

Miami-Dade County Public Schools



Office of Management and Compliance Audits
2005 Annual Report



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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July 8, 2005

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:

I am pleased to present this report in accordance with Board Rule 6Gx13- 2C-1.14, which states that: "The Chief Auditor will make an annual report to the Audit Committee, to the School Board and to the Superintendent of Schools on the results of auditing activities." In addition, Board Rule 6Gx13- 2C-1.14, also states that "The Chief Auditor will submit to the Audit Committee, the Superintendent of Schools and the School Board for review a comprehensive Annual Plan for a year. This Plan should identify the overall audit scope of scheduled examinations in both financial and non-financial areas." Accordingly, I am pleased to present this annual report and audit plan.

The Office of Management and Compliance Audits will continue to promote effective controls, evaluate operational effectiveness and identify opportunities to more efficiently and cost effectively deliver education and other services to the children of our county. We are committed to providing you with quality information to assist you in decision-making and fulfilling your duties and responsibilities.

We appreciate the support and encouragement you have provided and the cooperation of the District staff.

Sincerely,

Allen M. Vann, CPA

Chief Auditor

Office of Management and Compliance Audits

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INTRODUCTION

The School Board's Audit Committee supervises auditing activities at the School District. This includes the work of external auditors and the activities of our internal auditors, the Office of Management & Compliance Audits. The Audit Committee also reviews the work of many other auditors who provide financial audits on charter schools and other component units of the School District. The Office of Management and Compliance Audits assists the Audit committee in these reviews. The Committee also reviews the work of the State Auditor General, who has had resident auditors at the School District for a number of years.

The purpose of all this audit activity is to provide assurance to Federal, State and local stakeholders, including the School Board of Miami-Dade County that the funds provided to the School District are being expended in accordance with their intended purpose. This translates into providing a quality education to the children of the county in a safe and nurturing environment.

Auditors and the assurance services they provide are integral to the internal control structure of the District. We coordinate internal audit activities so as to best achieve the audit objectives of the school system and the objectives of the Audit Committee and the administration. The Chief Auditor keeps abreast of new developments in the school system by attending the School Board meetings and meetings of school system-wide committees. The Chief Auditor also acts as liaison between the school system and external auditors (federal, state and independent auditors). The Office of Management and Compliance Audits assists the Audit Committee and the Superintendent by monitoring the responses from school system officials to audit findings and recommendations made by the external auditors.

The objectives of the many audits generally include:

- Examinations of the financial statements in accordance with generally accepted auditing standards.
- Ascertaining the reliability and adequacy of accounting and reporting systems and procedures.
- Appraisal of the adequacy and effectiveness of internal controls.
- Assuring compliance with policies and procedures established by the School Board and the administration, and with state and federal laws and regulations.
- Improving the efficiency of the school system's operations by providing recommendations in audit reports.
- Ascertain the extent to which the assets of the school system are accounted for and safeguarded from loss.

A listing of the audit reports presented to the Miami-Dade County School Board through its Audit Committee follows.



AUDIT REPORTS ISSUED BY THE OFFICE OF MANAGEMENT AND COMPLIANCE AUDITS

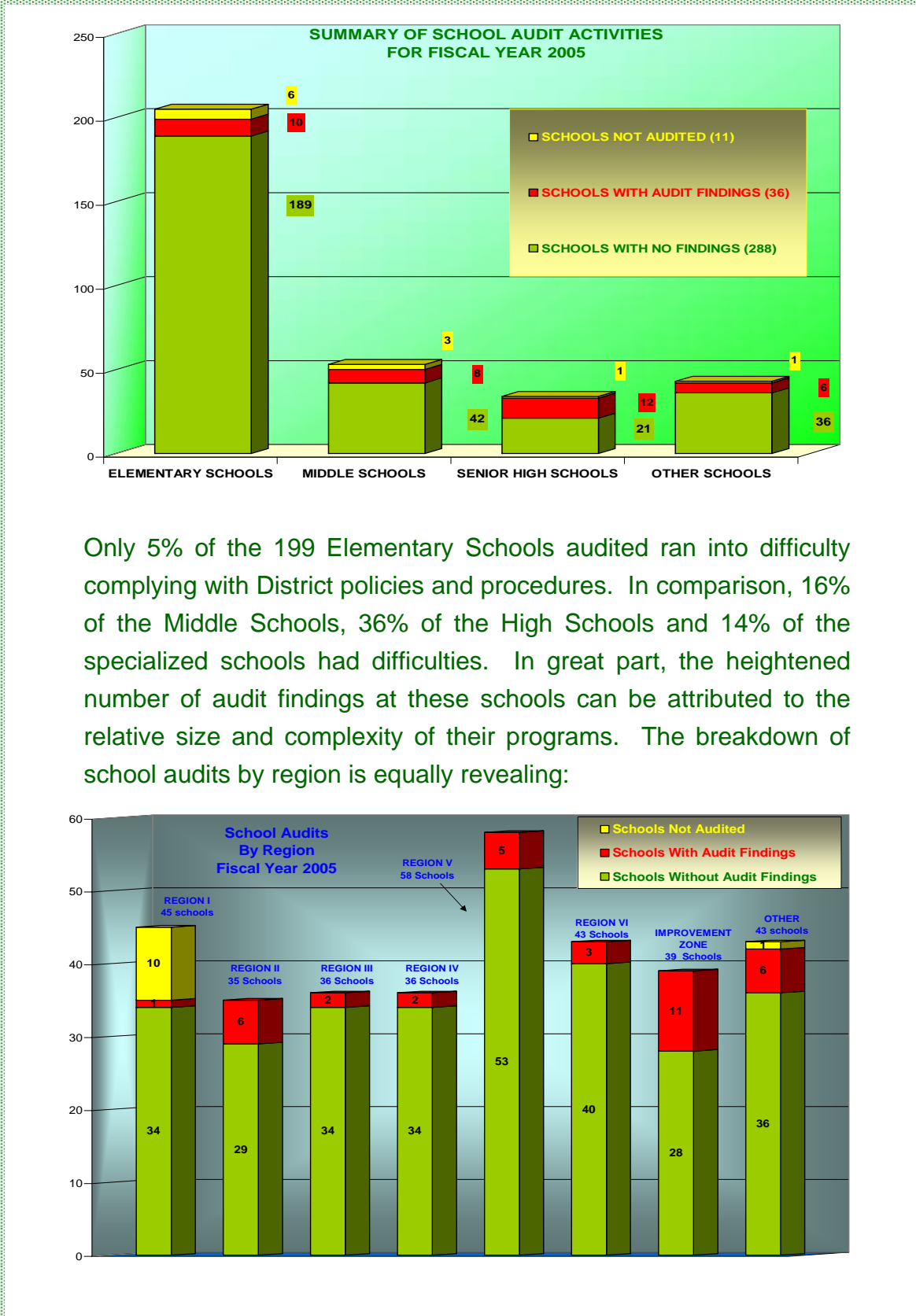
We have listed audits prepared by the Office of Management and Compliance Audits into three categories: 1) school audits, 2) property and inventory audits and 3) other internal audits. During Fiscal Year 2005 our office conducted 324 audits at the District's schools and an additional 492 property audits and a dozen other internal audits and reviews. Details follow.

SCHOOL AUDITS

Florida Dept. of Education Rule 6A-1,087 entitled *School Board Responsible for Internal Funds* requires school boards to provide for an annual audit of internal funds. At these schools we reviewed internal funds, payroll procedures, food and nutrition program procedures, purchasing credit card transactions and certain IT reports. During the fiscal year our auditors visited and completed audits at 324 of the 335 schools in the District (97%). This represents a 28% increase over last year. Only eleven schools weren't visited by year-end.

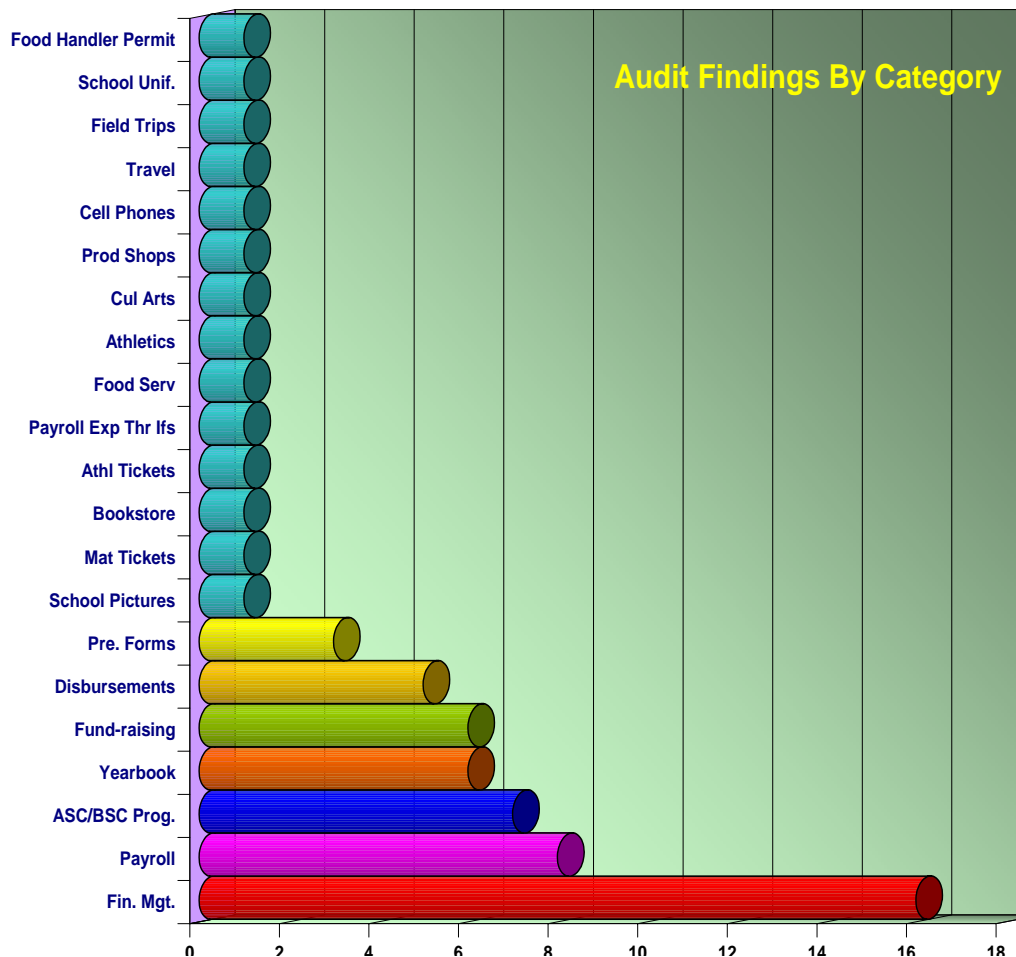
Our success in auditing the schools relates directly to the revised strategy we introduced last year based on evaluating risk at each and every school based on materiality, past audit findings/experience, principals' tenure, etc. Based on this assessment, we determined the scope of audit work at each school. Full scope audits were conducted at 56% of the schools (which included 81 schools with new Principals). 18% of our audits were reduced in scope and 26% were more analytical in nature.

We found that 288 schools (89%) conducted their financial affairs in accordance with District policies and had good internal controls. However, at 36 schools (11%) there was room for improvement. The following graph depicts the breakdown of District schools arranged by Elementary, Middle, Senior High and other schools (Alternative, Vocational, etc.).



The heaviest concentration of schools with audit exceptions was in the Improvement Zone Schools. We found that 28% of these schools need to pay greater attention to their business practices. Schools in the Improvement Zone are in greater need of improvement academically and it should be no surprise that they require more attention focused on the conduct of their financial affairs as well.

Audit findings at the schools were concentrated in the areas of financial management, payroll and timekeeping practices. The Before and After Care Programs, Yearbook sales and fund raising activities. Disbursements in general were also problematic as summarized in the chart below:



PROPERTY AND INVENTORY AUDITS

Property Audits

The Office of Management and Compliance Audits is responsible for ensuring that the School District is accountable for all of its personal property. An inventory of all property shall be taken once each fiscal year to verify the presence of listed property items at each designated location, in compliance with the Rules of the Auditor General, Chapter 10.400, and Section 274.02, Florida Statutes Record which states:

- The word “property” as used in this section means fixtures and other tangible personal property of a non-consumable nature the value of which is \$1,000 or more and the normal expected life of which is one year or more.
- Each item of property, which it is practicable to identify by marking, shall be marked in the manner required by the Auditor General. Each governmental unit shall maintain an adequate record of its property, which record shall contain such information as shall be required by the Auditor General. Each governmental unit shall take an inventory of its property in the custody of a custodian whenever there is a change in such custodian. A complete physical inventory of all property shall be taken annually, and the date inventoried shall be entered on the property record. The inventory shall be compared with the property record, and all discrepancies shall be traced and reconciled.

Our property auditors completed physical inventories at 492 District work locations. They accounted for personal property valued at \$422 million and reported \$175 thousand worth of unlocated items. The loss rate for the year was only 0.04%, a threefold improvement over last year.

Audit of Inventories as of June 30, 2004

The Office of Management and Compliance Audits has audited the inventories as of June 30, 2004 of the following departments:

| Department | Amount |
|----------------------------------|--------------|
| Textbook Inventory Services | \$17,400,000 |
| Food and Nutrition | 4,500,000 |
| Stores and Mail Distribution | 3,000,000 |
| Maintenance Materials Management | 1,750,000 |
| Transportation | 650,000 |
| Total | \$27,300,000 |

We concluded that the District's centralized inventories were fairly stated in the Annual Financial Report for the fiscal year ended June 30, 2004. Our audit also concluded that the control environment for conducting the year-end physical inventory process and for managing these inventories is adequate. Over 63% of the reported inventory at year end is composed of textbooks that are ordered during the months of February through June and paid using the subsequent year's budget, as allowed by Florida Statutes, to satisfy the administration's intent that students have their textbooks on-hand by school opening in late August. Food and Nutrition inventories composed of purchased foods and supplies, and food commodities donated by the Federal Government represented another 16% of the reported inventories at fiscal year end. The remaining inventories were composed of classroom, office and custodial supplies maintained at the Stores and Mail Distribution Warehouse; maintenance parts and supplies maintained by Maintenance Materials Management; and fuel, tires, and parts maintained by the Department of Transportation.

OTHER INTERNAL AUDITS

Assessment of District Departmental Functions and Positions

We prepared a compilation and performed a review of materials provided by the various departments through their respective Deputy Superintendent or Cabinet member concerning an assessment of the District Department's administrative functions and positions. Based on our inquiries and tests, nothing came to our attention that the information reported was materially inaccurate. We concluded that the documents provided and attendant summarization was consistent in presentation, verifiable and comparable. Accordingly, the Superintendent used the information to submit a reorganization, which was approved by the Board, resulting in the elimination of unneeded non school positions and the redeployment of staff.

Federal E-Rate Program Review

The purpose for our review was to determine whether the School District could demonstrate that it could adequately support its funding requests to the federal government, could account for the funded equipment, and identify if discrepancies exist between approved funding requests and amounts paid by the District and/or federal government to the service providers or if services or equipment were not provided.

As agreed, we sampled 19% of the dollar value of selected service provider transactions during the 1998 and 1999 funding years and concluded that M-DCPS can adequately document its program participation. We also successfully verified the physical existence or disposition of equipment purchased. However, we found numerous discrepancies between the School District's actual purchases and the amount reimbursed to service providers by the federal government resulting in overpayments. This likely resulted because some service providers invoiced the Federal Government directly based on the approved funding requests instead of actual services and equipment furnished. This, in our opinion, was an intrinsic control weakness in how the federal government administered the E-Rate Program during its early years.

Using the results of our audit, the Deputy Superintendent for Business Operations, obtained a release of the funding moratorium from the Federal Government. Subsequently, the District submitted a request claiming \$110 million in eligible past spending and estimates that may result in an initial minimum reimbursement of \$48 million in Federal cost sharing.

Opportunities to Streamline Procurement Processes

We concluded that the control environment for centralized procurement is adequate to assure that the function is executed in compliance with the applicable laws, rules, and industry best practices, and that the function is performing well when compared to other school districts. We did find, however, that there are opportunities to streamline the procurement system by reducing the number of small transactions and increasing the use of the credit card program. We also noted that the procurement system is labor intensive and that productivity could improve by identifying opportunities to streamline the manner in which requisitions are processed into purchase orders. Procurement's policies and procedures while thorough need to document the existing practice of price-benchmarking when new bids are issued and should consider disclosing price comparisons when contracts are renewed.

Audit of the Compensation Administration Function

The purpose of our review was to determine the adequacy of the control environment for the compensation process and compare current practices to those of similar public agencies. During the 2003-04 fiscal year, Human Resources' Compensation Administration Department estimates that it processed over 230,000 salary adjustments and payments for supplements, stipends, tuition reimbursements and other transactions totaling nearly \$300 million.

Based on our audit, we concluded that the control environment needs certain improvements to prevent ineligible payments of supplements, stipends, and salary step increases. There is also a need to reduce the number of salary supplements to more manageable levels, and to improve the detection and collection of overpayments. We recommend that Compensation Administration work with Payroll and ITS to enhance the preventive and detective controls to reduce incorrect pay rates and steps on a timelier basis. Review procedures for processing salary step increases and pay raises, supplements and stipends, and develop addendum contracts for supplements paid to employees can be enhanced. In order to strengthen the collection of overpayments, stronger policies and procedures need to be adopted.

Audit of Internal Control Procedures over Monies Collected At Non-School Departments

This report concluded that the non-school departments have different procedures for collecting monies; internal controls over the collections could be improved and there are opportunities to make the process more efficient; and there are no written procedures for the collection of monies at District offices and departments.

Audit of Contractor Pre-Qualification Process

This report highlights that, in general, the contractor pre-qualification process is executed in compliance with Florida Department of Education rules and Florida Statute. We did, however, find that the Pre-qualification Department does not have a written policies and procedures manual; needs to verify and authenticate information submitted by contractors on a more consistent basis; and needs to strengthen the existing pre-qualification School Board rule regarding the renewal of contractors' pre-qualification certificates. While the Contractor Pre-qualification Review Committee meetings are recorded, meeting minutes have not been timely transcribed. Also staff needs to develop the infrastructure required to effectively execute the delinquency and suspension provisions of the School Board pre-qualification rule.

Audit of the Contractor Evaluation Process

The objectives of the audit were to determine whether the process evaluates facilities service providers consistently and timely; allows for appropriate actions to be taken against poor performers; uses adequate tools and systems to achieve its purposes; and allows for a proper level of involvement by users of the facilities. The scope of our audit covered an examination of the current operations and involved contractor performance evaluation going back over three years.

We found that the contractor performance evaluation process is only marginally effective. Contractors are evaluated, but not consistently, and evaluation results are not consistently used as a factor in future contracting decisions. When completed, evaluations are completed timely; however, end users are not part of the evaluation process and evaluation results are not consistently communicated to contractors to allow for their review and comment prior to finalizing results. While the criteria used in the process are reasonably adequate, they could be enhanced by including criteria relating to the quality of the work in place. The entire process needs to be guided by substantive written procedures, instructions and definition of criteria. The management, monitoring, storing, and disseminating of evaluation information should be centralized.

Improvement Needed in the Award and Administration of Architectural and Engineering Contracts

We found that architectural and engineering (A/E) fees negotiated by the District are in line with those of its peer group and industry. In general, design professional service contracts are written in terms that appear to protect the District's interest and limit risk. The A/E selection process appears to be objective, and conforms to the Consultant's Competitive Negotiation Act (CCNA) and applicable Federal Acquisition Regulations (FAR).

We did, however, find that contracts are often not executed; some contracts do not delineate penalties for not complying with certain contract requirements; the maintenance of negotiation files was inadequate; the negotiation efforts over “reimbursables” and additional services need to be improved; there were inconsistencies in awarding points to competing A/Es in the RFP process; and late payments for A/E services.

Audit of Asbestos Abatement and Mold Remediation Program

This internal audit report concludes that while the inspection, monitoring, and reporting system for asbestos abatement efforts is well designed, improvements are needed for mold and mildew remediation efforts. Further, inconsistent application of procedures created a number of deficiencies in the areas of internal controls, project file documentation, cost control, and management oversight and review. The resulting effect is that within the sample of projects we examined, we identified approximately \$104,000 in project costs that the District may not have needed to incur, and an additional \$86,000 in costs that are not supported by adequate documentation.

Audit of Police Department Security and Crime Statistics

We concluded that the department adequately accumulates and maintains security and crime statistics using the School Police Automated Reporting System and the School Environmental Safety Incident Reporting System.

Audit of Outside Legal Fees

We performed an annual audit verifying the amount and propriety of expenditures for outside legal fees.

Review of Controls over Blood Drives

We performed a limited review of the Bureau of Community and Hospitality Services' controls over this program and verified that the District's interests are protected and followed up on past audit results. The companies contracted to collect blood at various schools and other District locations, donate \$20 per pint to the College Assistance Program of Miami-Dade County. As a result of our review, the Office of Community Services agreed to work with Risk Management to ensure that companies submit proof of all required insurance coverage and they agreed to perform quarterly reconciliations of blood collection activities. The program was otherwise being managed in a satisfactory manner.

Investigative Audits

During the year we performed forensic audits at three schools or locations. Also several referrals to either the Office of Inspector General or the Police Department were made based on our audit work. Our District Director of Compliance Audits served as a witness for the District in a fraud case leading to dismissal of an employee who had been involved in improprieties.



AUDIT REPORTS ISSUED BY EXTERNAL AUDITORS**AUDITOR GENERAL REPORTS:**

The following reports audits prepared by the Auditor General were presented to the Audit Committee:

| Report Number | Report Title |
|----------------------|--|
| 2005-022 | Report on Miami-Dade County District School Board, Information Technology Audit |
| 2005-028 | Report On Significant Findings and Financial Trends in Audits of District School Boards for the Fiscal Year Ended June 30, 2004 |
| 2005-054 | Report on Significant Findings and Financial Trends Disclosed in Charter School and Charter Technical Career Center Audit Reports Prepared by Independent Certified Public Accountants for the Fiscal Year Ended June 30, 2003 |
| 2005-072 | Review of Charter School, Charter Technical Career Center and District School Board Audit Reports Prepared by Independent Certified Public Accountants for the Fiscal Year Ended June 30, 2003 |
| 2005-074 | Miami-Dade County District School Board Capital Construction Funding Activities during the Period July 1, 2002 through June 30, 2003, and selected actions taken through May 2004 |

OTHER FINANCIAL AUDITS:

The following financial audits of the School and its component units were conducted by independent certified public accounting firms.

| Audit Title | Auditor |
|--|---------------------------------|
| Comprehensive Annual Financial Audit Report and Management Letter: The School Board of Miami-Dade County, Florida, June 30, 2004 | Ernst & Young, LLPs |
| The School Board of Miami-Dade County, Florida, Single Audit Reports (in accordance with Office of Management and Budget Circular A-133) Year ended June 30, 2004 | Ernst & Young, LLPs |
| Audit Report of the WLRN Television and Radio Stations for the Fiscal Year ended June 30, 2004 | Sanson, Kline and Jacomino, Co. |
| Audit of the Dade Schools Athletic Foundation, Inc. for the Fiscal Year ended June 2004 | Sanson, Kline and Jacomino, Co. |
| Audit of the Miami-Dade Coalition for Community Education, Inc. for the Fiscal Year ended June 30, 2004 | Sanson, Kline and Jacomino, Co. |
| Audit of the Magnet Educational Choice Association, Inc. (MECA) for the Fiscal Year ended June 30, 2004 | Sanson, Kline and Jacomino, Co. |
| The School Board of Miami-Dade County, Florida, Educational Facilities Impact Fee Fund, Annual Financial Statements, June 30, 2004 | Grau & Company, PA, CPAs |
| Educational Facilities Impact Fees Agency Funds of Miami-Dade County, Florida, combined Financial Statements, as of September 2004 (with Independent Certified Public Accountants' Report Thereon) | Ernst & Young, LLPs |

EXTERNAL AUDITS OF CHARTER SCHOOLS:

Charter schools must be audited each year. Our office receives and reviews these audit reports before they are presented to the Audit Committee and the School Board. The following audits were received during 2004-05:

| Charter School | Auditor |
|-------------------------------------|--|
| Archimedean Academy, Inc. | Verdeja & Gravier, CPAs |
| ASPIRA Eugenio Maria de Hostos | Grau & Company, PA, CPAs |
| ASPIRA North | Grau & Company, PA, CPAs |
| ASPIRA South | Grau & Company, PA, CPAs |
| Aventura Charter Elementary | Keefe, McCullough & Co., LLP, CPAs |
| Coral Reef Montessori | Sanson, Kline, Jacomino & Co., LLP, CPAs |
| The Doral Academy, Inc. | Verdeja & Gravier, CPAs |
| Doral Academy Middle School | Verdeja & Gravier, CPAs |
| Doral Academy High School | Verdeja & Gravier, CPAs |
| Downtown Miami Charter School, Inc. | Grau & Company, PA, CPAs |
| Florida International Academy | Keefe McCullough & Co., LLP, CPAs |
| Gibson Charter School | Verdeja & Gravier, CPAs |
| Keys Gate Charter School | McGladrey & Pullen, LLP, CPAs |
| Liberty City Charter School | S. Davis & Associates, PA, CPAs |
| Mater Academy | Verdeja & Gravier, CPAs |
| Mater Academy High School | Verdeja & Gravier, CPAs |
| Mater Academy East | Verdeja & Gravier, CPAs |
| Mater Academy Middle School | Verdeja & Gravier, CPAs |
| Miami Shores/Barry University | Sanson, Kline, Jacomino & Co., LLP, CPAs |
| North County | McGladrey & Pullen, LLP, CPAs |
| Northeast Academy | McGladrey & Pullen, LLP, CPAs |
| Pinecrest Preparatory Academy | Verdeja & Gravier, CPAs |
| Pinecrest Academy Middle School | Verdeja & Gravier, CPAs |
| Rosa Parks Charter School Fl. City | L. Brown and Company, PA, CPAs |
| Rosa Parks Comm. School Overtown | L. Brown and Company, PA, CPAs |
| Ryder System Charter School, Inc. | McGladrey & Pullen, LLP, CPAs |
| Sandor Weiner School of Opportunity | Keefe, McCullough & Company, LLP, CPAs |
| Spiral Tech Elementary School | Harvey, Branker & Associates, PA, CPAs |
| Vankara Academy | Harvey, Branker & Associates, PA, CPAs |
| Youth Co-Op Charter School | Ocariz, Gitlin & Zomerfeld, LLP, CPAs |

EXTERNAL AUDITS OF COMMUNITY-BASED ORGANIZATIONS:

Annual contracts with providers of Alternative Education services require financial audits that are received and reviewed by our office before they are presented to the Audit Committee and the School Board. The following audits were received during 2004-05:

| Community-Based Organizations | Auditor |
|--------------------------------------|---|
| Icare Baypoint Schools, Inc. | Morrison, Brown, Argiz & Farra, LLP, CPAs |
| The Alternative Programs, Inc. | London Witte & Company, CPAs |
| Dade Marine Institute, Inc. | Gallogly, Fernandez & Riley, LLP, CPAs |
| Richmond-Perrine Optimist Club, Inc. | Nzeribe & Company, PA, CPAs |
| Wings for Life, Florida | Gallogly, Fernandez & Riley, LLP, CPAs |
| Pace Center for Girls, Inc. | Smoak, Davis & Nixon LLP, CPAs |
| Vankara Education Center, Inc. | W.B. Koon & Company, CPAs |
| Ad. Mankind Org.-Ed. Division, Inc. | Magram & Magram, PA, CPAs |
| Recapturing the Vision Intern., Inc | W.B. Koon & Company, CPAs |
| OMBUDSMAN Ed. Services, Ltd. | Reicin, Pollack & Company, Ltd., CPAs |
| Cuban Am. National Council, Inc. | Grau & Company, PA, CPAs |
| James E. Scott Comm. Assoc., Inc. | Watson Rice, LLP, CPAs |



OTHER REPORTABLE ACTIVITIES

- A Peer Review of our office conducted by the National Association of Local Government Auditors concluded that our internal quality control system was suitably designed and operating effectively. The peer review team found that we were performing our audits in accordance with professional standards. The peer review team offered some suggestions for enhancing our procedures and policies. In particular, we have strengthened our recordkeeping for tracking continuing professional education and controls and procedures for file maintenance.
- Pursuant to Board rule, internal audit staff has been actively participating in a number of committees. For example, we attend the design and construction selection and negotiation committee. In this capacity, we serve not only as non-voting (advisory) members, but also in the role of quality assurance. Internal audit staff verifies the calculations of each voting committee members and the final scoring/tabulation for accuracy, and ensure that the process is conducted fairly and objectively. We also attend various other procurement related committees as non voting observers/participants.
- The Office of Management and Compliance Audits provides logistical support to the School Board's Ethics Advisory Committee. This committee, which meets regularly helps ensure the integrity of the Board's decision making processes and promotes standards of ethical conduct, clarifies those standards of conduct and recommends changes to the various rules and regulations, which set forth the governing standards of ethical conduct.

2006 INTERNAL AUDIT PLAN

The Annual plan was presented and accepted by the Audit Committee at its June 28, 2005 meeting. The development of the plan was shaped using a systematic approach to help us decide what audits need to be done. The planning process helps us to develop the theme for our audits and identify an appropriate mix of various types of necessary performance and financial audits.

Effective audit planning is crucial to the success of the Office of Management and Compliance Audits. It is based on three basic elements:

- 1) Understanding the School District's programs and operations,
- 2) assessing risk, and
- 3) applying judgment.

These three elements are interdependent; that is, without an understanding of programs and operations, we can't assess risk; and assessing risk depends largely on the auditor's judgment. Within the School District, the auditable unit could be a school, program, project, contract(s), organizational unit, function, activity, and/or data system. Our planning process involves identifying the auditable universe, identifying the risks associated with various programs and operations, designing and gaining Audit Committee approval of the audit plan and performing individual internal audits.

While the scope and assignment of audits remains the primary responsibility of the Chief Auditor, input from senior staff and the Audit Committee are essential to preparing a successful work plan.

Risk Analysis:

Risk is significantly different from an internal auditor's perspective than it is for a financial auditor. Internal audits, unlike financial audits, cannot be conducted on an annual audit cycle. The audit universe is too large, the auditable elements too diverse and the cost of the audits too high. Also, at the School District, risk is difficult to assess; while we do have a programmatic budget, we have just begun the process of strategic planning, which incorporates a working performance measurement system that ties inputs to outputs and outcomes. Therefore, some aspects of our risk attributes are not currently quantifiable or may only be measured in a general range, with less precision. Even so, traditional risk assessment, as used in internal auditing, is a good place to start.

Because of the unique nature of the School District, we prepared two separate risk assessments. The first risk assessment considers the entire district by organization and fund type. Our quantitative approach considers factors unique to the School District to which a number is assigned based on the likelihood of occurrence and impact on the organization. The cumulative value is then ranked to determine whether audit work should be considered in a particular area. The five factors we considered in our district-wide risk assessment are materiality, past audit coverage, internal and external risks and information risk.

Actual expenditures and budgets for previous and current fiscal years were reviewed and compared, and previously prepared risk assessments of the District's operations, activities, and functions were consulted. We found that the most ubiquitous risks to the District's mission revolve around school operations, capital programs, maintenance of infrastructure, data integrity and reliability, and regulatory compliance. Certain District functions, such as construction represent high risk due to the mere magnitude of the financial resources consumed and the downside of not meeting mandated requirements. Others, such as emergency management have intrinsic risks that are not necessarily tied to the applicable department's budget. Functions such as purchasing represent high risk. This is due to the nature of the activity where independence, objectivity, and integrity are essential.

Because of the unique nature of the School Boards operations and State mandated audit requirements, a second risk assessment for the six regional centers were prepared. This risk assessment covers 335 schools and centers. There is approximately \$1.7 billion in annual payrolls, \$400 million in Title I funding, \$76 million in local internal fund activities, \$26 million of direct sales under the food and nutrition program and \$4 million in procurement credit card activity. We evaluated risk at each and every school based on materiality, past audit findings/experience, principals' tenure, etc. Based on this assessment, we determined the scope of audit work at each school.

Instead of doing full scope audits at every school/facility, we will perform full scope audits at high risk schools, limited scope audits at medium risk schools and analytical audits at low risk schools. Our risk based approach for schools resulted in a 28% increase in the number of schools completed in FY 2005 over that in FY 2004. Recently, the Superintendent approved an addition of one new audit position for the school audit staff, which will allow us to expand our coverage to testing compliance with federal grant requirements, specifically at schools receiving Title I funds.

In addition to the risk of doing business a good portion of the Internal Audit plan is mandated. The following table illustrates this:

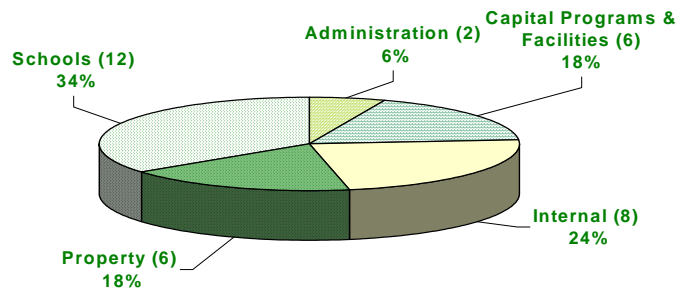
| | |
|--------------------------------|-------------------------------------|
| School Audits | Florida Dept. of Education Rule |
| Property Inventory Audits | State Statute |
| Internal Audits | Board Rules/Good Business Practices |
| Facilities/Construction Audits | Board Rules/Good Business Practices |

Budget/Audit Resources:

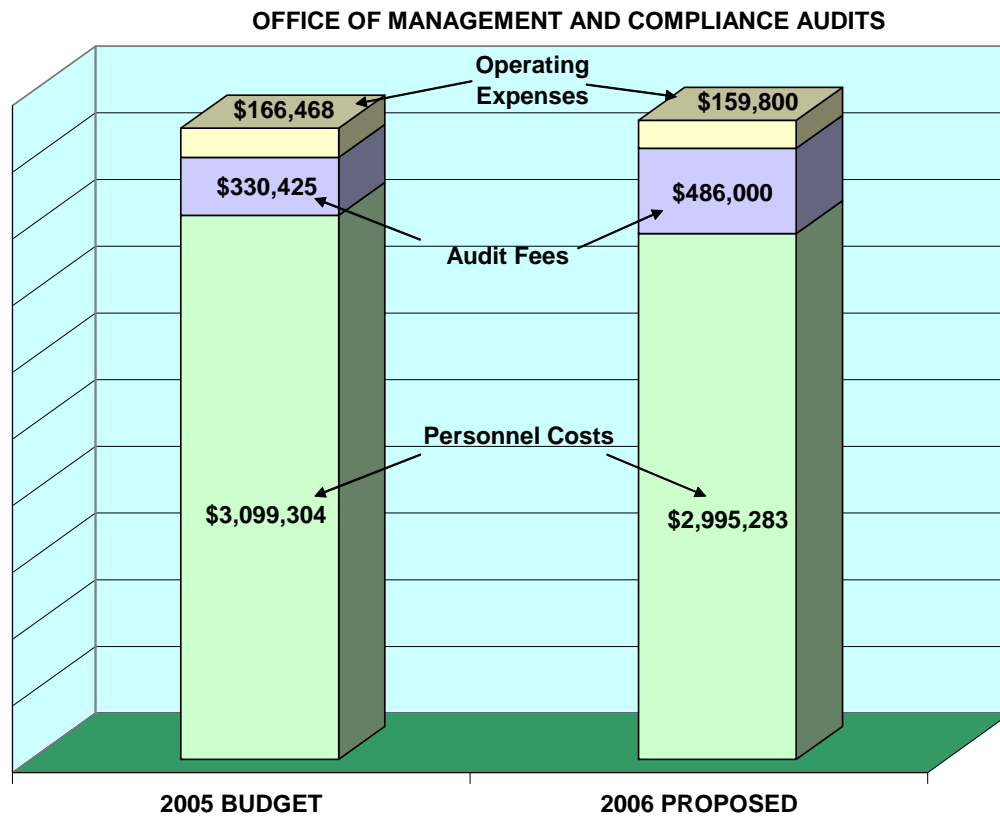
The comprehensive audit plan also helps us to determine how we can best allocate our resources and capitalize on our individual strengths. Staffing patterns changed during Fiscal Year 2004-2005. We reduced the number of property Auditors by two to account for the reduction in scope of these audits. Whereas in FY 2003-2004 we performed physical inventory counts of all property with an individual cost of \$750 or more and other sensitive property such as computers and hand held radios, during the current fiscal year we only counted property costing \$1,000 or more. This significantly reduced the workload for our Property Auditors. We also eliminated two Information Technology audit positions and plan to outsource this activity. During FY 2005-2006 we plan to add an Audit Director to the Schools audit unit.

The following chart illustrates how our professional staff will be assigned by issue area:

Office of Management and Compliance Audits
Resource Allocation of Professional Staff



The net effect of the resource changes will have a nominal impact on the amount spent by the School District for audit assurance services. The graph on the following page compares the 2005 budget to the proposed spending for 2006.



We plan to reduce the amount spent in-house but this will be offset by an increase in work performed by outside auditors. The overall proposed budget for audit services totaling \$3.6 million represents only a modest increase of 1¼% from last year.

Conclusion:

By arraying the pattern of past audit coverage of schools, departments and programs and their respective budgets, we were able to combine our knowledge of potential audit areas from our assessment of risk, and professional judgment to arrive at a list of new audits presented in the following table.

| Miami-Dade County Public Schools - Office of Management and Compliance Audits - 2006 Audit Plan | | | |
|---|--|---|---|
| Departments | Audit | Background | Objectives |
| SCHOOL AUDITS: | | | |
| School Operations; School Improvement Zone Operations; and Inter-Governmental Affairs and Grants Administration | Audit of Schools | Florida Dept. of Education Rule 6A-1.087 entitled School Board Responsible for Internal Funds requires school boards to provide for an annual audit of internal funds. At MDCPS there are 331 schools having internal funds with total receipts of \$79 million. These schools have substantial payroll, food service, and purchasing credit card activities. Additionally, the schools receive approximately \$400 million annually from federal funds including Title I funds and are held to strict spending standards to ensure that services are provided to eligible segments of the student population. Pursuant to the reorganization and realignment of District offices, the function of evaluating compliance with legal and spending requirements associated with these federal programs will be more effectively and efficiently performed when incorporated as a component of the internal audits of the schools. | We will express an opinion on the financial statements of the schools; evaluate compliance with policies and procedures for internal funds, payroll, procurement card, food service programs, and IT controls; evaluate compliance at the school level for spending of federal funds including Title I and other grant funds; and evaluate the internal control at the schools to determine the extent to which the control components established by the District administration promote compliance with the established policies and procedures at the schools. |
| Division of Athletics and Activities (Under School Operations) | The Greater Miami Athletic Conference (G.M.A.C.) | The Greater Miami Athletic Conference (G.M.A.C.) in cooperation with the Florida High School Activities Association (FHSA) regulates and promotes interscholastic athletic activities among all MDCPS high schools. This department is housed at the District and has its own internal funds checking account. FY 03-04 receipts were \$100,997. | We will audit the internal funds financial statements; evaluate adequacy of internal controls and record keeping to ensure compliance with <u>Manual of Internal Fund Accounting</u> and Board rules. |
| | Dade County Athletic Equalization Fund | The Dade County Equalization Fund was established to aid the athletic programs at senior high schools in financial distress. At June 30, 2004 the balance in that fund was \$15,452. | We will audit the internal funds financial statement of this Fund; evaluate adequacy of internal controls and record keeping to ensure compliance with rules and policies. |
| Business Operations/ Office of School Facilities | Hospitality Services (Dining Facilities) | Hospitality Services operates two employee dining facilities and 22 vending machines at School Board Headquarters. Profits from these machines are transferred to the Hospitality account to provide food services for meetings held by District offices, as authorized by School Board Rule 6Gx13- <u>3D-1.022</u> . FY 03-04 receipts were \$ 585,748. | Perform an audit to express an opinion on the financial statements; evaluate compliance with the policies and procedures regarding internal funds and payroll; and evaluate the internal controls. |

2006 Audit Plan

| Miami-Dade County Public Schools - Office of Management and Compliance Audits - 2006 Audit Plan | | | |
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| Departments | Audit | Background | Objectives |
| PROPERTY INVENTORY AUDITS: | | | |
| District-wide | Property Inventories | During FY 03-04 our auditors accounted for M-DCPS property costing \$443 million. According to State Statute: "A complete physical inventory of all property shall be taken annually... be compared with the property record, and all discrepancies shall be traced and reconciled." Results of counts are reported in the school audit reports. | We will perform physical inventory counts of all property with a cost of \$1,000 or more. Over 500 work locations will be inventoried. Discrepancies will be traced and reconciled to accounting records. |
| Various | Audit of Year-end Inventory | At the end of each Fiscal Year inventories are taken at Food and Nutrition, Transportation, Maintenance and Materials Management, Stores and Mail Distribution, and Textbook Inventory Services. | Observation of, and participation in, year end inventory-taking and valuation processes in listed departments. |
| INTERNAL AUDITS: | | | |
| Procurement Management | Limited Scope Review of Food Purchases | Food purchases total over \$53 million annually. Voluminous numbers of invoices are submitted to Accounts Payable where they are manually matched to receiving records and processed for payment. Although large blanket purchase orders are issued to vendors, most transactions are executed as frequent small orders that are manually placed and received by schools. Management is studying ways to reengineer the food and commodities purchasing system. | We will assist management in their reengineering efforts by reviewing purchasing and accounts payable operations to compare costs with other school districts and evaluate whether controls and processes can be streamlined. |
| Office of Exceptional Student Education (ESE) | Exceptional Student Program | The ESE Program has over 52,000 students classified into approximately 18 exceptionality categories as of FY 04-05. These categorical programs are funded by Federal and State grants, FEFP categorical and general appropriations, and local revenues that fund the ESE teachers and other expenditures. | Review program and grant requirements, test compliance with eligibility criteria, funding, and expenditures charged to grants and State appropriations. |
| Office of Charter Schools | Charter School Operations and Controls | As of FY 04-05, the District sponsors 40 Charter schools with student enrollment of 13,573, at a cost in excess of \$87 million. As the sponsoring school district, M-DCPS is statutorily responsible for substantial monitoring and oversight, including fiscal, operational, health/safety and academic performance. The District is also responsible for providing certain training and technical assistance to charter schools and applicants. | Review the operations of <u>selected Charter schools</u> to ensure they are using public funds for their intended purpose and in accordance with the contractual obligations of the charter schools with the School Board. Review the District's controls over charter schools to determine efficiency and effectiveness of oversight. |

| Miami-Dade County Public Schools - Office of Management and Compliance Audits - 2006 Audit Plan | | | |
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| Departments | Audit | Background | Objectives |
| INTERNAL AUDITS (Continued): | | | |
| Curriculum and Instruction | Community Based Organizations | During FY 04-05, the District contracted with 15 community based organizations primarily for alternative education. Activities are conducted at 44 campuses serving 3,000 students and costing \$16 million. | We will review the operations of selected community based organizations to ensure they are using public funds for their intended purpose and in accordance with their contractual obligations. |
| Operations and Emergency Management | Emergency Management Procedures | M-DCPS maintains a disaster recovery plan which outlines actions necessary prior to, during, and in the aftermath of natural disasters and other emergencies. School Board Rule 6Gx13-6A-1.06 outlines the District's emergency management procedures. | We will benchmark and test guidelines and procedures to ascertain whether they are sufficient and effective. |
| Procurement Management | Property Auction Process | Pursuant to Florida Statute and School Board Rule 6Gx13-3B-1.09, the District sells excess/old vehicles, computers, furniture and other equipment. In FY 04-05, the District held an equipment auction and a vehicle auction and collected \$300 thousand in sales. | Perform tests of transactions to verify that best practices, good internal controls and compliance with rules were followed. |
| Payroll Department and various schools and departments | Limited Scope Review of Payroll | The District has in excess of 48,000 full and part time employees and an annual payroll approximating \$1.6 billion. | Perform testing to ensure adequate controls are in place to timely remove terminated employees. Follow up on April 2003 audit of Centralized Payroll Function. |
| District-wide | Limited Scope Review of Selected Non-salary Expenditures | General fund non-salary expenditures total \$558 million in FY 04-05. Some types of expenditures are inherently susceptible to waste/abuse and may present opportunities for cost reduction e.g., cell phones, credit card use, travel, contracting and furniture and fixtures, etc. | Perform analytical review procedures to identify selected non-salary expenditures for future testing for validity, propriety and potential cost saving opportunities. |
| Division of Business Development and Assistance | M/WBE Vendor Activity Report for Fiscal Year Ended June 30, 2005 | The Business Development and Assistance Program established under Rule 6Gx13- 3G-1.01 provided opportunities to over 760 certified firms. M/WBE participation averages \$115 million annually, or about 18% of annual procurement/construction expenditures. School Board Rule 6Gx13G-1.02 establishes reporting and auditing requirements for the M/WBE program. | We will review the accuracy of the M/WBE financial report, test transactions, fiscal year cut-off, classification of expenditures, adjustments for contractor/subcontractor payments and test compliance with reporting requirements and Board Rules. |

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| Departments | Audit | Background | Objectives |
| INTERNAL AUDITS (Continued): | | | |
| School Board Attorney | Legal Fees Paid to Outside Counsel | Legal fees are exempt from competitive purchasing procedures per School Board Rule 6Gx13- 3C-1.15, but require annual audits. During FY 03-04, \$5.2 million in fees were paid to 21 firms for liability litigation, workers' compensation, architectural and construction issues, and other legal services. | Review the report compilation process, and test reporting and compliance with the Board Rule. |
| District-wide | Review of External Audit Reports | Certified financial statements are provided by charter schools and community based organizations as per statute and Board rules. | Review adequacy of reports and follow-up with program staff on any notable findings. |
| District-wide | Assistance to External Auditors | WLRN, Magnet Education Choice Association, Inc., Miami-Dade Coalition for Community Education, Inc., & Dade Schools Athletic Foundation, Inc. require certified financial statement audits. | We will provide logistical assistance to external auditors in their audits. |
| Information Technology Services | Outsourcing IT Audit Function | The District's management information systems are integral to the success of all operations and core functions. In FY 03-04, M-DCPS spent \$18 million for information technology. An effective IT audit function adds assurance to the integrity of the system, and fosters the efficient use of District resources and prevention/detection of potential waste and abuse. Internal Audit needs to acquire the specific expertise necessary to perform IT application and support. | Work with ITS and Procurement Services to determine the feasibility of outsourcing the IT audit function. Develop and issue an RFP and make appropriate recommendations to Audit Committee. |
| Internal Audit | Quality Control Review | Generally Accepted Government Auditing Standards require our adherence to quality control review practices. | To ensure that Internal Audit work products are accurate, current, and complete. |
| Internal Audit | IT Support | Staff Auditors generally require technical assistance to perform certain data inquiry and computer related audit tests. | To provide necessary IT support to audit staff in IT application and support. |
| District-wide | Forensic Audits/ Investigations | This represents forensic audit work requested by and in support of the Inspector General, Police and/or Office of Professional Standards. | To provide audit assistance in forensic auditing, as needed. |

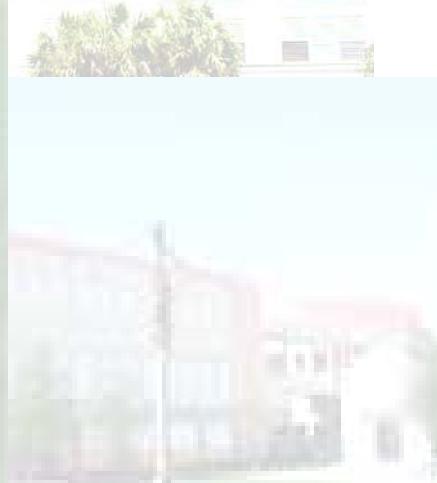
| Miami-Dade County Public Schools - Office of Management and Compliance Audits - 2006 Audit Plan | | | |
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| Departments | Audit | Background | Objectives |
| FACILITIES/CONSTRUCTION AUDITS: | | | |
| Maintenance Operations | Materials Purchasing | Maintenance spends between \$6 to \$8 million annually for materials and supplies. | We will evaluate purchasing procedures for material requisitions to determine whether materials are purchased in an effective and efficient manner. |
| Office of School Facilities | Recommendations Follow-Up | Audit follow-up is a function of the internal audit process and is required by School Board Rule 6Gx13- <u>2C-1.14</u> , Article IV.B. | We will determine whether management implemented prior audit recommendations through limited reviews and inquiries. |
| Procurement Department and Maintenance Operations | Maintenance Work Order Costs Standards | Maintenance Operations has about 900 tradespeople and is responsible for repairs at over 350 facilities. During the last fiscal year, Maintenance issued approximately 73,000 work orders with associated costs of \$82 million. | We will evaluate processing procedures for its effectiveness and efficiency and compare standard and actual unit costs and time to industry standards. |
| Land Use | Facilities Lease and Rental Agreements | M-DCPS currently has 33 active lease agreements where the School Board is the Lessee, 38 where the School Board is the Lessor, 25 between the School Board and the Miami-Dade County Parks and Recreation department and 9 park/recreation lease agreements between the School Board and other cities within Miami-Dade County. The total annual lease payments were approximately \$1.6 million for the FY 04-05, while the total lease revenues were approximately \$325,000 for the same period. | We will review the process of site selection, negotiation and award of leases for propriety, and to ensure that it is based on satisfying a legitimate need. We will also test a sample of lease payments and revenues for compliance with lease agreements and assure comparability to market rates. |
| Maintenance Operations | Maintenance Fleet Utilization | The District's Maintenance fleet is composed of approximately 900 vehicles, with an aggregate cost of \$19 million. The fleet is parked overnight at the six Maintenance Satellite yards. | We will analyze the composition of the fleet to determine whether it is at the appropriate level and is utilized efficiently. |
| Construction | Construction Contingency and Allowances | Construction project budgets include provisions for contingencies and other allowances. | We will examine the amounts budgeted and the propriety of their use. |

2006 Audit Plan

| Miami-Dade County Public Schools - Office of Management and Compliance Audits - 2006 Audit Plan | | | |
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| Departments | Audit | Background | Objectives |
| FACILITIES/CONSTRUCTION AUDITS (Continued): | | | |
| Department of Transportation & Facilities | Controls Over Fuel Inventory | Gasoline prices increased in the past 12 months by 19%. Diesel fuel increased by 49%. M-DCPS budgeted \$900,000 for gasoline, lubricants & fluids and \$5.4 million for diesel. | We will determine: 1) whether internal controls over motor fuel inventories are adequate to protect the assets; 2) whether inventories were maintained at effective and cost efficient levels; and 3) if the pricing of inventories was appropriate and the system for dispensing fuel is adequate. |
| LONG RANGE AUDITS: | | | |
| Maintenance Operations | Training Program | School facilities contain many different systems and types of complex equipment. There are approximately 900 tradespeople that need to be technically competent to maintain the equipment. | We will ascertain whether essential training is sufficiently provided to the technical staff and supervisory staff. |
| Maintenance Operations | Zone Mechanics Operations | There are approximately 190 Zone Mechanics (\$9.9 Million) assigned to the 350 facilities that perform certain routine, planned, and emergency preventive maintenance tasks. | Review planning and workload activity and determine if work performed is delivered in an efficient and cost effective manner. |
| Division of Bilingual Education and World Languages | Adult ESOL Program | As of FY 04-05, the Division of Bilingual and World Languages is responsible for the English for Speakers of Other Languages (ESOL) program, which enables adults to acquire English language proficiency. Adult ESOL was funded under General Adult Education, in FY 04-05 for <u>\$105 million</u> . | We will review the program's efficiency and effectiveness based on performance measures & verify regulatory compliance. We will also perform benchmarking and analytical review procedures to determine whether costs are reasonable. |
| Construction | Award and Administration of Construction Projects | Per the Five-Year Capital Plan, more than \$3 billion in facilities needs have been identified including \$202 million in FY 05-06 and \$1.1 billion in FY 06-07 respectively. In the current FY there are almost 60 projects at \$189 million. Our last audit was in 2002. | We will sample new construction and renovation projects and evaluate the awards process, project management and controls. |
| Construction | Construction Claims and Change Orders | Change orders often occur on construction projects. The last time we audited change orders (1999), the District's average change order rate was 7%. Recent changes in contracting methods should reduce change orders. | We will evaluate internal controls and test reasonableness of the value, cause, validity, and rate of change orders and benchmark to peer groups. |

| Miami-Dade County Public Schools - Office of Management and Compliance Audits - 2006 Audit Plan | | | |
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| Departments | Audit | Background | Objectives |
| LONG RANGE AUDITS (Continued): | | | |
| School Operations | Custodial Services | Approximately 2,300 custodians report directly to school administrative staff and their primary responsibility is to provide a clean and healthy environment for faculty and students. Schools undergo an annual custodial "audit," as well as walk-through as requested by the principal. | We will review planning and workload to determine if metrics used to address the adequacy of school cleaning programs are adequately supported by data and verifiable to actual conditions. |
| Land Use | In-kind Contributions Received In Lieu of Impact Fees | During the 5 year period ended June 30, 2004, M-DCPS received \$147 million in impact fees from residential developers for use in its capital construction program. Developers are sometimes obliged to provide additional cash and land. Between March 2003 and March 2005 an additional \$4.6 million and 13.2 acres of land was contributed. | We will evaluate the processes and controls used to determine the value of contributions received in lieu of cash and test the reasonableness of the values of contributed cash and land. |
| Construction | Audit of Construction Project Warranty | There are a variety of warranties associated with each completed construction project. Warranties range between one and twenty years. | We will evaluate the processes and controls designed to ensure that warranty work is identified timely, tracked, and suitably addressed by the warrantors. |
| Construction | Project Closeout | A/E's and construction contractors must ensure that building systems function properly, provide operations manuals, and training and other documents so that the projects can be appropriately closed out. | We will evaluate the processes and controls to ensure timely and effective closeout practices. |





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.

THE SCHOOL BOARD OF MIAMI-DADE COUNTY, FLORIDA

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Mr. Allen M. Vann, CPA
Chief Auditor

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OFFICE OF MANAGEMENT AND COMPLIANCE AUDITS
2005 ANNUAL REPORT