finding No. 9: Project Closeout. Our review of 19 projects disclosed many instances in which the original substantial completion date was several years prior to the initiation of the project closeout process. After initiation of the project closeout process, projects were still not closed out in a timely manner. Since the original architects/engineers and contractors for these projects did not complete the work required by their contracts, the District incurred significant costs to complete and close out these projects.

Finding No. 10: Contractor Prequalifications. Two OMCA reports disclosed that the District's prequalification process needed improvement. Contractor evaluation and prequalification procedures should be enhanced to ensure that appropriate consideration is given to past performance of contractors during the prequalification process.

Audit of Procurement Activities (report No. 03-093, December 2002)

Finding No. 11: Rotation/Assignment of Staff. Employees within the Division of Procurement Management and Materials Testing were not rotated into the different buying areas. The District's rotation policy was eliminated in November 2004 after District management indicated that rotation of staff had not proven to promote better coordination and uniformity among various buying areas and that rotation had disrupted the operation of the department.

Finding No. 12: Catalog Discount Bids. Improvements were needed in the administration of

catalog discount bids. The Board should review, evaluate, and enhance procedures relating to the catalog bid process to ensure that purchases are made at the lowest possible cost and as provided by Board policies and procedures.

Audit of Food and Nutrition Activities (report No. 2004-036, September 2003)

Finding No. 13: Monitoring of the Purchased Food Cost per Meal. We noted a broad range in the purchased food cost per meal among schools within each educational level. Routine monitoring and analysis of significant variances between actual purchased food cost per meal and established parameters for District schools could enhance the efficient use of food supplies.

Finding No. 14: Food Production and Menu Record. Our review of Production and Menu Record forms from 12 school cafeterias disclosed instances in which the Department's procedures were not followed, diminishing the usefulness of this form for management control purposes and increasing the risk of unauthorized or inefficient usage of District resources.

Finding No. 15: Purchased Food Inventory Turnover Rates. A wide range of purchased food inventory turnover rates was noted within each educational level, suggesting that the efficiency of the inventory controls at the food preparation locations is not consistent throughout the District. Also, monthly physical inventory counts were not reconciled to an ending inventory balance calculated based on the prior month's ending inventory, adjusted for food purchases and issues during the month, decreasing management's ability to promptly detect differences and avoid recordkeeping errors and unauthorized or inefficient usage of inventory.

Finding No. 16: Use of Gloves and Hairnets by Cafeteria Personnel. At 3 of 12 school cafeterias visited (25 percent), we noted instances in which cafeteria personnel were not wearing hairnets or gloves during the preparation of food or while serving food, contrary to Department of Health requirements, increasing the risk that unsanitary conditions will make the food unsafe for eating.

Finding No. 17: Reconciliation of Food Purchases with Food Usage and Servings Used to the Number of Meals Served. Our tests disclosed that a comparison of the number of servings used to the number of meals served was not always performed. In addition, Department procedures do not provide for the reconciliation of food purchases with food usage. These conditions increase the risk of unauthorized or inefficient usage of food items without timely detection by the Department's supervisory personnel.

Specific Appropriation 81 of Chapter 2004-268, Laws of Florida

Finding No. 18: Employment History Verification. We noted 11 instances in which the District’s personnel records for newly hired employees, working in Administrative/Professional positions, did not evidence that the required verification of employment history with previous employers was performed.

Finding No. 19: Consultant Contracts. For 6 of 20 professional and technical services contracts reviewed, we noted that the consultant contracts were not sufficiently detailed to determine if the agreed upon services were performed. The contracts did not specify deliverables or quantities of services (e.g., hours/days) to be performed, and did not require reports summarizing the results of the work. In addition, written evaluations of the consultants’ performance were not prepared to determine whether the services and benefits received were consistent with the intended purpose of the contracts.

FINDINGS AND RECOMMENDATIONS

Finding No. 1: Overtime Payments

Miami-Dade County District School Board Rule 6Gx13-4D-1.12, requires that the School Board comply with the Federal Fair Labor Standards Act. Accordingly, District procedures provide that employees entitled to overtime that work more than their regularly scheduled number of hours in a week must be paid “time and one-half” (overtime pay) for those hours over and above regular hours worked. The specific guidelines for overtime are governed by the District’s individual bargaining agreements. Generally, employees that work in excess of the normal 40-hour work week are to be paid at the rate of one and one-half times the regular straight-time rate of pay.

In our report No. 02-126, we noted that payments for overtime recorded in the General Fund increased from \$10.6 million for the 1998-99 fiscal year to \$18 million for the 2000-2001 fiscal year. Our current review indicated that overtime costs have risen significantly during the 2002-03, 2003-04, and 2004-05 fiscal years, with overtime expenditures recorded in the District’s General Fund totaling approximately \$8.1, \$10.7, and \$16.7 million, respectively. Our review of overtime payments made during the 2003-04 and 2004-05 fiscal years disclosed that some positions were paid significant amounts of overtime, as noted in the table below:

POSITION DESCRIPTION	Total Overtime Paid	
	Fiscal Year 2003-04	Fiscal Year 2004-05
Safety and Security:		
Police	\$2,300,934	\$2,729,077
School Monitors/Security Monitors/Security Specialists	655,570	1,082,020
Custodians:		
Head Custodians/Lead Custodians/Custodians	2,043,279	3,000,533
Maintenance:		
Refrigeration	253,231	541,678
Zone Mechanics (School Maintenance)	249,389	642,062
Tractor Mowers/Grounds Personnel/Sprinkler Mechanics	231,523	300,890
Fire/Construction/Asbestos Inspectors	176,146	216,275
School Transportation:		
Bus Drivers	1,005,047	1,235,883
Secretarial/Clerical:		
School Secretary/Data Input/Registrar/Treasurer	817,223	1,079,833
Technical:		
Computer Specialist	240,271	390,506

District records indicated that 201 and 351 employees during the 2003-04 and 2004-05 fiscal years, respectively, were paid \$10,000 or more for overtime hours worked. To review overtime payments for reasonableness, we selected the 20 employees with the highest overtime payments for each of the two fiscal years. In 11 instances, the same employees were among those selected with the highest amounts of overtime paid for both fiscal years. Overtime hours worked by the employees selected for the 2003-04 fiscal year averaged 776 hours, with 10 employees recording from 807 to 1,024 hours of overtime. Overtime hours worked by the employees selected for the 2004-05 fiscal year averaged 846 hours, and also included 12 employees recording from 819 to 1,160 hours of overtime. Employees working over 800 hours of overtime in a year would be working overtime that exceeds an average of approximately 15 hours each week for 52 weeks of the year. The weekly average of overtime for these employees would increase if vacation, sick leave, and holidays were taken into consideration.

Total overtime hours worked during the 2003-04 and 2004-05 fiscal years, related overtime paid, base wages, and total wages, for the employees selected for review are shown in the tables below:

<u>2003-04 Fiscal Year:</u>				
POSITION	TOTAL OVERTIME HOURS	TOTAL OVERTIME PAID	TOTAL BASE WAGES	TOTAL WAGES (2)
DESCRIPTION	HOURS	PAID	WAGES	(2)
(1) SERGEANT	968.4	\$ 42,938	\$ 55,583	\$ 98,521
SERGEANT	821.7	34,958	57,806	92,764
(1) LIEUTENANT	827.4	35,038	53,215	88,253
(1) ASBESTOS ABATEMENT INSPECTOR	635.0	24,892	58,521	83,413
(1) ASBESTOS ABATEMENT INSPECTOR	617.0	24,186	58,521	82,707
ASBESTOS ABATEMENT INSPECTOR	546.0	21,403	58,521	79,924
ZONE MECHANIC - CERTIFIED	567.0	20,185	53,147	73,332
(1) SCHOOL RESOURCE SPECIALIST	681.0	24,299	48,851	73,150
SENIOR FOREPERSON-MATERIAL	557.5	19,831	51,750	71,581
STEAMFITTER II - JOURNEYPERSON	508.0	18,024	52,969	70,993
FOREPERSON - FIRE PREVENTION	646.0	20,779	46,022	66,801
COMPUTER SPECIALIST	1,020.0	26,787	37,499	64,286
(1) TELEVISION SYSTEMS TECHNICIAN	851.6	23,518	40,206	63,724
(1) REGISTRAR HIGH SCHOOL	753.1	19,940	42,961	62,901
HEAD CUSTODIAN	1,000.0	25,578	36,756	62,334
(1) COMPUTER SPECIALIST	807.0	22,154	39,188	61,342
(1) REGISTRAR HIGH SCHOOL	1,024.5	25,189	35,207	60,396
(1) COMPUTER SPECIALIST	947.0	23,856	35,882	59,738
(1) HEAD CUSTODIAN	984.0	24,170	35,342	59,512
DATA INPUT SPECIALIST II	747.9	17,619	34,869	52,488

Notes: (1) Employee listed on 2003-04 and 2004-05 overtime table.
 (2) Total wages excludes amounts that employee may have received for bonuses, salary supplements, sick leave buybacks, etc.

<u>2004-05 Fiscal Year:</u>				
POSITION	TOTAL OVERTIME HOURS	TOTAL OVERTIME PAID	TOTAL BASE WAGES	TOTAL WAGES (2)
DESCRIPTION	HOURS	PAID	WAGES	(2)
DIRECTOR OF FACILITIES OPERATIONS	612.0	\$38,670	\$90,468	\$129,138
LIEUTENANT	1,077.9	53,658	70,453	124,111
(1) SERGEANT	1,160.4	56,719	62,051	118,770
SERGEANT	990.5	47,157	65,533	112,690
(1) LIEUTENANT	981.6	45,614	64,034	109,648
EXECUTIVE ASSISTANT	594.0	28,257	65,333	93,590
EXECUTIVE ASSISTANT	581.5	27,543	65,333	92,876
(1) ASBESTOS ABATEMENT INSPECTOR	592.5	25,805	58,521	84,326
(1) ASBESTOS ABATEMENT INSPECTOR	571.0	25,021	58,521	83,542
SOUND AND COMMUNICATION TECHNICIAN	714.1	26,710	55,350	82,060
(1) SCHOOL RESOURCE SPECIALIST	726.2	26,637	48,851	75,488
(1) REGISTRAR HIGH SCHOOL	919.5	28,495	42,961	71,456
EXECUTIVE SECRETARY	837.0	26,363	44,868	71,231
(1) COMPUTER SPECIALIST	997.0	29,727	40,949	70,676
SCHOOL RESOURCE SPECIALIST	764.0	28,627	40,709	69,336
COMPUTER SPECIALIST	1,040.0	29,411	39,188	68,599
(1) TELEVISION SYSTEMS TECHNICIAN	819.4	24,721	41,815	66,536
(1) COMPUTER SPECIALIST	969.0	26,211	37,499	63,710
(1) HEAD CUSTODIAN	999.0	26,254	35,342	61,596
(1) REGISTRAR - HIGH SCHOOL	977.6	25,242	35,207	60,449

Notes: (1) Employee listed on 2003-04 and 2004-05 overtime table.
 (2) Total wages excludes amounts that employees may have received for bonuses, salary supplements, sick leave buybacks, etc.

As noted above, over the last three fiscal years, the total amount of overtime paid by the District from the General Fund has increased significantly, from \$8.1 million during the 2002-03 fiscal year to \$16.7 million during the 2004-05 fiscal year. Since overtime is paid at a one and one-half time basis, its extensive and continued use has a negative effect on District operations in that overall salary costs increase significantly without a corresponding increase in the number of hours actually spent on operations. Consequently, the negative effect of extensive overtime must be balanced against the immediate needs of the District's operations. District personnel informed us that the use of overtime is necessary to ensure continued and effective functioning of certain operations. However, a cost-benefit analysis to study possible alternatives to overtime payments had not been conducted.

Recommendation: While we recognize the need for overtime during peak periods for certain positions, reducing or eliminating the need for substantial amounts of overtime throughout the year would free some of the District’s limited resources to be more efficiently utilized. As such, District management should perform a comprehensive cost-benefit analysis to study alternatives to overtime in the areas for which large amounts of overtime are paid. This study should include current staffing levels, personnel utilization, and the feasibility of using part-time employment, rotating shifts, and outsourcing. For work generally required to be performed after the regular work day, part-time employment, rotating shifts, and outsourcing could result in substantial savings.

Finding No. 2: Overtime Payments – Monitoring Procedures

In our report No. 02-126, we noted several instances in which the number of overtime hours worked by some employees had substantially exceeded established parameters and recommended that the District strengthen its overtime monitoring procedures. In response to our report, the District implemented several measures in an attempt to control the use of overtime. Our current review disclosed that the District’s overtime procedures provide for overtime to be approved in advance by supervisory personnel and the payment of overtime in excess of 20 hours a week must be authorized by the Compensation Administration Department. In addition, reports are generated each pay period listing employee names and related overtime by ranges, such as between 25 to 40 hours and over 40 hours. Payroll Department personnel are responsible for contacting the payroll clerk at the employee work locations to verify the accuracy of overtime that exceed 80 hours as shown in these reports. Copies of the reports are also sent to the Office of Management and Compliance Audits (OMCA) for further follow-up, if deemed necessary.

OMCA personnel indicated that they use the overtime reports to analyze the reasonableness of overtime payments. OMCA performed routine audits and reviews of payroll procedures at District schools and locations. OMCA also audited overtime payments made to certain employees working at the Maintenance Operations and Facilities Construction departments. In a report dated October 2005, OMCA reported some instances in which overtime payments did not comply with the District’s Payroll Processing Procedures Manual. The report cited eight instances in which overtime hours worked were not

pre-approved and 38 employees who did not work the normal 40 hours (were on sick leave or vacation) during the work week that they were allowed to work overtime. Although the District’s current procedures and the OMCA reviews and audits provide some measure of control over overtime, given the significant increase in the amount of overtime being paid by the District from the General Fund (\$16.7 million during the 2004-05 fiscal year) and the amount of overtime hours routinely being worked by some employees, District management should further enhance its overtime monitoring procedures. When overtime is not effectively monitored, there is an increased risk that errors, waste, or fraud may occur and not be timely detected. For instance, some employees may have an incentive to work excessive overtime in an effort to increase their average yearly salary for retirement purposes.

Recommendation: To enhance controls in this area, the District should consider the following:

- Periodically evaluating the reasonableness of staffing and personnel utilization, based on reports of overtime worked and paid in the individual departments.
- The Office of Management and Compliance Audits should continue to routinely perform focus audits of overtime for departments with substantial amounts of overtime-related expenditures.

Finding No. 3: Capital Construction – Management Reporting Guidelines

During the 2003-04 and 2004-05 fiscal years, the District expended approximately \$131 million and \$195 million, respectively, for facilities acquisition and construction. Substantial construction is also planned for the future as shown on the District’s current five-year facilities work program. The District’s construction project management system generates a series of reports which are used by management to monitor specific areas of the capital construction program. Some reports include information on planned construction contract awards, projected new school openings, and project completion dates. In addition, there are several reports that provide detail and summary information for capital improvement projects and a capital project status report. The various reports were used by District staff to track the status of capital construction projects. However, during our audit period these reports

were not routinely provided to the Board for purposes of the Board’s oversight and monitoring of the capital construction program. Furthermore, as similarly noted in our report No. 02-188, management reporting guidelines which would identify particular data to be included in summary reports to the Board had not yet been developed.

Given the significant volume of construction activity being conducted and planned by the District, the effective implementation of well-defined management reporting guidelines would enhance the monitoring of the District’s capital construction program. Information which may be pertinent to the Board’s oversight and monitoring of the District’s capital construction program could include data on projects for which actual cost will exceed projected costs, projects for which the planned construction dates will not be met, significant dates (such as substantial completion, date punch list items were completed, etc.) for all projects, and projects on which delays or other legal or technical difficulties are anticipated or are being experienced.

Subsequent to our inquiries, the District implemented a new project management information system. The new system generates quarterly capital projects and maintenance status reports with pertinent information. District personnel indicated that reports including data as of October 2005 will be provided to the Board at its next meeting.

Recommendation: To ensure that the Board is provided sufficient summary information on a regular basis upon which to effectively oversee and monitor the status of the District’s capital construction program, the District should develop written management reporting guidelines. The District should continue its efforts to generate project summary information in accordance with the written management reporting guidelines.

Finding No. 4: Monitoring of Capital Construction Projects

In our report No. 02-188, we noted that the District’s internal auditors had reported deficiencies in the District’s construction project management system. These deficiencies led to improper conclusions about the scope of certain projects due to inaccurate or untimely updates of project descriptions. The information in the project management system was either electronically transferred from internal subsystems or directly entered into the system by authorized District employees. We also noted that, in some instances, the data may not have been current because

District employees were not required to update the information on a regular basis.

Our current review and inquiry of District personnel disclosed that written procedures had not been established to ensure that information in the project management system is updated on a regular basis. District personnel informed us that input into the system may range from daily to monthly, depending on various factors such as the nature of the project, current status or progress, and time of year. As noted in finding No. 3, subsequent to our inquiries, the District implemented a new project management information system. If properly implemented, the new system should provide enhanced tracking and monitoring of capital construction projects.

Recommendation: The District should continue its efforts to develop written procedures to ensure that project information is routinely updated in its new project management system for current construction project information.

Finding No. 5: Capital Outlay Facilities Inspections

Section 1013.12, Florida Statutes, requires that each district school board provide for periodic inspection of each educational and ancillary plant at least once during each fiscal year to determine compliance with standards of sanitation and casualty safety prescribed in the rules of the State Board of Education. In addition, firesafety inspections of each educational and ancillary plant are required to be made annually by persons certified by the Division of State Fire Marshal to be eligible to conduct firesafety inspections in public educational and ancillary plants.

We reviewed the inspection records for five school facilities (Barbara Goleman Senior High, G. Holmes Braddock Senior High, Miami Carol City Senior High, Miami Central Senior High, and Miami Coral Park Senior High) as of April 2005, and noted that the required annual inspections were performed. According to District personnel, the completed inspection reports were provided to the Maintenance Department Office of Capital Improvement Projects, the school principals, and the School Board for review. The inspectors recorded the deficiencies by building and room number and indicated whether the correction involved a capital expenditure, a maintenance expenditure, or that the correction could be made by site personnel. District personnel also indicated that these written inspection

reports were used to help plan the maintenance work to be performed at District facilities to the extent possible within the budgeted resources.

As similarly noted in our report No. 02-188, inspection records for the above five school facilities showed that approximately 800 deficiencies or facility maintenance needs remained unresolved for two or more years after the date the inspections were performed. Examples of the identified safety deficiencies which remained unresolved included missing fire extinguishers, missing evacuation route maps, obstructed escape windows, missing alarm strobe in hearing impaired classroom, separating wall not meeting fire retardant code, missing emergency escape window sign, and an open electrical box.

The failure to provide for the timely correction of facility deficiencies results in the increased risk that facilities could become unsafe for occupancy.

Recommendation: As also recommended in our report No. 02-188, the District should ensure that deficiencies and facility maintenance needs noted in the annual inspection reports are timely corrected. The District should continue its efforts to give appropriate consideration to the priorities of facility maintenance needs noted in the annual inspection reports.

Finding No. 6: Review of Licensure and Continuing Training for Construction and Maintenance Staff

Certain positions within the Departments of Facilities Planning and Construction and Maintenance Operations, such as construction coordinators, require a bachelor’s degree in a construction-related field and a specified level of work experience or, in the absence of a bachelor’s degree, additional work experience may be substituted. As similarly noted in our report No. 03-026, the District did not require active architectural or engineer licensure or other specified training for particular positions of responsibility (i.e., directors, supervisors, and coordinators) in the facility construction and maintenance areas as a condition of employment. Although some employees maintain licenses at their own discretion which are related to their positions of responsibility, the status of their licenses, i.e., active, inactive, or suspended, was not monitored. While those employees maintaining active licenses would receive continuing training in order to keep their licenses current,

other employees in highly responsible positions that are not maintaining an active license were not required to receive specified continuing training.

Given the significant size of the District’s capital construction and maintenance programs, it is in the best interest of the District and its stakeholders to maintain a highly qualified staff. Requiring that employees having architecture or engineering degrees hold active licenses, or that employees in particular positions of responsibility receive specified continuing training, would provide additional assurance that these employees remain current with technical and professional standards.

Recommendation: The District’s procedures should be revised to require either active architecture or engineer licensure or other specified continuing training for particular areas of responsibility in the facility construction and maintenance areas. These revised procedures should provide for the monitoring of the licensure status or continuing training of these employees.

Finding No. 7: Direct Purchase of Construction Materials

Section 212.08(6), Florida Statutes, provides an exemption from the Florida sales tax to governmental entities when payments are made directly to the vendor by the governmental entity. Department of Revenue Rule 12A-1.094, Florida Administrative Code, addresses the taxation of transactions in which contractors manufacture or purchase supplies and materials for use in public works. The Department of Revenue has also issued several Technical Assistance Advisements that describe in detail the steps the governmental entity, including district school boards, must take for sales tax exemptions. Basically, for there to be an exemption from payment of sales tax, the government entity must directly purchase, hold title to, and assume the risk of loss of the tangible personal property prior to its incorporation into realty, and satisfy various conditions provided in the Rule.

The District’s construction contracting procedures did not provide for the direct purchase of construction materials and, as a result, sales tax is included in the construction costs of facilities. Consequently, the District did not utilize the most cost efficient method for purchasing construction materials for major construction projects. A similar finding was noted in our report No. 03-026. We were informed by District personnel that a meeting was held with Palm Beach County District School Board representatives in May 2005

to discuss their procedures for tax exempt transactions/direct construction material purchase program. We were further informed that the District plans to perform a pilot program for direct purchase of construction materials on two or three schools after the protocol and process flow is developed and approved by the Board.

Recommendation: The District should continue its efforts to develop and implement a program for the direct purchase of construction materials. Such a program, if effectively implemented, could enable the District to realize significant cost savings in its capital construction program.

Finding No. 8: Architect Errors and Omissions

The District contracts for architectural and engineering (A/E) services for the development of project plans and specifications for its significant construction projects. As similarly noted in our report No. 03-026, our review of three A/E contracts entered into by the District in the 2004 calendar year, for construction projects having estimated costs ranging from \$16 million to \$23 million, disclosed that the contracts contained provisions which allow the District to recover, from the architect/engineer and their liability insurance carriers, only a portion of the additional construction costs resulting from architectural or engineering errors and omissions.

Errors represent mistakes made by the architect/engineer in the project drawings or specifications. Omissions are required facility/construction items which the architect/engineer failed to include in the project drawings or specifications. Generally, contracts for A/E services provide for the architect/engineer to be responsible for all costs of errors and any additional costs incurred as a result of omissions.

Provisions contained in the three A/E contracts reviewed during our current audit provided that additional construction costs are only those costs of correction that are determined to be greater than if the error had not been made by the architect/engineer and that 15 percent of the construction cost of any item categorized as an omission is to be considered an additional construction cost that would not be incurred without the omission. The District's contracts also contained a provision that the District would not claim or recover additional construction costs or damages for architectural or engineering errors and omissions when the total cost of errors, plus 15 percent of the cost of omissions, remains less than 1.5 percent of the

total project construction costs. If the 1.5 percent threshold is exceeded, the District can recover the full and total additional construction costs as a result of errors and omissions; that being defined as the cost of errors plus 15 percent of the cost of omissions.

District personnel indicated that, after consulting with outside counsel and the local chapter of the American Institute of Architects, it was determined that it was in the best interest of the Board to preserve the 1.5 percent threshold as a management tool, to enable staff to aggressively pursue those claims that exceed the minimum threshold without the possible legal involvement of lesser amounts. However, we were not provided an analysis or any other data to support the reasonableness of the 1.5 percent threshold. The architect/engineer contract provisions which preclude the District from recovering a substantial portion of the additional construction costs resulting from architectural or engineering errors and omissions appears to benefit only the architects/engineers and their professional liability insurance carriers. It is not evident what public benefit was served by the errors and omissions allowances provided for in the Districts' contracts.

While it may be desirable for the District to establish an amount for architectural or engineering errors and omissions before pursuing legal action, the District should not be obligated by contract to automatically accept any amount of additional construction costs that are incurred as a result of errors or omissions by its architects/engineers. Any forgiveness granted by the District to its architects/engineers for their errors or omissions should only be on a case by case basis, after careful evaluation by the District's construction and legal staff of the additional construction costs and circumstances of the claim.

Recommendation: Considering the amount of additional construction costs that the District could incur as a result of architectural and engineering errors of omissions (i.e., \$345,000 for a project with construction costs of \$23 million and an errors and omissions allowance of 1.5 percent), the Board should consider revising future A/E contracts to eliminate the allowance. The Board should explain and document in its public records the benefits accruing to the District from the allowances if any new A/E contracts are approved that provide for an architectural or engineering errors and omissions allowance.

Finding No. 9: Project Closeout

Section 4.2(3) of the Florida Department of Education’s publication, *STATE REQUIREMENTS FOR EDUCATIONAL FACILITIES - 1999*, requires the Board to establish policies and procedures for all construction contracts and for making payments to contractors. Such policies and procedures should provide for final acceptance of the project, including the criteria and conditions for project completion, substantial completion, punch lists of items to be completed by the contractor, building code inspections, warranties, equipment manuals, as-built documents, occupancy, the value of incomplete items if the Board should accept the facility for occupancy prior to completion of the items, and other issues as appropriate. In addition, final payment shall not be made until an Occupancy Certificate has been issued, the project has been completed, and the Board has accepted the project.

The District’s Construction Management at Risk Procedures Manual includes procedures for construction contracts, project closeout, project acceptance, and final payment. Construction projects are assigned a project manager who is the District’s representative/designee responsible for the management and coordination of the project, including project closeout and final payment. The District’s written procedures state that substantial completion occurs when the architect/engineer confirms that the project can be used by the Board for its intended purposes. The District utilized its Department of Construction Management at Risk to close out unfinished construction projects. Closeout work included the completion of building code deficiencies and other punch list items, additional building code inspections, the obtaining of warranties, equipment manuals, and as-built documents.

As similarly noted in our report No. 03-026, our review of construction project closeout procedures and payments to architects/engineers and building contractors for 19 projects disclosed that the District had not timely and efficiently closed out construction projects. In many instances, the original substantial completion date was several years prior to the initiation of the project closeout process. The original architects/engineers and contractors for these projects did not complete the work required by their contracts. Subsequently, it was necessary to hire new architects/engineers, contractors, building code inspectors, and cost estimators at significant costs to the District to complete and close out these projects. After initiation of

the project closeout process, the projects were still not always closed out in a timely manner. For 15 of the projects, the time span between the hiring of a new contractor and the final date of project closeout ranged from approximately 6 months to 3.5 years, and 4 of the 19 projects remained open (i.e., not closed) as of June 30, 2005. Our audit results are summarized in the following table:

Item #	School Name	Project #	Original	Date New	Final Project Closeout Date	Building Code	Total	
			Substantial Completion Date	Contractor Hired		Deficiencies Requiring Construction	Reported Closeout Costs	
1	Biscayne Nature Center	A-0587	07/31/00	04/08/01	02/04/03	5	\$ 322,606	
2	Charles Elementary Wyche	A-0436	01/15/97	02/04/03	04/01/05	30	229,882	
3	Carolos J. Finlay Elementary	A-0358	11/13/00	10/16/02	Open	5	155,020	
4	Lakeview Elementary	A-0332	10/30/96	02/04/03	Open	6	151,348	
5	Barbara Senior Goleman	A-0302	01/06/96	03/04/03	03/15/05	32	148,239	
6	Norwood Elementary	A-0267	06/28/95	06/19/03	05/20/05	16	122,215	
7	Arcola Lake Elementary	A-0362	08/08/97	08/13/02	Open	3	85,198	
8	Ojus Elementary	A-0339	08/28/96	02/20/03	03/22/05	12	74,964	
9	Rainbow Park Elementary	A-0572	08/30/97	03/04/03	08/26/04	20	40,006	
10	Biscayne Gardens Elementary	A-0304	11/08/95	04/04/03	08/20/04	13	38,882	
11	Brownsville Middle	KS-0043	01/12/97	08/28/01	Open	7	37,463	
12	J. G. Dupuis Elementary	A-0623	07/21/97	04/04/03	07/15/04	2	33,973	
13	Auburndale Elementary	A-0249	02/16/95	03/04/03	08/25/04	6	27,762	
14	Palm Springs Middle	BB-0173a	08/18/95	04/11/03	12/09/03	5	24,086	
15	Sunset Park Elementary	A-0549	05/19/99	04/11/03	10/16/03	4	13,396	
16	Holmes Elementary	A-0328	07/16/96	03/04/03	03/22/05	2	13,351	
17	Springview Elementary	A-0515	11/12/97	10/29/02	04/10/03	1	11,204	
18	Norland Middle	A-0429	10/05/98	03/04/02	10/21/03	4	10,716	
19	North Miami Middle	A-0346	04/17/95	03/04/02	06/22/05	3	8,846	
Total								<u>\$ 1,550,157</u>

During our review of the above project closeouts, we noted that, in some instances, construction contract change order credits were approved to adjust for the incomplete work of the original contractors. Consequently, those contractors were relieved of their contractual obligations for completing the work identified on the change orders. District records indicated that the change order credits received from the contractors totaled approximately \$945,596 for the 19 projects reviewed. The District provided an analysis for these projects which indicated that the total contract change order credits were comprised of approximately \$240,564 for scope changes, \$704,877 for contractor errors and default, and \$155 for architectural/engineering errors and omissions.

District records indicate that between May 2002 and June 2005, the Department of Construction Management at Risk completed the closeout of 155 projects and was in the process of closing out 223 additional construction projects. Records provided by District personnel indicated that project closeout costs included costs resulting from architectural and engineer errors and omissions, contractor errors and default, and scope changes (i.e., State, City, and

local requirements, owner’s requests, and unforeseen conditions). A summary of project closeout costs as of June 2005 is shown below:

Department of Construction Management at Risk	Project Closeout Costs (1) May 2002-June 2005
Projects Closed Out (155 Projects)	\$ 4,603,802
Work Orders Issued for the Closeouts in Progress (223 Projects)	1,221,843
Total	\$ 5,825,645

Note: (1) Project closeout costs do not include salaries and benefits of District employees involved in the closeout process.

Based on the records provided for our review, it was not practicable in the circumstances for us to determine the portion of the total reported project closeout costs (\$5.8 million) that related to architectural and engineering errors and omissions, contractor errors and default, and increases in project scope, such as additional requirements added by other government agencies or by the user.

Recommendation: In view of the extended periods of time (up to 3.5 years) required to complete the closeout process and the additional resources needed (i.e., hiring of new contractors, architects, and engineers) once projects enter a closeout status, the District should enhance its procedures to provide for the timely closeout of construction projects. In this regard, the District should also consider including penalty provisions in its construction contracts for not fully completing construction projects, thereby reducing the need for the closeout process.

Finding No. 10: Contractor Prequalifications

Section 1013.46, Florida Statutes, and Section 4.1 of the Florida Department of Education’s publication, *STATE REQUIREMENTS FOR EDUCATIONAL FACILITIES – 1999*, require the Board to establish procedures and criteria for prequalifying bidders for construction contracts. In accordance with these requirements, the Board established policies and procedures for contractor prequalification and appointed a committee to review contractors’ applications and recommend prequalification or denial to the Board. Prequalification certificates are issued for a period of 12 months and contractors must reapply every 12 months. Contractors must be prequalified prior to bidding on construction work.

Evaluation criteria for contractor prequalification include proof of contractor’s license, financial condition, and experience, and evidence of satisfactory resolution of claims

filed by or against the contractor asserted on projects of the same or similar size within the five years preceding submission of the application. The Board’s policy provides for the suspension and revocation of a contractor’s prequalification for unsatisfactory performance on District construction projects.

In our report No. 03-026, we noted that the District continued to prequalify building contractors that had failed to complete District construction projects in a satisfactory manner. Our current review disclosed two Office of Management and Compliance Audits (OMCA) reports, dated January and March 2005, which indicated that the District’s prequalification process needed improvement. Some of the deficiencies noted in those reports are shown below:

- In several instances, the files did not contain clear evidence that contractors’ licenses, bonding company rating, and certain project information were verified by Contractor Pre-qualification Department staff. Under these conditions, there is an increased risk of prequalifying contractors who are not eligible.
- School Board Rule 6Gx13-7D-1.05 allows renewed certificates to be issued for four consecutive years based solely on the basis of evidence of bonding capacity or financial statements. The OMCA report noted that this appears to be a very long period of time between administrative reviews of a contractor’s performance, licenses, and other qualitative criteria, and that changes during a lengthy four-year period could adversely impact a contractor’s ability to deliver a quality product.
- Communications between the Facilities Operations, Maintenance, and Planning Department and the Contractor Pre-qualification Department need to be established to better identify poorly-performing contractors. The OMCA report noted that a review and analysis of information related to project closeouts revealed that three contractors currently prequalified did not fully complete project punch lists items for which they were contractually obligated to complete.
- The quarterly contractors’ performance evaluations were not provided to the Contractor Prequalification Department for use in the contractor prequalification process. For purposes of the prequalification process, the contractors’ past performance was evaluated by the Project Managers upon request by the Contractor Prequalification Department during the prequalification process. Consequently, these

evaluations may not truly reflect the contractor's overall performance on the related work.

The continued prequalification of building contractors that may not be eligible, and contractors that have failed to complete District construction projects in a satisfactory manner, may result in those contractors being awarded construction contracts in the future. The awarding of construction contracts to contractors whose past performance was not satisfactory may necessitate the use of additional resources to closeout projects as noted in Finding No. 9.

In a letter dated October 17, 2005, the OMCA Chief Auditor indicated that, based on a follow-up review of their audit report on the contractor prequalification process, most of the above-noted deficiencies have been corrected.

Recommendation: The District should continue its efforts in the areas of contractor evaluation and prequalification procedures to ensure that appropriate consideration is given to the past performance of contractors.

Finding No. 11: Rotation/Assignment of Staff

In our report No. 03-093, we noted that employees working in the District's Division of Procurement Management and Materials Testing in supervisor, buyer, and buyer support specialist positions did not always rotate into different buying areas every three years, as required by the District's policies and procedures. Our current review again disclosed that during the audit period, employees within the Division of Procurement Management and Materials Testing were not rotated into the different buying areas.

In a memorandum dated February 11, 2004, to the District's Interim Chief Auditor, the Assistant Superintendent, Procurement Management Services, stated that, "Rotation of staff has not proven to 'promote better coordination and uniformity among various buying areas'; instead, rotation has disrupted the operation of the department." In a memorandum dated November 3, 2004, to the District's Interim Chief Financial Officer, the Chief Auditor stated that, "Rotation of employees is a recommended internal control practice widely used in many business functions. The practice provides assurances that the discrepancies of one employee can be detected by other staff and the employees are cross trained to perform other functions in the event of emergencies and staff shortages." The Chief Auditor further stated that, "Although it is still our opinion that rotating employees will enhance the control

environment, we will not dispute your recommendation to eliminating the rotation policy ..." District personnel indicated that, upon inquiring about employee position rotation policies at other governmental agencies, the decision was made to eliminate the District's employee rotation policy effective November 2004.

Rotating the responsibilities of employees provides valuable cross-training opportunities and helps to ensure the District continuity of service and support in the various buying areas. Given the volume of purchases processed by the District, a well-implemented rotation schedule reduces the risk of errors and fraud and enhances the integrity of the District's procurement system.

Recommendation: The Board should review and evaluate the basis for management's decision to eliminate employee position rotations in the Division of Procurement Management and Materials Testing. In as much as the rotation of employee positions would help reduce the risk of errors and fraud and enhance the integrity of the District's procurement system, the Board should consider reinstating the employee position rotations to the extent possible with current staff and within current budget limitations.

Finding No. 12: Catalog Discount Bids

State Board of Education Rule 6A-1.012, Florida Administrative Code, provides, in part, that the Board shall establish purchasing rules and accept the lowest and best bid from a responsive and responsible bidder. Miami Dade County District School Board Rule 6Gx13-3C-1.11 sets forth procedures for the bidding process.

The District's current written purchasing procedures (dated 1992) provide for catalog discount bids. Catalog discount bid procedures provide that such bids will be awarded to the vendor (primary vendor) who has offered the highest fixed discount off manufacturers' current published price lists, and to secondary vendors that have offered the second and subsequent highest fixed discounts. Items included in the catalog discount bid are to be purchased from the secondary vendor if the primary vendor cannot provide the item within the time frame required.

The Board authorized purchases under the following catalog discount bids during the period July 2003 through June 2005:

Bid Description	Total Purchases Authorized
Computers and Servers	\$ 56,000,000
Automotive, Trucks, and Bus Parts	6,600,000
Computer Peripherals, Parts and Supplies	6,000,000
Classroom Supplies	5,377,500
Office Supplies	5,144,601
Industrial Equipment	5,000,000
Audio Visual Equipment	3,500,000
Computer Printers	3,400,000
Office Furniture	2,220,676
Original Equipment Manufacturer Replacement	1,250,000
Original Equipment Manufacturer Parts	1,250,000
Security Locking Devices	830,000
Physical Education / Athletic Equipment and Supplies	679,000
Air Conditioning	600,000
Speech and Hearing Equipment and Accessories	534,498
Door Hardware	465,621
Medical Equipment and Supplies	274,572
Musical Instruments	256,934
Art Supplies	200,000
Fitness Equipment and Supplies	150,000
Cosmetology Furniture	150,000
Dental Supplies and Equipment	60,000
Total	\$ 99,943,402

As similarly noted in our report No. 03-093, our current review and testing of catalog discount bids and the related purchases from vendors awarded such bids disclosed the following:

- The Board did not make the primary and secondary vendor designations when awarding catalog discount bids. All vendors who submitted percentage discounts or mark-ups and met bid specifications were awarded contracts, regardless of the percentage discounts or percentage mark-ups bid.
- When purchases were made from vendors that did not bid the lowest price, records were usually not maintained to show the justification for not making the purchases from the vendors that bid the lowest price.
- Prices shown in catalogs and descriptive price lists were sometimes allowed to change during the contract period; however, the percentage discount or mark-up bid was required to remain constant. District personnel indicated that when prices are changed, District buyers perform a reevaluation of prices offered by other competing vendors; however, no records were maintained to document the reevaluation or approval of the price changes. A historical record showing price changes and dates of approval would provide a basis for determining the most current catalog prices and help to facilitate the verification of amounts billed on vendor invoices by District staff responsible for processing vendor payments.
- Our test of 30 catalog discount bid purchases disclosed that vendor invoices usually listed only the net prices instead of separately listing catalog prices and applicable percentage discounts or mark-ups for the items being purchased.

Consequently, documentation was not available to permit us to verify that the correct prices were paid for most of the purchases tested.

We were informed by the Assistant Superintendent, Procurement Management Services, that vendors awarded contracts under catalog discount bids are considered “pre-qualified vendors,” and that for purchase requisitions above \$3,000, the catalog discount bid procedures are not used. Instead, requests for price quotes are sent to at least three of the pre-qualified vendors. The three vendors are selected at the discretion of the buyer responsible for the purchase and the purchase is made from the vendor quoting the best price.

Recommendation: To help ensure that catalog discount bidding procedures are effectively utilized, we again recommend the following:

- The primary and secondary vendors should be designated by the Board in the bid awards to help ensure that purchases are made from the vendors offering the lowest prices.
- When catalog discount bid purchases are made from the vendors that did not bid the lowest price, records should be maintained to show the justification for not making the purchases from the vendors that bid the lowest price.
- Vendors that are awarded catalog discount bid contracts should not be allowed to change or modify their prices during the contract period without the reevaluation of prices offered by other competing vendors and written approval by the Board’s Division of Procurement Management and Materials Testing. Additionally, a historical record showing price changes and dates of approval should be maintained to provide a basis for determining the most current catalog prices and to help facilitate the verification of amounts billed on vendor invoices by District staff responsible for processing vendor payments.
- Vendors should be required to provide invoices that list the catalog prices and applicable percentage discounts or markups to help District personnel determine that the correct prices were charged.
- The catalog discount bid specifications and the District’s written purchasing procedures should be revised to provide for the pre-qualification of the vendors and the obtaining of price quotations when purchase requisitions are above the \$3,000 limit.

Finding No. 13: Monitoring of the Purchased Food Cost per Meal

The District had 252 locations that prepared meals for 375 serving sites during the 2003-04 school year and 378 serving sites during the 2004-05 school year. The District's expenditures for purchased food during the 2003-04 and 2004-05 fiscal years totaled \$48,011,157 and \$50,454,981, respectively. These expenditures for purchased food include direct purchases of food items for meal preparation, but do not include the cost of commodities obtained from the Federally-funded nutrition programs or the cost of additional processing required before use of the commodities for meal preparation.

Our audit procedures included a review of the purchased food cost per meal for all District schools to determine whether the purchased food cost per meal was reasonably consistent on a Districtwide basis. A "Management Statistical Report" is prepared monthly from the District's food service accounting system for each food preparation location, showing the current cost per meal and year-to-date cost per meal for purchased food, food processing, supplies, labor, and operating expenses for both breakfast and lunch meals. We were informed by the District's Department of Food and Nutrition (Department) personnel that the cost per meal information is analyzed and reviewed during monthly budget projection meetings.

We reviewed the total year-to-date purchased food cost per meal for lunches reported in the District's Management Statistical Reports for the 252 food preparation locations for the 2003-04 and 2004-05 fiscal years. Our review disclosed that the purchased food costs for a lunch meal, for each educational level, were as follows:

2003-04 Fiscal Year	Purchased Food Cost per Meal	
Educational Level	Range	Average
Elementary	\$.22 - \$1.06	\$ 0.78
Middle	\$.45 - \$1.20	\$ 0.81
Senior (1)	\$.82 - \$2.09	\$ 1.23

Note: (1) Excludes Norland Senior because appropriate data was not available.

2004-05 Fiscal Year	Purchased Food Cost per Meal	
Educational Level	Range	Average
Elementary	\$.41 - \$1.81	\$ 0.76
Middle	\$.62 - \$1.20	\$ 0.78
Senior	\$.76 - \$1.61	\$ 1.23

Since the school lunch menu items offered Districtwide are fairly standard and the suppliers are generally the same for all food preparation locations, the purchased food cost per meal at each educational level should be within a narrow range. The noted differences in purchased food cost per meal among locations at the same educational level may be indicative of unauthorized or inefficient usage of food supplies. A similar finding was noted in our report No. 2004-036.

Recommendation: The Department should strengthen its procedures to monitor the purchased food cost per meal among the District's schools by establishing cost parameters based on industry standards and analyzing significant variances between actual purchased food cost per meal and these parameters. The Department should determine the causes of these variances and take appropriate action, as necessary, to promote the efficient use of food supplies. In addition, the District's Office of Management and Compliance Audits should consider reviewing those locations where the purchased food cost per meal exceeds the established parameters.

Finding No. 14: Food Production and Menu Record

Title 7, Section 210.8, Code of Federal Regulations, requires that the District prepare and keep food production and menu records to document meal pattern requirements. The Department of Food and Nutrition's Procedure No. C-6, *Production and Menu Record*, requires the completion of daily Production and Menu Record forms, formerly the Daily Food Record forms, to document compliance with the meal pattern requirements and for use as a tool for monitoring the quantities of food items used in the preparation of meals.

Production and Menu Record forms, prepared daily by each school cafeteria, provide information as to the description of each food item used, the size of the serving, the bulk quantity used and unit size, the number of leftover servings brought forward from the prior day, the number of leftover

servings for the current day, total servings used, the number of planned meals, and the actual number of meals served. The actual number of meals served by each cafeteria is shown on meal count reports produced by the District’s computerized cafeteria point-of-sale system called Prepaid Card Services (PCS). Properly completed Production and Menu Record forms provide information for verifying the accuracy of the reported number of meals served by each school cafeteria, and for verifying the reasonableness of food usage.

In our report No. 2004-036, we noted that Daily Food Record forms were often incomplete and not accurately prepared and that the disposal of unusable servings (i.e., spoilage) was not always shown on the forms. We recommended that the Department’s management review and revise, as necessary, the established procedures to enhance the accuracy and effectiveness of the Daily Food Record. In response to that report, Department management revised the Daily Food Record form and renamed it the Production and Menu Record. Written procedures for the completion of the Production and Menu Record form were also revised and training sessions were held for food service managers on the use of the new form.

Our current review of the District’s Production and Menu Record forms selected from six school cafeterias for the week of February 7 through February 11, 2005, and six other school cafeterias for the week of February 28 through March 4, 2005, disclosed that procedures were not followed for the preparation of the forms and that the forms were often incomplete and not accurately prepared, as discussed below:

- The “Planned Use for Leftovers” column on 44 of the 60 (73 percent) Lunch Production and Menu Record forms tested was either not completed or incorrectly coded.
- The servings available, plus leftover servings brought forward from the prior day, minus leftover servings for the current day were not properly calculated to equal the correct number of total servings used on 33 (55 percent) of 60 Breakfast Production and Menu Record forms tested and 51 (85 percent) of 60 Lunch Production and Menu Record forms tested.
- We selected 40 Production and Menu Record forms from eight middle school and senior school cafeterias for testing a la carte items. Our test disclosed that 28 forms from six of the schools were either not prepared or were not properly completed.

Preparing the Production and Menu Record forms inaccurately or inconsistently diminishes the usefulness of the forms for management control purposes and increases the risk of unauthorized or inefficient usage of District resources.

Recommendation: The Department’s management should continue to conduct training sessions for food service personnel to enhance the accuracy and effectiveness of the Production and Menu Record. Also, the Department’s management should routinely review the Production and Menu Record forms for reasonableness and to ensure that the procedures are properly followed and the forms are accurately prepared.

Finding No. 15: Purchased Food Inventory Turnover Rates

Our review of food inventories included an analysis of the purchased food inventory turnover rates at the District’s 252 food preparation locations during the 2003-04 and 2004-05 fiscal years. The inventory turnover rate measures the number of times an entity has turned over inventory during a given time period and it indicates the efficiency of management controls to minimize the amount of resources invested in the inventory needed to operate. When a low amount of inventory is maintained, the inventory turnover rate is high. The results of our analysis were as follows:

2003-04 Fiscal Year	Purchased Food Inventory Turnover Rates		
Educational Level	Highest	Lowest	Average
Elementary	75	9	34
Middle	61	19	35
Senior	92	17	46

2004-05 Fiscal Year	Purchased Food Inventory Turnover Rates		
Educational Level	Highest	Lowest	Average
Elementary	81	15	33
Middle	86	18	34
Senior	70	17	40

The wide range of inventory turnover rates within each educational level, as similarly noted in our report No. 2004-036, suggests that the efficiency of the inventory

controls at the food preparation locations is not consistent throughout the District. Maintaining a level of food inventory higher than necessary to meet the needs of each food preparation location may result in inefficient utilization of District resources.

The District's "Management Statistical Report" shows inventory turnover rates for purchased food based only on the given month's data. Also, food service personnel conduct physical inventory counts at the end of each month for each food preparation location. However, as similarly noted in our report No. 2004-036, these physical inventory counts were not reconciled to an ending inventory balance calculated based on the prior month's ending inventory, adjusted for food purchases and issues during the month. Monthly reconciliations of the physical counts to the calculated balances would increase management's ability to promptly detect differences and avoid recordkeeping errors and unauthorized or inefficient usage of inventory.

We were informed by Department personnel on August 29, 2005, that a Request for Proposal (RFP) for a new integrated software system for the District's food service operations is complete and will be submitted to the Purchasing Committee for Contract Review. The award of a contract and the implementation of the new software system are based on the adequacy of the responses received, the cost, and the integration with the District's technology plan. The new software system would allow for a perpetual real time inventory which would provide for an effective monitoring of purchased food inventory turnover rates.

Recommendation: The Department should continue its efforts towards the acquisition and implementation of the new food service software system allowing for a perpetual real time inventory. The purchased food inventory turnover rate generated by the system should be compared within each educational level (e.g., elementary, middle, and senior) and those rates with a significant variance from the average should be further analyzed. This analysis would provide the Department an objective tool to monitor the effectiveness of inventory controls in minimizing the level of inventory needed at each location. In addition, a monthly comparison of the physical inventory counts to the calculated ending inventory balance should be performed and significant differences reconciled.

Finding No. 16: Use of Gloves and Hairnets by Cafeteria Personnel

The Department of Food and Nutrition's Procedure No. G-6, *Uniform and Personal Hygiene*, states that it is the responsibility of the principal and the food service manager to enforce high standards of personal cleanliness and sanitation practices in the supervision of employees during all periods of duty. Among other personal hygiene issues, Procedure No. G-6 states that the two main purposes for gloves in food service operations are: 1) to act as an additional barrier to microorganisms, and 2) to provide a sense of security for the customer. Disposable gloves must be worn when in contact with exposed, ready-to-eat food. It is important to change gloves frequently and as necessary. Procedure No. G-6 also prescribes that proper hair restraints are required by the Department of Health and must be worn by all employees, covering the entire head to confine hair and prevent it from falling into employees' eyes, into food, or onto food-contact surfaces. The hairnet or other approved hair covering must be worn at all times.

In our report No. 2004-036, we observed employees at several of the school cafeterias who were not following the Department's procedures in regards to wearing a hairnet and gloves. On April 21 and 25, 2005, we visited 12 school cafeterias (four elementary, four middle, and four senior schools). Our review disclosed that employees generally followed the Department's Uniform and Personal Hygiene procedure. However, at 3 of the 12 school cafeterias visited (25 percent), we noticed instances in which cafeteria personnel were not wearing hairnets or gloves during the preparation of food or while serving food. For example, at one cafeteria, three employees were not wearing hairnets and another employee was not wearing gloves while serving food. School cafeteria employees not wearing hairnets and gloves is contrary to the Department's procedures and the Department of Health requirements, and may increase the risk that unsanitary conditions will make the food unsafe for eating.

Recommendation: District management should emphasize the requirement for cafeteria employees to follow the Department of Food and Nutrition's Procedure No. G-6 regarding the wearing of hairnets and gloves. The Department's staff should assist the school principals in the monitoring of the cafeteria employees' compliance with the Department's prescribed procedures. In addition, periodic inspections should be conducted by each school's principal or assistant principals to promote compliance.

Finding No. 17: Reconciliation of Food

Purchases with Food Usage and Servings Used to the Number of Meals Served

In our report No. 2004-036, we noted that the District's Department of Food and Nutrition procedures did not provide for the reconciliation of food purchases with food usage and the number of servings used to the number of meals served. During our current review, we noted that the Department adopted a new Production and Menu Record form, and revised procedures to provide for the comparison of the number of servings used to the number of meals served; however, audit tests indicated that this comparison was not always performed.

The Department's current procedures still do not provide for the reconciliation of food purchases with food usage. Such reconciliation would reduce the risk of unauthorized or inefficient usage of purchased food items occurring without timely detection by the Department's supervisory personnel. As noted in Finding No. 15, we were informed by Department personnel that a Request for Proposal (RFP) for a new integrated software system for the District's food service operations is complete and will be submitted to the Purchasing Committee for Contract Review. The new software system is expected to provide more accurate and efficient management of food usage data and daily comparisons of purchases, food production, and food usage.

Recommendation: The Department should continue its efforts to provide for reconciliations of food purchases with food usage. In addition, the Department should establish written procedures for food service personnel to follow when performing comparisons and reconciliations of food purchases with food usage.

Finding No. 18: Employment History Verification

The District's Management Selection Procedures Manual, approved by the Board in August 1999, requires that reference checks be conducted on job applicants who are recommended for employment. Current and prior employers of the recommended applicant are to be contacted to verify dates of employment, position(s) held, duties, and responsibilities and to obtain an evaluation of the applicant's work performance. Depending on the circumstances (i.e., the need to verify years of experience), prior employers of recommended applicants who are current District employees may be called for reference checks.

Our review of the personnel records maintained by the District's Personnel Operations and Records office for 18 Administrative/Professional positions filled during the audit period disclosed that the employees generally met the qualifications for their respective positions. However, we noted 11 instances in which the District's personnel records for the employees, who were newly hired, did not evidence that the required verification of employment history with previous employers was performed. Upon audit inquiry, the District Director, Administrative Staffing, provided us with information regarding the work experience for some of these employees. We were informed that certain reference materials and letters were contained in worksite personnel files rather than in the Personnel Operations and Records office. Also, the District indicated that our review did not give consideration to the previous working relationships that existed between the Superintendent and some of the employees.

While we recognize that professional relationships may provide an understanding of unique qualifications and experiences for some job applicants, effective internal control over the hiring of new employees includes the verification of an applicant's employment history prior to the offer of employment. Generally, an applicant's past work experience is used as a factor in determining and justifying the annual beginning salary of a new employee. The direct verification of an applicant's employment history should provide the District with additional assurances as to the accuracy of the work experience listed on the application and the qualifications of the applicant for employment with the District.

Recommendation: The reference checks required by Board procedures should be performed for all candidates that are recommended to the Board for employment. In addition, the personnel records maintained by the District's Personnel Operations and Records office should contain all relevant information necessary to document the basis upon which the decision was made to recommend an individual for employment.

Finding No. 19: Consultant Contracts

District expenditures for professional and technical services for the 2003-04 and 2004-05 fiscal years totaled \$36.9 and \$39.0 million, respectively. Our review and testing of 20 professional and technical services contracts and related payments disclosed that some improvements were needed in the District's contracting and contract monitoring procedures.

Services identified in the six consultant contracts listed below were not sufficiently detailed for the District to determine whether the consultants performed the agreed upon services. The six contracts also did not require specified deliverables or require the consultants to submit reports that summarized the results of their work. Three of the six contracts listed did not establish the quantity of services to be performed, such as the number of hours or days to be worked, or the amount of hourly or daily fees. Additionally, documentation showing days or hours worked were not included in the District's records to support the payments made for four of the six contracts as noted in the table below.

Contract Amount		Dates of Services	Description of Services as Stated in Contract
\$100,000 (\$2,500 per day)	(2)	11-18-04 / 6-30-05	Professional consulting and administrative work within the Human Resources Department including, but not limited to, collective bargaining, recruitment, and special projects as assigned by the Superintendent.
\$24,000	(1), (2)	8-4-04 / 9-08-04	Budgetary review, funding sources, organizational evaluation, and alignment of District resources.
\$40,000	(1), (2)	9-9-04 / 11-30-04	Budgetary review, organizational evaluation, alignment of District resources, and other special projects as assigned.
\$25,000	(1), (2)	3-15-05 / 5-31-05	Provide technical support and represent the District in Tallahassee on issues related to District cost differential litigation.
\$25,000 (\$90 per hour)		3-14-05 / 5-13-05	Fundraising and development services to help defray the costs of the District's summer program.
\$30,600 (\$85 per hour)		3-18-04 / 6-30-04	Assessing procedures and controls relative to accounting for grants and capital assets; recommending changes to current procedures and controls; and other financial services as requested by the Controller. Particular attention is to be given to technology.

Notes: (1) Contract did not establish the quantity of services to be performed, such as the number of hours or days to be worked or the amount of hourly or daily fees.
 (2) Documentation of days or hours worked were not included in the District's records.

We also noted that written evaluations of the consultants' performance for the six contracts noted above were not prepared to determine whether the performance was effective and whether the services and benefits received were consistent with the intended purposes of the contracts.

Contracts define the important legal responsibilities and obligations in the event of disputes and litigation. Unless contracts are sufficiently detailed, require specified deliverables or reports of the contractor, and establish a quantity of service as a basis for payments, the District's ability to ensure satisfactory completion of the agreed upon work within specified time frames is limited.

Recommendation: The District should strengthen its consultant contracting and monitoring procedures to ensure the economic and efficient provision of services. Consultant contracts should be sufficiently detailed so that the District can easily determine whether the consultants performed the agreed upon services. All consultant contracts should require specified deliverables or reports that summarize the results of the consultant's work and establish the quantity of services to be performed, such as the number of hours or days to be worked. Additionally, the preparation of written evaluations upon the completion of services would help to document whether the consultants' performance was effective and whether the services and benefits received were consistent with the intended purposes of the contracts.

- To determine whether the District has corrected, or is in the process of correcting, deficiencies disclosed in our prior report Nos. 02-126, 02-188, 03-026, 03-093, and 2004-036.
- To report on any identified fraudulent transactions and deficiencies in internal control which increase the risk of fraudulent transactions, pursuant to Chapter 2004-268, Laws of Florida, Specific Appropriation 81.

In conducting our audit, we interviewed appropriate District personnel, observed District processes and procedures, and performed various other audit procedures to test selected management controls.

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

OBJECTIVES, SCOPE, AND METHODOLOGY

Our objectives and scope of this operational audit were as follows:

- To obtain an understanding and make an overall judgment as to whether management controls 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.

MANAGEMENT RESPONSE

In accordance with the provisions of Section 11.45(4)(d), Florida Statutes, a list of audit findings and recommendations was submitted to members of the Miami-Dade County District School Board and the Superintendent. The Superintendent's written response to the audit findings and recommendations is included in this report on pages 19 through 28.

This operational audit was made in accordance with applicable standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States. This audit was conducted by Gregory K. Gonzalez, 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.

MANAGEMENT RESPONSE



Miami-Dade County Public Schools

giving our students the world

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

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

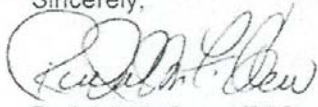
January 30, 2006

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's Operations for the period July 31, 2003 through June 30, 2005. We take all reviews of our District very seriously; and we particularly welcome those that provide opportunities to improve our performance and better serve our children.

For the most part, we were already aware of many of the observations in your report and were taking actions to address them. Nevertheless, attached are our detailed comments and responses to the individual findings and recommendations contained in your draft report. We would also like to take this opportunity to commend your staff for their professional conduct throughout the assignment. Should you require additional information, please feel free to contact me or Ms. Carolyn Spaht, Chief of Staff at 305-995-1429.

Sincerely,

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

RFC:la
L948(R1318)
Attachments

cc: Ms. Carolyn Spaht Ms. Mariaelena Vidal
 Ms. Ofelia San Pedro Mr. Martin Berkowitz
 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*

MANAGEMENT RESPONSE (CONTINUED)

**MIAMI-DADE COUNTY PUBLIC SCHOOLS DETAILED RESPONSE TO AUDITOR
GENERAL REPORT****Finding No. 1: Overtime Payments**

Overtime did increase over the past three years. In large measure this is a function of the number and severity of hurricanes over the last two years. Substantial amounts of overtime were required to assist in storm recovery. As to process, the Office of Budget Management reviews overtime expenses for each location and program as part of the annual budgeting process. The need for overtime is questioned and alternatives are examined prior to budget approval. The Office of Budget Management then monitors the use of overtime budgets to ensure that the expenditures are justified.

In addition to budgetary controls, additional management controls will be put in place to help ensure that extraordinary overtime payments are scrutinized closely by senior management. When overtime paid to any employee during any fiscal year aggregates to more than \$10,000, the Cabinet member to whom that individual reports will receive an extraordinary overtime report from the Payroll Department. The Cabinet member will be required to sign off on the report and provide an explanation as to why the individual is being assigned so much overtime.

Finding No. 2: Overtime Payments

As stated in the response to Finding No. 1, the Office of Budget Management provides the primary budgetary control for overtime, including on-going monitoring of actual amounts paid. The District plans to initiate a Zero-based Budgeting process for all non-school departments for the next fiscal year. That process will add another dimension to our control over staffing and personnel utilization by requiring each department to rejustify all staff and expenses each year. The Office of Management and Compliance Audits will continue to receive and review departmental reports on overtime.

Finding No. 3: Capital Construction Management Reporting Guidelines

The School District embarked on a short and long-range IT strategy in 2002. with the ultimate goal of establishing, over time, the necessary tools to produce consistent and accurate facilities reports, from planning to construction and maintenance; and to increase the level of accountability through a project manager centric reporting system.

The first tier of this reporting system started in 2003 using a mainframe application. Monthly reports were issued to the Board, providing details on capital projects, from site acquisition to construction, as well as on-going interlocal related activities, such as community meetings and interaction with the county and local municipalities. The responsibility for updating the monthly reports rested with one staff member at first, and was later migrated system-wide for use by the respective project managers. In mid-2004, the Board approved a long-term strategy for the Office of School Facilities, which included the implementation of Magellan, a database system with facilities needs assessment capabilities, and Primavera, a project scheduling, tracking and management system.

Through the use of Magellan, in late 2004 the District completed its first comprehensive facilities needs assessment and established a database of deficiencies, which became the basis for one component of the District's Five-Year Capital Plan for Fiscal Years 2005-2009 (Capital Plan) dealing with improvements to existing schools. Implementation of this system has allowed for unification of the previous, numerous databases into one, and has become the only repository for facilities related deficiencies. Magellan has also made possible the standardization of reports for public distribution and has eliminated the potential for conflicting data.

MANAGEMENT RESPONSE (CONTINUED)

The full implementation of Primavera started in 2005, with the input of the first year of the Capital Plan, as well as previously funded capital projects, and projected capital awards with a 2006 school opening. The first quarterly report was issued to the Board in the fall of 2005. The second quarterly report was issued in January 2006. Updates are project manager centric and real time.

The last facet of reporting improvements relates to Maintenance Operations. As part of the metrics for that unit, school based maintenance plans have been developed by the respective regional Maintenance supervisors for implementation and progress is measured by Maintenance real time. Quarterly progress reports are also issued to the Board, as part of the quarterly updates mentioned above.

The above provides conclusive evidence of the vast improvements made by the District in the last two years to project tracking, management and reporting, in the facilities area.

Finding No. 4: Monitoring of Capital Construction Projects

The District has implemented the use of the "Primavera" project management information system to enhance tracking and monitoring of capital construction projects. Quarterly project tracking reports are provided to the School Board. These reports are also forwarded to Senior District staff and posted on the district web site for informational purposes. All active and planned capital projects are currently being tracked in this system.

The consultants hired to implement this new system have extensively trained and properly instructed Project management staff on the updating projects. The "Primavera" project tracking system is designed with milestone dates that cannot be altered by project managers. The only input required by project managers is to insert actual dates against the baseline schedule and provide informational comments. The procedures and instructional manuals provided to project management staff for the training and implementation of this project tracking system are available for inspection.

The "Primavera" system tracks key project milestone dates, from project inception to completion, as well as other critical project information. The information is currently updated on a daily to a weekly basis by project management staff. Project status reports are then reviewed at weekly staff meetings with the Construction Officer. Critical issues addressed and tracked are the projected awards of projects and new student stations constructed and completed for the current fiscal year. The system has enhanced the overall tracking performance of the District's capital construction program.

Finding No. 5: Capital Outlay Facility Inspections

A computer-based system has been successfully piloted that allows facilities safety-to-life deficiencies to be electronically scoped and generate a corresponding maintenance work order. The deficiencies can thus be systematically monitored from their initial identification until they are corrected. District Information Technology Services staff are in the final stages of development and implementation of this system. When fully implemented, it is expected to facilitate programmatic interface of safety-to-life deficiencies with the District's Computerized Maintenance Management System (CMMS) and, where appropriate, inclusion in the Maintenance work plan for the corresponding school.

MANAGEMENT RESPONSE (CONTINUED)

Safety-to-life deficiencies to be corrected through a capital project will be defined in the District's facilities deficiencies database (Magellan) and tracked through the capital project tracking application (Primavera). The new integrated system will promote heightened awareness of all facilities safety-to-life deficiencies among the departments responsible for making corrections and facilitate accountability for their timely remediation.

Finding No. 6: Review of Licensure and Continuing Training for Construction and Maintenance Staff

The Office of Facilities Operations, Maintenance does not have positions that require architecture or engineer licensure however, we are very much interested in, and support professional development opportunities for our staff, both licensed and unlicensed.

Although the qualifications for construction coordinators hired by the District do not include a licensure or registration as an architect, engineer or other specific training as a condition of employment, the District does indicate a preference for such qualifications for some positions. Consequently, a significant number of the District's staff are licensed or registered, and the District benefits by having such personnel when it is able to retain them. By law, those individuals are personally responsible for obtaining continuing education training to renew and maintain their licenses/registrations. Moreover, the District's construction coordinators are required to possess college degrees specific to the industry and extensive focused experience in the management of construction projects for public educational facilities, as well as other types of construction experience. Construction coordinators characteristically do not directly perform design or construction services, nor do they perform code compliance plan reviews or inspections. Further, there is no statutory requirement for such personnel to have or maintain licensure/registration in order to qualify for or retain those positions.

The District facilitates all staff's access to training in the State Requirements for Educational Facilities (SREF) offered through the Department of Education, which is an in-depth course specifically focused on the construction of public educational facilities. A substantial number of the District's staff have received such training and are periodically re-trained as those requirements are changed and updated. Additionally, the District conducts periodic in-house training and training by other professional organizations on a variety of issues related to the duties performed by its staff in carrying out the District's construction program.

Mandating licensure/registration as a prerequisite for employment could unnecessarily eliminate from eligibility those otherwise highly qualified and experienced candidates being sought by the District in a highly competitive market environment. Candidates who are required to have licensure/registration would naturally demand higher pay and necessitate budget increases to fund those positions. The imposition of qualifications not necessarily required to perform the job function, could well result in the District's otherwise well qualified bargaining unit members not being eligible to apply for those positions.

Therefore, the District's policy of preference towards candidates who are licensed and registered (without necessarily eliminating from eligibility those who are not) and who possess the requisite college degrees and extensive experience appears to be the best manner in which the District can solicit and obtain the most highly qualified and experienced range of personnel needed to manage its construction program.

MANAGEMENT RESPONSE (CONTINUED)

In September 2005, an Executive Director for Training was hired to develop and implement a comprehensive training program for all Maintenance staff. To this end, courses have been identified and scheduled to address the training needs of trades and administrative employees. Further, to ensure that appropriate training courses are offered and that accurate records are maintained, the Executive Director is working with personnel in the District's Training Department, specifically the Office of Leadership Development, to coordinate efforts and to utilize existing infrastructure to capture and maintain relevant training data.

While our training courses are open to all Maintenance staff, current training courses specifically designed for our administrative staff are listed below. This list will continue to develop as District responsibilities dictate.

- Civil Rights Compliance,
- Ethics in the Work Place,
- Labor Relations,
- Office of Professional Standards Update,
- Payroll Processes, and
- Maintenance Specific Software – COMPASS, Primavera

At present, we are investigating continuing education curriculum offered through certifying agencies that will enhance and further develop the skills of our administrators, ensuring they remain current with technical and professional standards. Examples of courses to be included in a curriculum designed for administrators include Building Codes and Standards; General Administration and Management; Maintenance and Operations; Asset Management; Budgeting and Accounting; Building Design and Maintenance; Fundamentals of Facilities Management; Technologies for Facilities Management and others.

When we are prepared to implement a professional continuing education program for our staff, a training plan will be developed for each administrator, specifically identifying training requirements.

Finding No. 7: Direct Purchase of Construction Materials

The District has developed processes and procedures for the implementation of the direct purchase of construction materials. It is currently being piloted at the Miami Beach Senior High School project, which is a \$60 million project with a projected tax savings of \$500,000. This process will also be utilized for the 12 prototype projects, which will be awarded during the next three months. The projected tax savings for the 12 projects is \$2.4 million. The direct purchase of construction materials will also be projected for all future major capacity projects.

Finding No. 8: Architect Errors and Omissions

Issues related to architectural and engineering errors and omissions have been continuously addressed by the District as a result of the Board's concerns in managing A/E's performance. As a result of meetings and coordination with representatives from the American Institute of Architects (A.I.A.), contract language was developed and introduced into the A/E agreements, which set forth a percentage of construction cost threshold as an allowance for A/E errors and omissions. The percentage levels were based on local design and construction industry data and were established by knowledgeable and experienced design and construction professionals participating in the process.

MANAGEMENT RESPONSE (CONTINUED)

When pursuing reimbursement from A/Es for costs of errors and omissions, a number of factors typically influence the outcome. Of paramount consideration is that the extent of recovery is generally limited to those additional costs caused by the A/E that are excessive and can be shown to have exceeded the standard of care in the community in which the services were performed. This is based on a negligence theory in which the expectation of performance is somewhat less than perfection, and that some degree of errors and omissions will inevitably occur on any project. It would not be fiscally prudent to pursue reimbursement from the A/E for the costs of any amount of errors and omissions when such recovery would be precluded, should it be determined that the A/E's performance fell within the standard of care in the community. This is especially true considering the high costs of litigation and attorney fees which would be the likely course of events in some, if not most cases. Including the threshold percentage for errors and omissions avoids the high costs of pursuing recovery of errors and omissions costs that are essentially unrecoverable while at the same time establishing a reasonable and enforceable standard of care to which the parties have agreed with regard to the performance of the A/E.

Pursuing recovery of any and all amounts of errors and omissions on each and every project would be difficult to manage, considering that hundreds of projects are ongoing in the District at any time. This is further complicated by the fact that the amounts and percentages of errors and omissions can vary from project to project due to a variety of factors such as the type, complexity, size, existing conditions, etc., regardless of the skill or diligence exercised by the A/E. Due to the District's consistently large ongoing construction program, the possibility of repeat business on a variety of projects, and the community's long time understanding of the performance level expected by the District, the effects of those variances are reduced for both the District and A/E. Including in all A/E agreements provisions for a uniform allowance for A/E errors and omissions, makes it possible to better and more economically manage and identify poor performing A/Es on projects for which the Board could reasonably pursue recovery.

Additionally, courts have held that recovery of additional costs due to errors and omissions is generally limited to second costs (i.e. damages) and that first costs (i.e. betterment) are not recoverable. Typically, change order items are categorized as omissions when the introduction of that additional work occurs during a stage in the construction process in which the costs of such additional work are predominately limited to first costs or betterment. However, it is recognized that there is some degree of damages or second costs inherently included in the total price of items categorized as omissions. Those additional costs are attributable to inflation, additional staff administration, lack of competitive pricing, etc., which recognize the fact that the cost of those items would have been less had they been included in the project when originally bid. To address those additional costs, the District's agreements include provisions wherein 15% of the costs of omissions items are included in the summation of errors and omissions to determine whether or not the 1.5% allowance threshold has been exceeded.

Lastly, the District's A/E agreements were recently revised to make it clear that if the A/E exceeds the threshold percentage for errors and omissions on a project, that the School Board may pursue the A/E for damages to recover the full and total additional cost to the District resulting from A/E's errors and omissions (less betterment), starting from the first dollar.

Therefore, the District feels that including a threshold allowance in it's A/E agreements for A/E errors and omissions is both beneficial and economical in that it efficiently focuses the Board's resources in identifying, managing and pursuing recovery of additional costs where appropriate and where there is a greater likelihood of success, while avoiding unnecessary effort and expense in pursuit of those additional costs, which are unrecoverable.

MANAGEMENT RESPONSE (CONTINUED)

Finding No. 9: Project Closeout

The District has continued to make positive efforts to assure that the projects are completed within the dollars provided in the contracts whether they are completed by the original contractor or by others, and to withhold final payments to contractors and A/E's until the projects and all closeout requirements are completed. Towards that end, the District has engaged the services of a Program Management firm to assess projects requiring closeout processes and/or documentation, and to resolve any and all impediments to those closeouts. The Program Management firm started 6 months ago and has identified and assessed 118 assigned projects of all sizes and scopes requiring closeout. The firm was initially engaged for a one year period, but it is felt that the process will need to be ongoing for 1-1/2 to 2 years. In the meantime, other improved processes and procedures have been or are being put in place to prevent the recurrence of a large project closeout backlog. Some of these improvements include enhanced contractor prequalification and selection processes, stricter enforcement of contract completion dates and penalties, focused responsibility on the A/E and EFCO firms for deficiency identification and follow-up, and the advent of on-line contractor and A/E performance evaluation systems with feedback and analyses mechanisms and a centralized secure data storage and retrieval warehouse. As these improvements are tested by time and reality, and as a result of the program manager's work, we will continue to assess and enhance procedures to provide for the timely closeout of construction projects.

The District's construction contracts do have penalty provisions for contractors not fully completing construction projects including: normal retainage, punch list generated retainage, credit change orders for incomplete work or other contract requirements, and liquidated damages. There has been continued reinforced usage of these penalty provisions, plus there have been other positive efforts to affect project closeout including strongly encouraging/requiring the contractors to perform punch lists on their subcontractors and also to start the closeout process as soon as possible into the project and to methodically continue it throughout the entire process.

Finding No. 10: Contractor Prequalifications

As noted in your report, we have made significant progress in correcting deficiencies noted in the Contractor Pre-Qualification process.

Finding No. 11: Rotation/Assignment of Staff

Procurement Management does not agree that rotation of employees would help reduce the risk of errors. On the contrary, the major disadvantage of this practice is the loss of expertise, knowledge of market conditions, major competitive suppliers, and alternative solutions. The District's previous response to the audit of 2002 indicated that three major governmental agencies, including the State of Florida, as well as the National Institute of Governmental Purchasing, indicated that they did not have a rotation policy in place.

Moreover, in the letter dated November 3, 2004, to the District's Interim Chief Financial Officer, the Chief Auditor stated "we found that this practice is not used by other government agencies we contacted and instead, it is deemed advantageous for buyers to specialize in their fields."

As a best practice, it is important to note that each buyer has to serve as a backup to another buyer during absences, vacation or heavy workload periods, which in effect allows other staff to be cross-trained in other commodities.

MANAGEMENT RESPONSE (CONTINUED)

Finding No. 12: Catalog Discount Bids

Subsequent to your previous audit of procurement activities, covering July 1, 2000 through May 31, 2002, the catalog bids were structured to pre-qualify vendors reflecting the appropriate discounts. However, the internal policy was not revised accordingly. Based on the sampling of 30 purchases selected by the auditor, 29 purchases were in accordance with the procedure, i.e., to purchase from the awarded vendor offering the lowest price. Indeed, on 16 of the purchases, Procurement obtained additional discounts from the awarded vendors, resulting in increased savings. The remaining 13 purchase orders reflected the appropriate discount as awarded.

Inasmuch as the business arena is moving increasingly toward web-based information rather than hard-copy printed catalogs, current list prices are adjusted by manufacturers and published on websites. However, Procurement will photocopy the website or catalog page, verifying the list price and discount and image this documentation as part of the Purchase Order package.

The catalog discount procedure can be an effective avenue for best-price purchasing, when multiple vendors offer the same or similar products, or a partial line of products, rather than a full line.

The written purchasing procedure will be revised by March 1, 2006.

Finding No. 13: Monitoring of the Purchased Food Cost per Meal

District-wide efforts to monitor and decrease purchased food cost per meal have been implemented for the fiscal year 2005-2006, by changing breakfast and lunch menus to reduce the use of purchased foods and increase the use of commodity items. The Food and Nutrition Department has concentrated much of its efforts on increasing commodity usage via diversion to manufacturers for net-off invoice pricing and cash rebates to lower the overall purchased food cost. The Department will research if benchmarks for determining purchased food costs per meal have been established by other school districts' food service operations. The Department was recruited on January 4, 2006 to participate in a national USDA study to evaluate food costs per meal for the National School Lunch Program, and will be a participating program for study. When applicable, the Department will determine the causes of variances and take appropriate action.

Finding No. 14: Food Production and Menu Record

The Department conducted training sessions for food service managers and satellite assistants on the Food Production and Menu Record on July 28, 2005 and October 4, 2005. The Department will continue to provide on-going training sessions that will enhance the accuracy and effectiveness of the Food Production and Menu Record. Additionally, the Department continues to routinely review the Food Production and Menu Record forms during on-site school compliance visitations, as indicated on Compliance Visitation Forms, to ensure that the procedures are properly followed and that the forms are accurately prepared.

Finding No. 15: Purchased Food Inventory Turnover Rates

The Department has issued a Request For Proposal (RFP) for a Food Ordering Receiving and Management Systems (FORMS) to allow for a perpetual real time inventory, which will provide for effective monitoring of purchased food inventory turnover rates. The new system will provide meaningful and accurate data pertaining to food received, produced, sold and kept in inventory. The process to request proposals and adapt a new integrated system to all district food service operations is currently underway and is a strategic priority for the Department of Food and Nutrition.

MANAGEMENT RESPONSE (CONTINUED)

Finding No. 16: Use of Gloves and Hairnets by Cafeteria Personnel

The Department continues to emphasize and document the requirement for cafeteria employees to follow the Department of Food and Nutrition's Procedure G-6 regarding the wearing of hairnets and gloves. The Department will provide sanitation compliance information on-line to school principals in the monitoring of the cafeteria employees' compliance with prescribed procedures and will continue to re-emphasize the importance of adherence to this procedure. In situations where continued non-compliance is documented, the Regional offices for the respective school sites will be informed.

All Food Service Managers and Satellite Assistants are trained and receive national certification on Food Sanitation and Safety every three (3) years. Additionally, annual continuous improvement training in food handling and safety is conducted every summer for all food service employees in the district,

Finding No. 17: Reconciliation of Food Purchases with Food Usage and Servings Used to the Number of Meals Served

The Department has issued an RFP for the FORMS software system allowing for electronic interface of information to result in more accurate and efficient management of food usage data and daily comparisons of food production, purchases and usage. One of the requirements of the FORMS RFP is to reconcile food used to meals served. As noted, the Department has revised the Food Production and Menu Record and Procedures. These new procedures require food service managers to review the Point of Sale Itemization Report with production information to note discrepancies on a daily basis. Further specialized training will be provided at the district-wide level for food service managers and satellite assistants to ensure compliance with procedures. Food Service Coordinators continue to document compliance with procedures.

Finding No. 18: Employment History Verification

The individuals referred to in the audit findings were primarily outside candidates directly appointed to administrative positions due to their expertise related to the position. Reference checks were not done at that time due to direct knowledge of the candidates' credentials and experience. Reference checks and verification of prior employment are now done for all candidates as required by Board rule.

Finding No. 19: Consultant Contracts

Board Rule 6Gx13- 3F-1.021 – Request for Proposals and Professional Services Contracts, stipulates the process for professional services contracts. Any originating department submitting a request for an exception to the bidding process for a professional service contract submits its request to the Professional Service Contract Committee for review and approval. The originating department submits a written explanation, including a copy of the proposed contract. The MSAF Budget Finance Purchasing Manual delineates the process for completing the agreement form for contracted services, which requires the originator to state the actual services being provided, the eventual outcome of the services and how the District will benefit. It also requires the times and dates of the services, the term of the contract, and where the services will be performed. The School Board Attorney reviews the agreement and signs the contract as to form and legal sufficiency. Prior to authorizing any payment, the originating department prepares a Payment Request For Contract Services From certifying that services have been rendered in accordance with the agreement. Staff agree that a written evaluation upon completion of services would further enhance the existing documentation process prior to payment for services, and will revise the form accordingly.

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