

# AUDIT OF HOSPITALITY SERVICES



APRIL 2006

# THE SCHOOL BOARD OF MIAMI-DADE COUNTY, FLORIDA

Mr. Agustin J. Barrera, Chair  
Ms. Perla Tabares Hantman, Vice-Chair  
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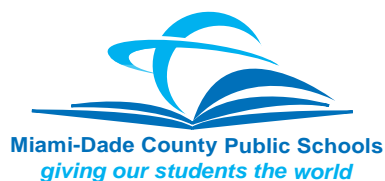
Mr. Allen M. Vann, CPA  
Chief Auditor  
Office of Management and Compliance Audits

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**INTERNAL AUDIT REPORT  
HOSPITALITY SERVICES**

**APRIL 2006**

**AUDIT COMMITTEE MEETING**

**MAY 2, 2006**

**SCHOOL BOARD MEETING**

**MAY 10, 2006**

**OFFICE OF MANAGEMENT AND COMPLIANCE AUDITS**



## **Miami-Dade County Public Schools**

*giving our students the world*

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

**Chief Auditor**  
Allen M. Vann, CPA

**Assistant Chief Auditor**  
Jose F. Montes de Oca, CPA

**Miami-Dade County School Board**  
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Ana Rivas Logan  
Dr. Marta Pérez  
Dr. Solomon C. Stinson

April 20, 2006

Members of The School Board of Miami-Dade County, Florida  
Members of The School Board Audit Committee  
Dr. Rudolph F. Crew, Superintendent of Schools

Ladies and Gentlemen:

In accordance with our fiscal year 2005-06 annual audit plan, we conducted an audit of Hospitality Services for the period of July 1, 2004 through June 30, 2005. The objectives of our audit were to express an opinion on the financial statement; evaluate compliance with applicable Florida Statutes, State Board of Education Rules, School Board Rules, as well as general compliance with the Manual of Internal Fund Accounting; and evaluate the internal control processes, payroll and property procedures.

Based on our audit, we noted some exceptions when following the procedures; however, the financial statement of the internal funds of Hospitality Services otherwise presents fairly, in all material respects, the changes in fund balances arising from cash transactions during fiscal year 2004-05, on the cash basis of accounting.

Our assessment of the controls indicated that the internal control structure was generally functioning as designed but there were opportunities for improvement. Specifically, disbursements were not in compliance with bidding procedures, and the operation of the vending machines needs improvement. Furthermore, procedures over hospitality-related activity need to be updated and brought in line with available funding.

Our findings and recommendations were discussed with management. Their responses along with explanations needed to assure that the findings and recommendations are addressed are included herein. As always, we would like to thank the administration for the cooperation and courtesies extended to our staff during the audit.

Sincerely,

Allen M. Vann, CPA  
Chief Auditor  
Office of Management and Compliance Audits

AMV:mtg

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## EXECUTIVE SUMMARY

Based on our audit, we concluded that with the exception of the deficiencies noted below, the financial statement of the internal funds of Hospitality Services presents fairly, in all material respects, the changes in fund balances arising from cash transactions during fiscal year 2004-05, based upon the cash basis method of accounting. Our assessment of the controls in place to promote compliance with the Manual of Internal Fund Accounting indicated that the internal control structure was generally functioning as designed but there were opportunities for improvement; see the internal control tables on the following page of this report.

With respect to the items tested, this facility was in general compliance with the policies and procedures delineated in the Manual of Internal Fund Accounting, except as noted below. When conditions came to our attention that were deemed non-reportable, because they were immaterial or inconsequential, they were, nevertheless, discussed with management for their information and follow-up.

Regarding payroll and property, our audit concluded that property records were properly maintained and equipment items with an individual cost of \$1,000 or more were accounted for. In addition, payroll procedures were generally adhered to.

Procedures for procuring goods and services could be improved to ensure compliance with required bidding procedures. A significant number of purchases were made without obtaining required bids and/or quotes. Checks were sometimes signed by two clerical staff members instead of having at least one administrator's signature.

The outsourcing of vending machines operations requires better contract management on the part of Hospitality Services than is currently being performed. There was no evidence that vending machine contracts were executed with the vendors, and the amount of vending commissions received from vendors was not adequately confirmed. Hospitality Services needs to monitor reported sales and verify the accuracy of the commission remittances.

Hospitality Services is spending more providing hospitality services to staff than available vending machine revenues can cover. Deficit balances will likely increase unless management institutes a combination of updating and enforcing guidelines, improving vending revenues, and/or curtailing complimentary services to staff.

Finally, safety inspections' violations in the kitchen area and prompt adherence to certifications and training for food handling employees and food service managers require management's attention.

## INTERNAL CONTROLS

Our overall evaluation of internal controls for Hospitality Services is summarized in the table below.

INTERNAL CONTROLS RATING			
CRITERIA	SATISFACTORY	NEEDS IMPROVEMENT	INADEQUATE
Process Controls		x	
Policy & Procedures Compliance		x	
Effect		x	
Information Risk	x		
External Risk	x		

INTERNAL CONTROLS LEGEND			
CRITERIA	SATISFACTORY	NEEDS IMPROVEMENT	INADEQUATE
Process Controls	Effective	Opportunities exist to improve effectiveness.	Do not exist or are not reliable.
Policy & Procedures Compliance	In compliance	Non-compliance issues exist.	Non-compliance issues are pervasive, significant, or have severe consequences.
Effect	Not likely to impact operations or program outcomes	Impact on outcomes contained	Negative impact on outcomes
Information Risk	Information systems are reliable.	Data systems are mostly accurate but can be improved.	Systems produce incomplete or inaccurate data which may cause inappropriate financial and operational decisions.
External Risk	None or low	Potential for damage	Severe risk of damage

## BACKGROUND

Hospitality Services generates revenue from the sale of food items and beverages at its two dining facilities. The main dining facility is located on the seventh floor of the School Board Administration (SBAB) Building, while a smaller facility is located in the Annex. Revenues are also derived from vending machine commissions generated from beverage and snack vending machines located throughout the administrative buildings.

For the fiscal year ended June 30, 2005, cash receipts and disbursements of Hospitality Services amounted to \$622,366 and \$501,398, respectively (see financial statement on page 14). Compared to the prior year activity, cash receipts increased in fiscal year 2004-05 by \$36,618 while disbursements decreased by \$11,090.

Monies generated from food sales and vending commissions are deposited in the internal funds' checking account. To maximize interest earnings, funds not used in the day-to-day operations of the facility are invested in the MDCPS-Money Market Pool Fund, which at year end, was earning interest at the rate of 3.25%. At June 30, 2005, the fund balance deposited in both the interest-bearing checking account and the MDCPS-Money Market Pool Fund amounted to \$518,470 (see table below for this facility's cash and investment summary and page 14 of this report for the financial statement).

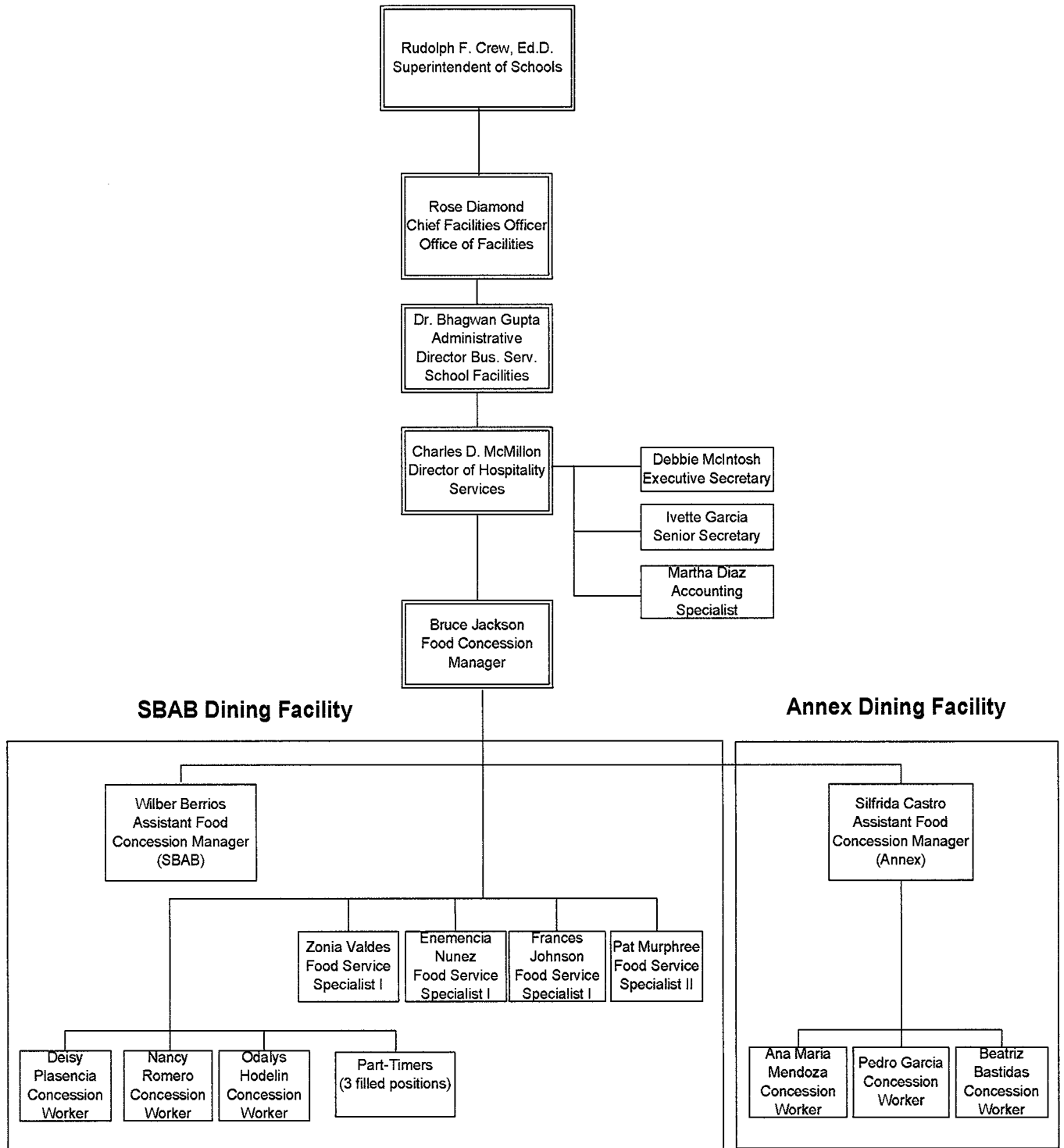
### CASH AND/OR INVESTMENTS SUMMARY

	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>6/30/05</u>
Checking Account:			
Wachovia Bank, N. A.	--	1.38	\$ 62,415.68
Investment:			
MDCPS-Money Market Pool Fund	Open-end	3.25	<u>456,053.98</u>
TOTAL			<u><u>\$518,469.66</u></u>

With the exception of \$15,000 for payroll expenses, which was transferred from the internal funds of this facility to the District's general fund, Hospitality Services' payroll, budgeted at \$611,034 for fiscal year 2004-05, is covered almost entirely by the District. Currently, Hospitality Services employs 17 full-time employees and three part-time employees. This includes administrative, clerical, and food handling staff (refer to the organizational chart on the following page).



## HOSPITALITY SERVICES – ORGANIZATIONAL CHART



## OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our audit were to:

- express an opinion on the financial statement;
- evaluate compliance with applicable Florida Statutes, State Board of Education Rules and School Board Rules, and policies and procedures prescribed in the Manual of Internal Fund Accounting;
- evaluate internal controls to determine the extent to which the control components promote compliance with the policies and procedures prescribed by the Manual of Internal Fund Accounting;
- provide assurance to the administration regarding compliance with current payroll procedures prescribed in the Payroll Processing Procedures Manual; and
- determine whether all property items with an individual value of \$1,000 or more were accounted for, and whether policies and procedures prescribed by the Manual of Property Control Procedures were adhered to.

Our review of internal funds covered the period of July 2004 through June 2005. For hospitality-related expenditures and vending machine commissions, we extended our review through February 2006.

Procedures performed to satisfy audit objectives were as follows:

- interviewed staff and reviewed the organizational structure of the facility;
- examined, on a test basis, a representative sample of receipts and disbursements, as well as other subsidiary records;
- reviewed the checking account and subsidiary documentation;
- reviewed the bookkeeping and cashiering functions;
- reviewed policies and procedures regarding the food operation and the hospitality account;
- reviewed vending machine contracts;
- visually inspected the dining facilities;
- inventoried the vending machines located throughout the administrative building;
- reviewed payroll records;
- reviewed inspection reports and food handler certifications; and
- performed other audit procedures as deemed necessary.

We conducted our audit in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States of America. The results of our property audit was in all material respects similarly conducted in accordance with the generally accepted government auditing standards, with the exception of the continuing professional education requirement not followed by our property auditors.

## **FINDINGS AND RECOMMENDATIONS**

### **1. BIDDING AND PAYMENT PROCEDURES FOR PURCHASES NOT IN COMPLIANCE WITH DISTRICT RULES**

Hospitality Services disbursed a total of \$501,398 during fiscal year 2004-05. We reviewed twelve frequently used vendors to determine whether they were approved to conduct business with M-DCPS through the regular District Procurement channels, and if not approved, whether they held occupational licenses. These expenditures accounted for 76% or \$382,892 of the total. Our review disclosed that six of the 12 vendors were not approved by the District, and we were unable to verify the occupational license of one of the six vendors.

Furthermore, expenditures for food purchases and supplies made from five of these vendors exceeded the \$25,000 threshold normally requiring formal bidding procedures. Written bids for two vendors that were paid between \$5,000 and \$25,000 were not evident. For the remaining five vendors reviewed, telephone quotes for payments below the \$5,000 threshold were not obtained. Section II, Chapter 4 of the Manual of Internal Fund Accounting establishes the requirements for quotes and bids when making large purchases using internal funds. Additionally, while State Board of Education Rule 6A-7.0411 and School Board Rule 6Gx13- 3C-1.10 exempt purchases of food products from competitive bidding requirements, the District's Procurement Department still uses formal bidding when purchasing food for our schools to ensure that the lowest prices are obtained.

As part of our test of disbursements, we reviewed all of the 288 cancelled checks for fiscal year 2004-05. Twenty six checks amounting to \$47,485 bore the signatures of two members of the clerical staff instead of the signatures of one clerical staff and one administrative employee. Section II, Chapter 5 of the Manual of Internal Fund Accounting establishes that all disbursements must bear two signatures, one from an authorized designated administrator, and the second from the treasurer or authorized clerical designee.

This last condition happened when the former Hospitality Services Director was on leave. An alternate administrator with check signing privileges should have been designated. All expenditures, however, were proper. In addition, the former executive secretary, who retired on June 2005, was listed as an authorized check signer with the bank until November 2005. This authorization was revoked at the request of the auditor. Currently, the signatory authority over the checking account resides with the Chief Financial Officer, the District's Treasurer, the District's Assistant Treasurer, and the Hospitality Services' Accounting Specialist. Alternate signers also include School Facilities Administrative Director for Business Services and the Hospitality Services Director.

## RECOMMENDATION

- 1.1** Ensure that all vendors have proper licenses for conducting business with the school system and consider using preexisting Procurement Department food contracts to ensure that the lowest prices are obtained. If a preexisting contract is not already in place, then follow the purchasing procedures established in the Manual of Internal Fund Accounting.

**Responsible Department:** Hospitality Services

**Management Response:**

Management agrees with the recommendation and provides the following solution and implementation schedule. Refer to Appendix (Page 16).

**Solution Plan:** Effectively July 1, 2006, the Department of Hospitality Services will start utilizing vendors who are currently on awarded bids by the Procurement Department for the items specified in the contracted documents. However, for the items not covered by existing awards, the department will follow district's policies to receive telephone and written quotes to document purchases based upon the threshold established in the Manual of Internal Fund Accounting. Some of the family owned and operated vendors are not willing to pursue the district's paper work requirement, including compliance with Jessica Lunsford Act, to supply items in small quantities on a limited basis. In these cases the staff will make necessary changes to the menu items offered as part of the Hospitality Services.

**URGENCY OF CORRECTIVE ACTION IMPLEMENTATION SCHEDULE**

☐ Critical  
☒ Important  
☐ Desirable

☐ Immediately (Short Term)  
☒ By July 1, 2006  
☐ Contingent upon Funding

- 1.2** Ensure compliance with District check signing controls.

**Responsible Department:** Hospitality Services

**Management Response:**

Management agrees with the recommendation and provides the following solution and implementation schedule. Refer to Appendix (Page 16).

**Solution Plan:** Changes in signatory authority for disbursement of funds was recommended in the audit completed in April 2005 and were implemented during the current fiscal year 2005-2006.

**URGENCY OF CORRECTIVE ACTION IMPLEMENTATION SCHEDULE**

☐ Critical  
☒ Important  
☐ Desirable

☐ Immediately (Short Term)  
☒ By Already Implemented  
☐ Contingent upon Funding

## **2. IMPROVEMENTS NEEDED OVER THE MANAGEMENT OF VENDING MACHINES AND CONTRACTS**

In the past, Hospitality Services serviced and maintained up to 22 vending machines. However, due to staffing limitations and increased work load, the vending machine operations were outsourced. The outside vendors pay Hospitality Services a contractually agreed upon vending commission based on a percentage of their sales. At the present time, three vendors operate 29 machines: Gilly Vending, Coca-Cola Enterprises, and Pepsi Bottling Group, while Hospitality Services continues to service two soda machines located inside the main dining facility. The third vendor, Pepsi Bottling Group, recently started operations, subsequent to the completion of our audit fieldwork.

At the conclusion of the audit fieldwork, Hospitality Services did not have on file any contracts with these vendors for fiscal years 2004-05 or 2005-06. According to Procurement Management Services' procedures, all locations that have vending machines services from outside companies are required to execute a Vending Machine/Service Agreement. Each location administrator must keep the original agreement on file for audit purposes and forward a copy of the signed agreement to Procurement Management Services within ten days of execution. The vendor must also provide the Office of Risk and Benefits Management with copies of valid insurance and permits documents.

Procurement Services stated that they did not have on file any agreements between Hospitality Services and any of their vendors for either fiscal year. For the current fiscal year, Procurement Services indicated that the agreement that Gilly Vending and Hospitality Services had apparently signed for the 2005-06 fiscal year had been modified by the vendor, and was rejected by Procurement Services. At the conclusion of our fieldwork, they had not received any contract documentation from Hospitality Services.

In addition, Hospitality Services did not have on file a current Certificate of Liability Insurance for Gilly Vending. The most current policy expired on 9/25/05; and although, the vendor was contacted, they failed to provide an effective policy for general liability insurance. Additionally, six machines owned and serviced by Gilly Vending did not display a notice containing the owner's information, as required by the State of Florida Department of Revenue.

Our review of the Coca Cola vending machine transactions disclosed that the documentation provided with each commission check did not provide sufficient information to determine the commission rate used to calculate the remittance amount. Additionally, commissions are based on a percentage of total sales, and the vending machines are serviced by the vendors without any oversight from the District. Therefore, it is not possible to determine the accuracy of the commissions received.

We selected the vendor, Gilly Vending, serving the highest number of machines and projected total commissions for this current fiscal year based on their current monthly averages. Our projection disclosed that commissions will amount to approximately \$10,100; comparatively flat to last year's year figure of \$10,229, even though this vendor is currently servicing twice as many machines as it did last year.

## RECOMMENDATIONS

- 2.1 Hospitality Services needs to ensure that contract agreements and general liability insurance is kept up to date and in accordance with District Procurement rules.

**Responsible Department:** Hospitality Services

**Management Response:**

Management agrees with the recommendation and provides the following solution and implementation schedule. Refer to Appendix (Page 17).

**Solution Plan:** The Department of Hospitality Services has provided copies of the signed agreement for vending machines contracts to Procurement Management Services. Additionally, the department has secured a current Certificate of Liability Insurance for Gilly Vending.

**URGENCY OF CORRECTIVE ACTION IMPLEMENTATION SCHEDULE**

- ☐ Critical  
☒ Important  
☐ Desirable

- ☐ Immediately (Short Term)  
☒ By Already Implemented  
☐ Contingent upon Funding

- 2.2 Increase monitoring and controls over vending machine commission revenues.

**Responsible Department:** Hospitality Services

**Management Response:**

Management agrees with the recommendation and provides the following solution and implementation schedule. Refer to Appendix (Page 17).

**Solution Plan:** The Department of Hospitality Services along with the Procurement Management Services staff is investigating the issuance of a bid based upon Access Fee Concept. This process will allow vendors to provide the district with fixed revenue for placing their machines in various locations. The department is proposing to make this change for fiscal year 2006-2007, effective July 1, 2006, to completely outsource this function.

**URGENCY OF CORRECTIVE ACTION IMPLEMENTATION SCHEDULE**

- ☐ Critical  
☒ Important  
☐ Desirable

- ☐ Immediately (Short Term)  
☒ By July 1, 2006  
☐ Contingent upon Funding

## RECOMMENDATION

- 3.1 We recommend updating current procedures to be followed and further control expenditures to align with available revenue.

**Responsible Department:** Hospitality Services

**Management Response:**

Management agrees with the recommendation and provides the following solution and implementation schedule. Refer to Appendix (Page 18).

**Solution Plan:** The Department of Hospitality Services plans to have a meeting with staff from the offices of the Chief Financial Officer, Controller, Treasurer, School Board Attorney, and Office of Management and Compliance Audits to discuss the sources of revenues to be identified in a more specific form while complying with School Board Rule. In addition, the Department of Hospitality Services will establish an annual budget and service plan to begin on July 1, 2006, and, effective May 15, 2006, the Department of Hospitality Services will reissue guidelines for providing Hospitality Services, including available menu choices, and further control of expenditures to align with revenues.

### **URGENCY OF CORRECTIVE ACTION IMPLEMENTATION SCHEDULE**

☐ Critical  
☒ Important

☐ Desirable

☐ Immediately (Short Term)  
☒ By May 15, 2006 (Guidelines for providing Hospitality Services)  
and July 1, 2006 (Annual Budget and Service Plan)  
☐ Contingent upon Funding

#### 4. OTHER MATTERS

As a follow-up to prior year audit exceptions regarding the renewal of food handler certifications, we reviewed the certifications and training of staff. The new assistant manager has not yet obtained the manager certification, and has been in the position for more than 90 days. Florida Statute 509.039 requires that all food service managers pass an approved test and receive a certificate within 90 days after employment. Additionally, while training was provided to employees as recommended in the prior audit, one employee has not received the food handler training yet, even though he has been in the department for more than 60 days. Florida Statute 509.049 requires that all food service establishments train and certify all food handler employees within 60 days after employment.

Hospitality Services undergoes semiannual inspections of the kitchen's range hood systems. These inspections are conducted by a private company and reports of these inspections document what was reviewed and the non-compliance issues. Annually, the Fire Safety Department from the City of Miami conducts fire safety inspections reports of the entire administration building, and also follows up on the results of these private inspections. On several occasions, and previous to the current administration, Hospitality Services has been cited because the cooking area is not completely covered under the hood, not all appliances are covered with the correct nozzles, and there are problems with the wash cycle of the water wash hood system. It is our understanding that the Fire Safety Inspection Report for the Administration is the responsibility of the Department of Safety, Environment and Hazard Management and not Hospitality Services. Although this facility has been cited for deficiencies in the range hood system before, corrective action was still pending as of the end of this audit.

#### RECOMMENDATIONS

##### 4.1 Training and/or certification should be provided for the two employees cited.

**Responsible Department:** Hospitality Services

**Management Response:**

Management agrees with the recommendation and provides the following solution and implementation schedule. Refer to Appendix (Page 18).

**Solution Plan:** The next examination for assistant manager is scheduled for May 2006. Based upon the results, an assistant manager certification will be issued to the incumbent. The training material for the second employee requiring food handler certificate, is still not available due to State department's manual being out of print. As soon as the manual becomes available, the training will be conducted and certification will be secured.

#### **URGENCY OF CORRECTIVE ACTION IMPLEMENTATION SCHEDULE**

☐ Critical  
☒ Important  
☐ Desirable

☒ Immediately (Short Term)  
☐ By \_\_\_\_\_  
☐ Contingent upon Funding



**4.2 Take immediate correct action to resolve reported equipment violations.**

**Responsible Department:** Department of Safety, Environment and Hazard Management

**Management Response:**

Management agrees with the recommendation and provides the following solution and implementation schedule. Refer to Appendix (Page 18).

**Solution Plan:** The Department of Facilities Operations, Maintenance has issued a work order to a vendor to extend the fire suppression system for the kitchen equipment. The project is scheduled to be completed by June 1, 2006.

**URGENCY OF CORRECTIVE ACTION IMPLEMENTATION SCHEDULE**

- ☐ Critical
- ☒ Important
- ☐ Desirable

- ☐ Immediately (Short Term)
- ☒ By June 1, 2006
- ☐ Contingent upon Funding

**MIAMI-DADE COUNTY PUBLIC SCHOOLS  
HOSPITALITY SERVICES  
ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

FUNDS	BEGINNING BALANCE	RECEIPTS	DISBURSE- MENT	NET TRANSFER	ENDING BALANCE	
TRUST						
ADVANCE FOR CHAN	816.00-	306.00	.00	.00	510.00-	
CONCESSIONS	.00	9,990.36	.00	9,990.36-	.00	
SALES TAX	9,594.35	36,799.92	35,673.42	.00	10,720.85	
SPECIAL PURPOSE	110.74	.00	.00	110.74-	.00	
UNITED WAY	.00	226.58	226.58	.00	.00	
HOSPITALITY NON	.00	63.22	2,875.00	4,386.81	1,575.03	
PETTY CASH	400.00-	.00	.00	.00	400.00-	
VENDING SNACKS T	585.59	1,420.75	1,435.72	.00	570.62	
VENDING SODA TAX	747.40	1,224.01	1,427.21	.00	544.20	
TRUST	9,822.08	50,030.84	41,637.93	5,714.29-	12,500.70	
GENERAL						
GENERAL MISCELLA	389,922.17	.00	22,340.82	140,455.61	508,036.96	
CASH OVER & SHOR	.00	38.30	.00	38.30-	.00	
INTEREST	.00	8,392.27	.00	8,392.27-	.00	
TRAVEL-FACULTY/A	.00	.00	2,122.23	2,122.23	.00	
STUDENT TRAVEL/S	.00	2.35-	.00	2.35	.00	
SNACKS VENDING	.00	19,560.10	9,716.21	9,843.89-	.00	
SODA VENDING	.00	16,842.79	7,280.43	9,562.36-	.00	
GENERAL	389,922.17	44,831.11	41,459.69	114,743.37	508,036.96	
FOOD SERVICE						
CAFETERIA ARMORE	.00	.00	2,431.00	2,431.00	.00	
REPAIRS AND MAIN	.00	.00	2,873.38	2,873.38	.00	
KITCHEN UTENSILE	.00	.00	1,624.72	1,624.72	.00	
CAFETERIA MISC E	.00	.00	5,129.03	5,129.03	.00	
OFFICE SUPPLIES	.00	.00	4,111.84	4,111.84	.00	
CASH - OVER/SHOR	.00	424.74	.00	424.74-	.00	
FOOD SALES	.00	522,864.25	402,130.26	120,733.99-	.00	
TAX EXEMPTED SAL	.00	4,040.32	.00	4,040.32-	.00	
CAFETERIA CHANGE	2,243.00-	175.00	.00	.00	2,068.00-	
FOOD SERVICE	2,243.00-	527,504.31	418,300.23	109,029.08-	2,068.00-	
TOTAL	397,501.25	622,366.26	501,397.85	.00	518,469.66	
CHECKING	62,415.68	INVESTMENTS	.00 SBMMF	456,053.98	TOTAL	518,469.66
		ACCOUNTS PAYABLE	.00			

Negative ending balances noted in the Advance for Change, Petty Cash, and Cafeteria Change accounts are the result of not depositing in the bank, at the end of the year, the vending machines, petty cash, and dining room advances for change. Hospitality Services obtained approval from the Office of the Controller to waive the requirement to deposit these funds at the end of the fiscal year in order to run the daily operations of the department.


## **APPENDIX**

### **Management's Response and Transmittal Memorandum**

**MEMORANDUM**

RD/2005-06/#201  
April 13, 2006  
305-995-1401

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

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

**SUBJECT: RESPONSE TO THE AUDIT OF HOSPITALITY SERVICES**

Attached is the response to the internal funds audit conducted for the 2004-2005 fiscal year by the Office of Management and Compliance Audits at Hospitality Services.

Dr. Bhagwan S. Gupta, Administrative Director, Business Services, will continue to provide assistance to Mr. Charles McMillon, Director for Hospitality Services, in-charge for this location. Dr. Gupta will also monitor the ongoing actions to prevent any future audit exceptions in the internal funds.


RD/BG:lt  
Attachments

cc: Dr. Bhagwan S. Gupta  
Mr. Charles McMillon

# MEMORANDUM

April 12, 2006  
BSG/2005-6/016  
305-995-1843

**TO:** Ms. Rose Diamond, Chief Facilities Officer  
Office of School Facilities

**FROM:** Bhagwan S. Gupta, Administrative Director  
Business Services 

**SUBJECT: AUDIT OF HOSPITALITY SERVICES**

This is a response to the Audit Report for the fiscal year 2004-2005. The Audit Report cited exceptions in the following three areas: Bidding and Payment Procedures for Purchases, Management of Vending Machines and Contracts, and Expenditures for Hospitality Services exceeding revenues.

## **1. BIDDING AND PAYMENT PROCEDURES**

Due to abrupt changes in key administrative positions during the last quarter of fiscal year 2004-2005, the department continued to follow existing procedures for procurement of goods and payment to vendors. The current administrative staff was not aware of any violations relative to non-compliance with procurement procedures in effect for a number of years. Mr. Charles McMillon, current Director of Hospitality Services, assumed responsibilities for this location on May 16, 2005, only six weeks prior to end of fiscal year June 30, 2005. Changes in signatory authority for disbursement of funds was recommended in the audit completed in April 2005 and were implemented during the current fiscal year 2005-2006.

- 1.1. We agree with the recommendation to ensure compliance with District's purchasing and disbursement (check signing) controls. Effective July 1, 2006, the Department of Hospitality Services will start utilizing vendors who are currently on awarded bids by the Procurement Department for the items specified in the contracted documents. However, for the items not covered by existing awards, the department will follow district's policies to receive telephone and written quotes to document purchases based upon the threshold established in the Manual of Internal Fund Accounting. Some of the family owned and operated vendors are not willing to pursue the district's paper work requirement, including compliance with Jessica Lunsford Act, to supply items in small quantities on a limited basis. In these cases the staff will make necessary changes to the menu items offered as part of the Hospitality Services.

## **2. MANAGEMENT OF VENDING MACHINES AND CONTRACTS**

While the projected revenue under the new agreement is less than the one last fiscal year, the decision to outsource this function on a pilot basis was solely based upon associated labor costs to fill the machines, maintain inventories, collect revenues while maintaining internal controls, keeping up with the demand or lack thereof for certain snack items, and providing allowance for discarded snack items due to expiration dates.

To further streamline this function, this department along with the Procurement Management Services staff is investigating the issuance of a bid based upon Access Fee Concept. This process will allow vendors to provide the district with fixed revenue for placing their machines in various locations. We are proposing to make this change for fiscal year 2006-2007, effective July 1, 2006, to completely outsource this function. This action will relieve the Hospitality Services staff from servicing vending machines and managing contracts; therefore, giving them time to concentrate on providing improved services to our employees and guests. It will also allow for the establishment of an annual budget which will, in turn, allow for an annual expenditure service plan.

- 2.1. We agree with the recommendation for the existing concept and have implemented the provisions to safeguard the district's interest and to improve oversight of the current process. The Department of Hospitality Services has provided copies of the signed agreement for vending machines contracts to Procurement Management Services. Additionally, the department has secured a current Certificate of Liability Insurance for Gilly Vending.

## **3. EXPENDITURES FOR HOSPITALITY SERVICES EXCEED AVAILABLE FUNDS AND NEED TO BE BETTER CONTROLLED**

The State Board of Education Rule 6A-1.0143 and School Board Rule 6Gx13-3D-1.022 allow complimentary food and refreshments services offered to guests and personnel engaged in School Board business, meetings, committees, and similar activities. Some of the reasons why expenditures for hospitality services have exceeded revenues generated by vending machines were:

- changes incorporated in menu items provided for healthier food items,
- a dramatic increase in total number and frequency of meetings at the district level, due to increased production levels at School Board Administration Building (SBAB),
- snack and meals provided to emergency management team during hurricane recovery periods,
- the discarding of sodas and snacks representing health hazards.

### **3. EXPENDITURES FOR HOSPITALITY SERVICES EXCEED AVAILABLE FUNDS AND NEED TO BE BETTER CONTROLLED**

Vending commissions are used by Hospitality Services to support complimentary food and refreshments services offered to visitors/business guests and personnel engaged in School Board business, meetings, committees, and similar activities, which are allowable under State Board of Education Rule 6A-1.0143 and School Board Rule 6Gx13-3D-1.022. The School Board limits these expenditures to annual maximum disbursements not to exceed \$75,000. Specific guidelines as to the food and beverage items that can be dispensed and the procedures to follow for ordering and documenting these items were further delineated in a 1997 memorandum from District Office Operations. To properly account for these expenditures, a Trust Fund-Hospitality Non-Cash account (to be referred to as the Hospitality account) was established in the internal funds of Hospitality Services.

For fiscal year 2004-05, vending machine profits and commissions amounted to \$31,327 while hospitality-related expenditures amounted to \$27,923. The amount spent was well under the established yearly limit and was adequately covered by the profits generated. However, as a result of the aforementioned changes in the vending machine operation resulting in comparatively reduced income, as well as a corresponding increase in the amount of expenditures incurred this year compared to last year, we noted a shortfall.

A comparison of hospitality-related expenditures incurred between July 2004 and February 2005, and the same time period for the current fiscal year disclosed that expenditures have increased from one year to another by almost \$5,100 and hurricane-related expenditures added an additional \$2,600 in expenditures. As of the end of March 2006, the balance in the Trust Fund-Hospitality account was (\$7,020) and vending commission balances available to cover these expenditures was only \$2,384, resulting in a net deficit of (\$4,636). Based on projections and monthly averages of expenditures and vending commissions of approximately \$2,600 and \$1,600, respectively, we believe that the Hospitality account will end up with a deficit balance at the end of the fiscal year of approximately \$(7,600) if either aforementioned improvements to vending machine commissions are not made and/or if the level of services are not curtailed.

In previous audits we verbally recommended that the February 1997 memorandum from District Office Operations prescribing guidelines for providing Hospitality-related expenditures, including the process for ordering complimentary beverages and food items, required levels of authorizations, and limitations over the available menu choices be updated. Even so, our review of the hospitality orders disclosed that, Hospitality Services was not always observing the outdated guidelines for processing service requests. Specifically, orders for food and refreshments did not always have the proper authorizations; order forms were not always properly completed; and food items ordered for and served during the related functions were not in the list of authorized complimentary food items. For example, the guidelines state that services for meetings attended exclusively by M-DCPS employees should be limited to complimentary beverages; however, we noted many instances where complimentary items other than beverages were served. Similarly, a requirement dictated that the lists of the names of meeting attendees not employed with the school system be provided to document who received the complimentary food items served at those meetings; however, those lists were not always evident.

The Department of Hospitality Service is trying to foster a change in menu items offered at various meetings. The introduction of bottled water, soft drinks, juice, and fruit platters are just some of the items resulting in increased costs associated with hospitality services. I also plan to have a meeting with staff from the offices of the Chief Financial Officer, Controller, Treasurer, School Board Attorney, and Office of Management and Compliance Audits to discuss the sources of revenues to be identified in a more specific form while complying with School Board Rule. Currently, the revenues generated by the vending machines are solely from the district employees, as well as visitors to our office complex. The revenue generated in the district's main dining room and the satellite facility is also from purchases made by our employees and visitors. As long as we are able to cover the material costs budgeted through district funds, it may be possible to use any excess revenues generated for serving refreshments. However, this concept has to be reviewed by our attorneys. In any event, an annual budget and service plan will be established beginning July 1, 2006.

- 3.3. We agree with the recommendation and effective May 15, 2006, staff will reissue guidelines for providing Hospitality Services including available menu choices, and further control expenditures to align with revenues.

#### 4. **OTHER MATTERS**

- 4.1. The next examination for assistant manager is scheduled for May 2006. Based upon the results, an assistant manager certification will be issued to the incumbent. Unfortunately, this situation developed due to an extended leave of absence taken by the previous assistant manager only 30 days after assuming the position.

The training material for the second employee requiring food handler certificate, is still not available due to State department's manual being out of print. As soon as the manual becomes available, the training will be conducted and certification will be secured.

- 4.2. The Department of Facilities Operations, Maintenance has issued a work order to a vendor to extend the fire suppression system for the kitchen equipment. Currently, the project is scheduled to be completed by June 1, 2006.



The School Board of Miami-Dade County, Florida, adheres to a policy of nondiscrimination in employment and educational programs/activities and programs/activities receiving Federal financial assistance from the Department of Education, and strives affirmatively to provide equal opportunity for all as required by:

**Title VI of the Civil Rights Act of 1964** - prohibits discrimination on the basis of race, color, religion, or national origin.

**Title VII of the Civil Rights Act of 1964**, as amended - prohibits discrimination in employment on the basis of race, color, religion, gender, or national origin.

**Title IX of the Education Amendments of 1972** - prohibits discrimination on the basis of gender.

**Age Discrimination in Employment Act of 1967 (ADEA)**, as amended - prohibits discrimination on the basis of age with respect to individuals who are at least 40.

**The Equal Pay Act of 1963**, as amended - prohibits sex discrimination in payment of wages to women and men performing substantially equal work in the same establishment.

**Section 504 of the Rehabilitation Act of 1973** - prohibits discrimination against the disabled.

**Americans with Disabilities Act of 1990 (ADA)** - prohibits discrimination against individuals with disabilities in employment, public service, public accommodations and telecommunications.

**The Family and Medical Leave Act of 1993 (FMLA)** - requires covered employers to provide up to 12 weeks of unpaid, job-protected leave to "eligible" employees for certain family and medical reasons.

**The Pregnancy Discrimination Act of 1978** - prohibits discrimination in employment on the basis of pregnancy, childbirth, or related medical conditions.

**Florida Educational Equity Act (FEEA)** - prohibits discrimination on the basis of race, gender, national origin, marital status, or handicap against a student or employee.

**Florida Civil Rights Act of 1992** - secures for all individuals within the state freedom from discrimination because of race, color, religion, sex, national origin, age, handicap, or marital status.

**School Board Rules 6Gx13- 4A-1.01, 6Gx13- 4A-1.32, and 6Gx13- 5D-1.10** - prohibit harassment and/or discrimination against a student or employee on the basis of gender, race, color, religion, ethnic or national origin, political beliefs, marital status, age, sexual orientation, social and family background, linguistic preference, pregnancy, or disability.

*Veterans are provided re-employment rights in accordance with P.L. 93-508 (Federal Law) and Section 295.07 (Florida Statutes), which stipulate categorical preferences for employment.*



**Miami-Dade County Public Schools**  
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