

Internal Audit Report

Miami-Dade County Public Schools Office of Management and Compliance Audits



AUDIT OF DISTRICT'S SURPLUS EQUIPMENT AND VEHICLE AUCTIONS FOR FY 2014-2015



Auction-day activities were well-managed. However, unauthorized payments were processed during the last three fiscal years. District auctions of surplus property require additional controls over procuring auction services, reporting auction results, and processing Auctioneer's payments.

December 2015

THE SCHOOL BOARD OF MIAMI-DADE COUNTY, FLORIDA

Ms. Perla Tabares Hantman, Chair
Dr. Dorothy Bendross-Mindingall, Vice Chair
Ms. Susie V. Castillo
Dr. Lawrence S. Feldman
Dr. Wilbert "Tee" Holloway
Dr. Martin Karp
Ms. Lubby Navarro
Ms. Raquel A. Regalado
Dr. Marta Pérez Wurtz

Mr. Alberto M. Carvalho
Superintendent of Schools

Mr. José F. Montes de Oca, CPA
Chief Auditor
Office of Management and Compliance Audits

Contributors to This Report:

Audit Performed by:
Mr. Luis Baluja, CISA
Mr. Richard A. Yanez, CPA

Audit Supervised and Reviewed by:
Mr. Trevor L. Williams, CPA





Miami-Dade County Public Schools

giving our students the world

Superintendent of Schools

Alberto M. Carvalho

Chief Auditor

José F. Montes de Oca, CPA

Miami-Dade County School Board

Perla Tabares Hantman, Chair

Dr. Dorothy Bendross-Mindingall, Vice Chair

Susie V. Castillo

Dr. Lawrence S. Feldman

Dr. Wilbert "Tee" Holloway

Dr. Martin Karp

Lubby Navarro

Raquel A. Regalado

Dr. Marta Pérez Wurtz

November 18, 2015

The Honorable Chair and Members of the School Board of Miami-Dade County, Florida
Members of the School Board Audit and Budget Advisory Committee
Mr. Alberto M. Carvalho, Superintendent of Schools

Ladies and Gentlemen:

We have performed an audit of the District's surplus equipment and vehicle auction activities during FY 2014-15. Our audit evolved out of other "non-audit services" our office was asked to perform related to those activities, wherein, due to certain conditions uncovered, namely the late deposit of auction proceeds, caused us to elevate the level of services to an audit.

The objectives of the audit were to determine whether adequate internal controls were in place over the auction process; auctions were conducted in a safe and orderly manner; funds collected were properly safeguarded and accounted for, including a reconciliation of all records at the end of the auction; and proper post-auction procedures were being followed.

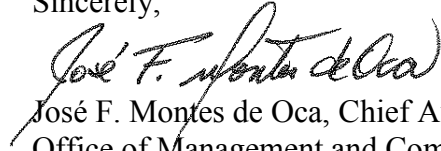
Our audit found that, in general, the auctions we observed were adequately staffed and were conducted in a safe and orderly manner. Notwithstanding the foregoing, our post-auction review and examination of auction-related documents disclosed that unauthorized payments totaling \$24,000 were made to the Auctioneer during the last three fiscal years, funds collected after the auction were not deposited timely, and the information on auction activity reported to the School Board did not properly reflect all expenses.

During the audit, we discussed our preliminary findings with the appropriate District administrator, who promptly requested an investigation. The investigation was subsequently completed by the District's Civilian Investigative Unit (CIU). The results of that investigation found probable cause that the administrator responsible for initiating and approving the unauthorized payments violated the School Board's purchasing and ethical conduct policies.

Upon completion of our audit, the findings and recommendations comprising the full breadth of our audit were discussed with management.

We would like to thank management for their cooperation and courtesies extended to our staff during the audit.

Sincerely,

A handwritten signature in black ink, reading "José F. Montes de Oca". The signature is fluid and cursive, with the first name "José" and last name "Montes de Oca" clearly legible.

José F. Montes de Oca, Chief Auditor
Office of Management and Compliance Audits

Table of Contents

Description		Page
Δ	Executive Summary	
○	Why We Did This Audit.....	1
○	What We Found.....	2
○	What We Recommend.....	4
Δ	Internal Controls	6
Δ	Background	7
Δ	Organizational Chart	10
Δ	Objectives, Scope, and Methodology	11
Δ	Findings, Conclusions, and Recommendations	13
1.	Unauthorized Payments for Auction Services Were Processed During the Last Three Fiscal Years	14
2.	Appropriate and Fair Awarding of Auction Services Contracts May Have Been Obstructed	17
3.	The Reporting of Auction Activity to the School Board Did Not Properly Reflect All Expenses	20
4.	Some Controls Applicable to the Auction Process Were Circumvented or Ignored	23
5.	School Board Policy Governing Disposition of Surplus Property Should Be Simplified	27
Δ	Exhibits	29
Δ	Management's Responses (Complete text)	32

Executive Summary

<i>Why We Did This Audit</i>

Miami-Dade County Public Schools (M-DCPS) utilizes various vehicles and equipment to support the delivery of educational services. Equipment or vehicles that have become inefficient, uneconomical, damaged beyond repair, obsolete, or serve no useful function must be disposed of appropriately. School Board Policy 7310 – *Disposition of Surplus Property*, provides guidelines for disposing such properties, one of which involves holding publicly advertised auctions. The department of Stores and Mail Distribution (S&MD) is expressly identified as the sole processor of property disposal for the District.

The Office of Management and Compliance Audits (OMCA) has periodically observed District auctions to verify that adequate internal controls are in place, ensure that auctions are conducted safely and fairly, and that related transactions and funds are handled properly. During the course of performing our observations of the auctions that were held during the recently completed fiscal year, there were certain matters that came to our attention that caused us to adjust the scope of services we provide from merely an observation of the auction process to an audit of the process.

What We Found

Overall, based on our observations of auction activities on November 1, 2014, and May 2, 2015, auction proceedings were conducted in a safe and orderly manner. The auctions were adequately staffed with support and security personnel. Available title document for auctioned vehicles was properly provided to purchasers of the asset. Funds collected were accounted for and reconciled.

However, concerns were raised upon our post-auction review and examination of auction-related documents, which disclosed certain matters regarding auctioneer compensation and the reporting of auction activity to the School Board. As a result, we also reviewed auctioneer payments for the two previous fiscal years (2012-13 and 2013-14). A summary of our findings includes:

- According to the terms of the bid and quotations for Auction Services, auctioneer compensation is to be based exclusively on a percentage of total sales. We found that the Auctioneer received additional unauthorized payments for each of the nine auctions held during all three fiscal years reviewed, significantly increasing the cost of the service. The additional unauthorized payments totaled \$24,000. However, it should be noted that the vendor submitted these invoices for compensation above and beyond the written terms of the Auction Services agreements while relying upon statements made by a duly authorized representative of the School Board through a verbal agreement.
- The additional unauthorized payments to the Auctioneer resulted in the competitive bidding process, as it relates to the procurement of auction services, being circumvented. The effect of the additional payments resulted in the actual rate of compensation paid to the Auctioneer during FY 2014-15 increasing from the quoted 2.68% to 3.44%.
- School Board policy requires that the Board be notified of auction activities, including associated revenue and expenses, for formal acceptance, recording, and approval by the Board. The auction activity reports for FY 2013 through 2015 provided to the School Board were inaccurate, lacked transparency and misleading. For example, the most recent auction activity report (FY 2014-15) submitted to the Board on June 17, 2015, as Board Agenda Item D-67 (Exhibit A, page 29), did not disclose an additional unauthorized payment made to the auctioneer in the amount of \$3,000. Furthermore, the report shows that all nine of the unauthorized payments were inappropriately reported in the “*Miscellaneous Expense*” category instead of in the “*Auctioneer’s Premium*” category, which is misleading.
- Although all three auctions conducted during the 2014-15 fiscal year generated sufficient revenue to cover expenses, S&MD management compensated the auctioneer for an unauthorized payment at least once from its operational fund, instead of the auction revenue account. School District auctions are intended to be a self-funded activity whereby the expenses associated with the activity are covered by the revenue generated from the activity.

- Payment documents maintained to support auction services commission expense disclosed certain inconsistent and unorthodox invoicing practices, including the splitting of invoices, processing invoices with discrepant and insufficient details, and using inconsistent requisitioning methods in processing payments.
- Auction proceeds in the amounts of \$4,055.00 and \$139,064.98, from the November 1, 2014, and May 2, 2015 auctions, respectively, were not deposited in a timely manner, pursuant to District guidelines.
- In reviewing the auction process, we reviewed School Board Policy 7310 – *Disposition of Surplus Property*, which we believe can be simplified.

During the conduct of our audit, we communicated our preliminary findings to the appropriate District administrator. District management promptly requested an investigation based upon our preliminary findings. Utilizing the District’s Personnel Investigative Model (PIM), an Incident Review Team (IRT) assembled by the Office of Professional Standards to analyze available information relating to allegations of wrong-doing, determined that this case was appropriate for assignment to the Civilian Investigative Unit (CIU) for investigating.

The results of the investigation found probable cause¹ for violation of the following School Board Policies:

- 1210 – *Standards of Ethical Conduct*
- 1210.01 – *Code of Ethics*
- 6320 – *Purchasing*

¹ Probable cause is defined in the PIM User’s Guide as, “It is more likely than not that the alleged incident occurred.”

What We Recommend

Based upon our findings as described, we believe additional controls are needed with regard to the District's auction function. Generally, we recommend that oversight be improved by requiring review and approval over auction activities and expenses by either the District's Procurement Management or the Administrator to whom the S&MD management reports.

In addition, certain process controls will need to be implemented to ensure improved internal control, transparency in reporting information to the School Board and public, and mitigation of risks relating to the safeguarding of District funds. For example, compensation paid to vendors providing auction services to the District should be made only through a duly executed and authorized written agreement such as a contract or bid rather than through verbal agreements. Verbal agreements are not authorized forms of agreement for procuring goods and services with District funds. The District should consider pursuing available means of redress for violating District procurement policy related to the unauthorized payment. Additionally, the District should reevaluate its business relationship with the vendor who received these payments.

Although current School Board policy allows for the solicitation of auction services by quotations from at least three vendors, soliciting the services through a formal, competitive sealed bid would provide greater control and transparency. Therefore, we recommend that Procurement Management solicits bids for auction services, as had been the practice, as soon as possible.

To improve transparency of the information reported to the School Board relating to auction activity, all payments to vendors providing auction services to the District should be listed on the Report of School Board Auction under the "Auctioneer's Premium" category. We also recommend that the reporting format be consistent and updated to show itemized expenses and revenue, detailed separately by auction date, and then summarized. The Report and underlying documentation should be reviewed for accuracy and approved by Procurement Management or the Administrator to whom the S&MD management reports prior to its submission to the School Board.

The procurement practices noted indicate that staff members who are involved in the auction function need to be trained in proper procurement practices as recommended in this report. In addition, we believe that auction services invoices should be more descriptive and recommend that future invoices contain additional information, including a detailed description of the services being invoiced, the total sales amount subject to the Auctioneer's Premium rate, the applicable rate, and the bid and/or purchase order numbers.

Segregation of duties is a key control of any functioning system of internal controls. Given evident breakdown in this area, we recommend the District review the electronic approval business rules to ensure there is proper segregation of duties between the creator and approver of requisitions and purchase orders. The functions of creating and approving requisitions and purchase orders by the same person should be systematically disallowed.

Finally, safeguarding auction proceeds can be improved by enforcing the District's guidelines for depositing collected funds.

We are making 13 recommendations to address the conditions in our five findings, which provide greater detail within the Findings, Conclusions, and Recommendations section of this report.

Internal Controls

The chart below generally summarizes our overall assessment of the internal controls in place over the auction process.

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 for improvement	Non-existent or unreliable
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 and Communication Risk	Information systems and information reported are reliable and relevant.	Information reported and data systems are mostly accurate but can be improved	Systems and processes produce incomplete or inaccurate information which may cause inappropriate decisions.
External Risk	None or low	Potential for damage	Severe risk of damage

Background

M-DCPS periodically holds scheduled auctions of surplus cars, buses, computers, furniture, and other equipment. Public participation in these open auctions is invited and encouraged. Items to be auctioned are identified by District Administrators who have determined that certain tangible personal property are no longer serviceable or usable, pursuant to School Board Policy 7310 – *Disposition of Surplus Property*, based upon the following criteria:

1. repair parts for the equipment no longer readily available
2. repair records indicate equipment has no usable life remaining
3. obsolete and/or no longer contributing to the educational program
4. some potential for sale at a District auction
5. creates a safety or environmental hazard

Once property has been determined to meet the above criteria and enough property is amassed to merit an auction, the S&MD department, which is expressly identified as the sole processor of property disposal for the District, will coordinate an auction event.

The Auction Process:

Auctions are scheduled, coordinated, and managed by the District’s S&MD department. To assist it in this function, the S&MD department procures professional auctioneer services through a licensed auctioneer.²

In preparation for the auction, S&MD prepares a Catalog for Auction, which contains the lot³ number and pertinent description of each item to be auctioned. The department also ensures that all items are stored in an organized manner at the auction site, appropriately labeled, and that the necessary paperwork and keys for vehicles are on hand, if available. S&MD also provides staff to assist with the auction and ensures there are security personnel at the auction site.

Auctions are advertised through various media, including local newspaper, internet, and direct mailings.⁴ The advertisement lists the date, time, and place of the auction, and includes a general description of the type of equipment to be auctioned. The advertisement also describes the general terms of the auction, including the time during which potential buyers may preview

² The Department of Business and Professional Regulation requires that all auctioneers be licensed in the state of Florida prior to providing auction services.

³ A “lot” may comprise a single piece of equipment or multiple pieces of equipment grouped together to be sold as a single purchase.

⁴ According to the last bid that was placed under which auction services were procured, Bid No. 064-HH12 (expired March 31, 2013), the auctioneer is required to provide all necessary labor, material, and equipment to conduct auctions for M-DCPS. This includes all expenses associated with the auction, including advertising and flyer.

items for sale, the amount of the required refundable cash deposit (\$100), the Buyer's Premium (10%) to be added to the purchase price of every item sold, and the sales tax to be collected by the District and remits to the State of Florida, as required.

On the day of the auction, potential buyers can physically inspect the auction inventory a few hours prior to the commencement of the auction. All interested bidders must register and provide a refundable cash-deposit of \$100, which can be used towards the cost of any purchase made. Each person who registers and pays the refundable deposit receives a bidder's card, which lists a number that is used to identify the successful bidder for recordkeeping purposes. If a participant does not make a purchase, the deposit is refunded upon presenting his/her bidder's card.

At the commencement of the auction, the auctioneer briefly describes each lot, stating any obvious or known details about the inventory item(s). Bidding begins with the Auctioneer announcing an opening price, after which bidders indicate their interest in purchasing the item by displaying the bidder's card obtained during the registration process. Bidding continues incrementally until competing bids for the item(s) ends, (i.e., only a single bid for the item(s) remains active). The winning bidder's number and amount are recorded on the lot/item itself as well as on records maintained by the auctioneer's and S&MD staff. All lots are processed in the same manner until all inventories are either sold or withdrawn. All lots are sold "as is" with no warranties or representations of any kind.



Obsolete / Damaged Vehicles



The amount to be collected from the winning bidder for each purchase includes the amount of the winning bid, a Buyer's Premium at the rate of 10% of the bid price, and applicable sales tax. Winners who are able to pay in full on the day of the auction are allowed to take immediate possession of their purchases. According to the auction terms, those who are unable to make payment in full on the day of the auction must pay within a specified date or risk losing both their deposit and rights to the item. Settlement payment is to be made only through certified check or money order.

Funding and Reporting:

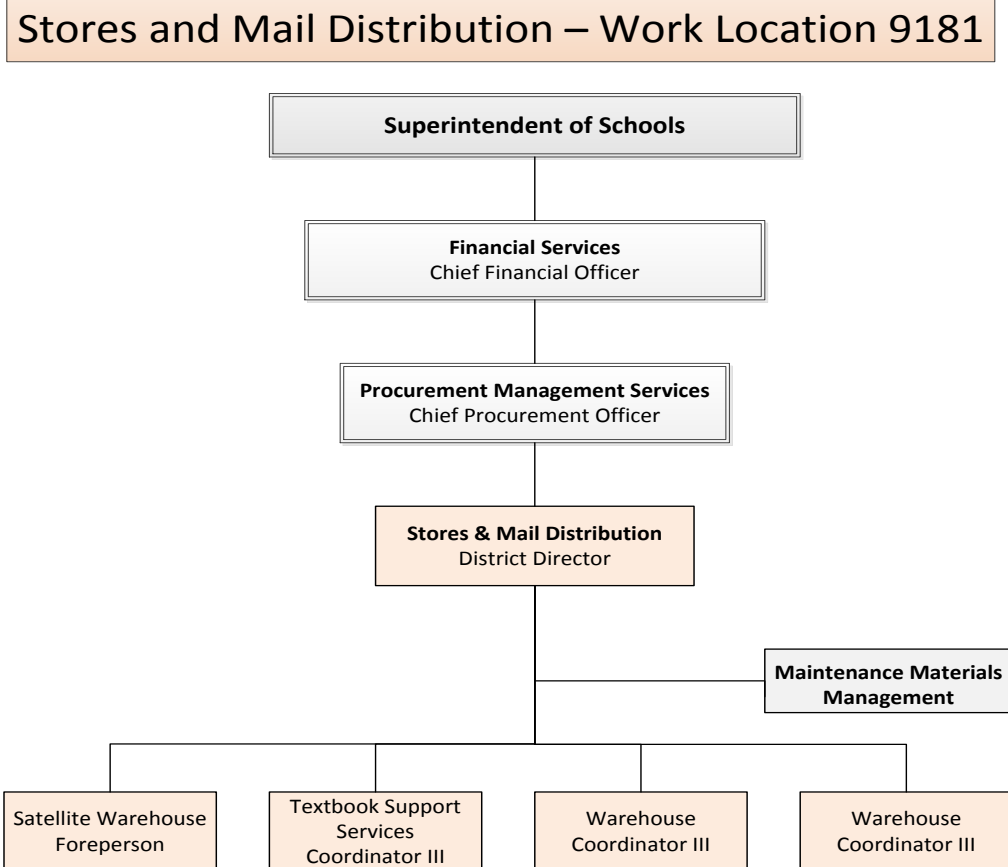
The District auctions are self-funded events, meaning that sales proceeds pay for all auction-related expenses. The Buyer's Premium is intended to fund the District's expenses associated with hosting an auction, such as staff overtime, security, and the auctioneer's fee. School Board Policy 7310 states that auction activity, including expenses and revenue shall be reported to the School Board for formal acceptance, recording, and approval.

Heavily Damaged Vehicles



Organizational Chart

The following organizational chart depicts the administrative oversight and reporting structure of the S&MD department.



Note: Effective June 16, 2015, the District Director of Stores & Mail Distribution reports to the Chief Financial Officer through the Chief Procurement Officer.

Objectives, Scope, and Methodology

Our audit of the District’s auction activity evolved out of other “non-audit services”⁵ our office was asked to perform related to those activities. Historically, we have observed the onsite activities during selected District auctions, specifically with the following objectives in mind, to determine whether:

1. adequate internal controls are in place over the auction process
2. auctions are conducted in a safe, orderly, and fair manner
3. funds collected are properly safeguarded and accounted for, including a reconciliation of all records at the end of the auction

Subsequent to performing our observation of the auction, certain matters related to the handling of auction proceeds, post-auction, came to our attention that necessitated a re-evaluation of the level of service being provided. Contributing to our decision to re-evaluate the service level being provided in connection with the auction activities of FY 2014-15 was the fact that we had previously issued recommendations to address the manner in which auction proceeds were handled after the auction.⁶ Based upon our re-evaluation of risks, we determined the appropriate course of action to take would be to elevate the level of service being performed to an audit of the auction activities.

Our audit was performed and included the heretofore stated objectives, as well as examining and reconciling post-auction information to ensure proper procedures were being followed. The activities covered by our audit include the vehicle and surplus equipment auctions conducted during FY 2014-15. We also examined certain information related to previous auction activity for FY 2012-13 and 2013-14.

⁵ Non-audit services are non-attest type services. Contrary to audit and attestation engagements, which result in the issuance of an independent auditor’s opinion, these types of services do not result in the issuance of an independent auditor’s opinion and are limited in their reporting results.

⁶ Please refer to Exhibit B (page 30) for our previous recommendation related to the handling of auction proceeds after the auction has concluded.

To satisfy our audit objectives, we performed the following audit procedures:

- Reviewed existing policies, procedures, and documents, including:
 - School Board Policy 7310 – *Disposition of Surplus Property*
 - School Board Policy 6320 – *Purchasing*
 - School Board Policy 6140 – *Depository Accounts*
 - M-DCPS Office of Treasury Management’s Procedures Manual
 - Auction Services bids and awards
 - Quotes and required criteria for Auction Services
 - General Terms & Conditions of Sale governing auction activities
 - Basic requirements for Auctioneers in the State of Florida
- Obtained an understanding of the auction process by observation
- Confirmed inventory items listed for sale
- Verified auction advertisement requirements
- Observed live auction, bidding, and related activity
- Verified secure handling of revenue
- Reconciled incoming revenue and deposit transactions
- Confirmed sales tax collection and remittance
- Reviewed auction related revenues and expenses such as auctioneer compensation and the Buyer’s Premium process

We conducted this performance audit in accordance with generally accepted *Government Auditing Standards* issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions, based on our audit objectives. A performance audit is an objective analysis, based on sufficient and appropriate evidence, to assist management and those charged with governance and oversight to improve program performance and operations, reduce costs, facilitate decision-making and contribute to public accountability. Performance audits encompass a wide variety objectives, including assessments of program effectiveness, economy and efficiency; internal control; compliance; and prospective analyses.⁷ Planning is a continuous process throughout the audit. Therefore, auditors may need to adjust the audit objectives, scope and methodology as work is being conducted.⁸

We believe that the evidence obtained provides a reasonable basis for our findings and conclusions, based on our audit objectives.

⁷ Comptroller General of the United States, *Government Auditing Standards*, 2011 Revision, (Washington D.C.: United States Government Accountability Office, 2011), pp. 17-18.

⁸ *Ibid.*, p. 126.

Findings, Conclusions, and Recommendations

Pursuant to School Board Policy 7310, S&MD is the sole processor of surplus property for the District and accordingly, held three auctions during FY 2014-15 as depicted in the table below. Gross receipts from these auction totaled \$435,166. The OMCA observed the November 1, 2014, and May 2, 2015, auctions. The November 1, 2014, auction consisted of 76 obsolete or damaged vehicles such as police cruisers, buses, work vans, and other heavy work vehicles. The May 2, 2015, auction consisted of 300 vehicles, heavy equipment/appliances, and computer equipment. The following table depicts a breakdown of funds received, by category, from each auction.

FY 2014-15 AUCTION RECEIPTS BY CATEGORY (As Reconciled to Money Deposited with the Bank)					
Auction Date	Auction Sales	Sales Taxes Collected	Buyer's Premium Collected	Forfeited Deposit	Gross Receipts
November 1, 2014*	\$ 20,725	\$ 79	\$ 2,072	\$100	\$ 22,976
January 31, 2015	215,050	92	21,505	200	236,847
May 2, 2015*	158,405	1,098	15,840	-	175,343
TOTAL	\$394,180	\$1,269	\$39,417	\$300	\$435,166
* Observed by the OMCA					

Table 1

Overall, based on our observations of auction activities on November 1, 2014, and May 2, 2015, auction day activities were conducted in a safe and orderly manner. Auctions were adequately staffed with support and security personnel. Available title documents for auctioned vehicles were properly provided to purchasers of the asset. Funds collected on auction day were accounted for and reconciled.

Notwithstanding the foregoing, our post-auction review and examination of auction-related documents disclosed certain matters relating to the timeliness funds collected after the auction are deposited, the nature and amount of payments to the Auctioneer, and the accuracy and completeness of information reported to the School Board. We have detailed these findings individually according to subject matter in the next section of our report and have provided recommendations.

**1. UNAUTHORIZED PAYMENTS FOR
AUCTION SERVICES WERE PROCESSED
DURING THE LAST THREE FISCAL YEARS**

Our review of auctioneer's compensation paid during the last three fiscal years (2013-2015) revealed a pattern where the auctioneer submitted two (2) separate, identically dated invoices, for each of the last nine auctions held by M-DCPS. One invoice typically contained a total fee that is based on a contract rate applied to total sales from the auction. The second invoice typically showed an additional flat fee in the amount of \$2,000 for auctions held during fiscal year 2013 or \$3,000 for auctions held during fiscal years 2014 and 2015. Although the auctioneer's fees totaling \$44,002 paid as a percent of sales were duly authorized pursuant to the terms of written agreements, the additional flat fees totaling \$24,000 paid to the auctioneer were not authorized. All payments, including the unauthorized payments, were approved by the S&MD management.

The following table depicts the total auctioneer's compensation, including the unauthorized amount paid for auctions held in FY 2013 through 2015:

AUCTIONEER'S COMPENSATION PAID			
Fiscal Year	Contract Authorized Amount Paid	Unauthorized Amount Paid	Total Amount Paid
2014-2015	\$10,564	\$ 9,000	\$19,564
2013-2014	18,801	9,000	27,801
2012-2013	14,637	6,000	20,637
Total	\$44,002	\$24,000	\$68,002

Table 2

When we asked the S&MD management to provide an explanation for approving the unauthorized payments, we were informed that the additional payments were made based on a verbal agreement between the S&MD management and the Auctioneer. As such, the vendor submitted the invoices for additional compensation,⁹ which were above and beyond the terms of the standing written agreements, while relying upon statements made by the S&MD management.

The following provides a brief background on the authorizing document used in procuring auction services. As previously stated, at M-DCPS, surplus vehicle and equipment auctions are conducted by S&MD with the assistance of a contracted auctioneer.

⁹ Further inquiry of S&MD management, through the investigative process, revealed that the additional payments were made to the Auctioneer and intended for a retired M-DCPS employee who was used to prepare auction-related records, according to the S&MD management. The Auctioneer served as a conduit for effecting payment to the former employee. We corroborated that the former employee ultimately received \$2, 000 of each payment. The remainder was retained by the Auctioneer.

The awarding of the Auction Services contract by M-DCPS is made to the vendor meeting the established specifications and offering the lowest auctioneer commission rate, stated as a percentage of total auction sales.

For the auctions conducted during FY 2014-15, contracted auction services were procured through written quotations received in May 2014 from three auction companies. These written quotations were solicited by the S&MD management as a replacement for an expired quotation, replacing the last formal sealed bids for auction services—064-HH12—which expired on March 31, 2013. In its May 16, 2014, quotation, the winning company quoted a commission rate of 2.68%, the lowest stated rate among the three companies, as its only compensation. A review of Bid No. 064-HH12 - *Auction Services*, disclosed that the Auctioneer's compensation shall be based exclusively on a percentage of total sales and explicitly states that, "***No extra fee will be allowed.***" It is evident from our review of the aforementioned quotations and bid that the official compensation model remained unchanged since June 2008 when Bid No. 064-HH12 was awarded. Moreover, the same vendor was engaged to provide contracted auction services for the District through these agreements during this period.

After consulting with the District's Procurement department, we confirmed that the S&MD management, as the originating department and solicitor of auction services, crafted the specifications for Bid No. 064-HH12. This fact demonstrates that the current S&MD management, which was in place at the time of the solicitation, was aware of the contract's provisions, specifically the "No extra fee will be allowed" clause.

Lastly, according to School Board Policy 6320 – *Purchasing*: "Payment for any unauthorized purchase may be the responsibility of the person placing the order."

RECOMMENDATIONS:

- 1.1 Discontinue the practice of incurring and paying additional amounts to the Auctioneer through a verbal agreement. The management and staff responsible for holding surplus equipment and vehicle auctions should be informed that the Auctioneer should only be compensated the agreed upon rate stated in the authorizing written contracts for auction services (i.e., bid or quotation).**

RESPONSIBLE DEPARTMENT:

Procurement Management

MANAGEMENT RESPONSE:

Procurement Management will release a formal solicitation for Auction Services no later than November 30, 2015. No invoices will be paid outside the scope of the solicitation and the contract as awarded.

- 1.2 Procurement Management should provide training on proper procurement rules and practices to the management and staff responsible for holding surplus equipment and vehicle auctions. In this training, efforts should be made to inform management and staff about procurement practices that are permitted and prohibited.**

RESPONSIBLE DEPARTMENT:

Procurement Management

MANAGEMENT RESPONSE:

Procurement Management staff, coupled with staff from Accounting will be facilitating the auctions with the awarded vendor. The staff at the Materials Management location will be assigned to take a lead role in any auction that take place under the direction of Financial Operations. All staff involved are receiving training in Procurement, as stated within School Board Policy 6320, Purchasing.

- 1.3 Given that the vendor with whom the District contracted for Auction Services during the last three fiscal years knowingly submitted invoices for additional payments in excess of the rates authorized by written agreements, albeit through the knowledge and instructions of the S&MD management, the District should:**

- (a) Consider pursuing available means of redress, as allowed by School Board Policy 6320, to recover the unauthorized payments**
- (b) Reevaluate its business relationship with the vendor who is the subject of the unauthorized payments**

RESPONSIBLE DEPARTMENT:

Procurement Management

MANAGEMENT RESPONSE:

Procurement Management, with the School Board Attorney's Office will seek to suspend and/or debar this vendor from conducting any further business with the District. Additionally, staff will meet with School Board Attorney to pursue redress to recover unauthorized payments.

2. APPROPRIATE AND FAIR AWARDING OF AUCTION SERVICES CONTRACTS MAY HAVE BEEN OBSTRUCTED

Whether through competitive sealed bids or quotations, the District routinely solicits for a diverse array of products and services. Pursuant to the District's purchasing policy, "major consideration given to bid evaluations is lowest price meeting specifications." In accordance with this guiding principle, solicitation for Auction Services is also to be awarded based mainly upon the lowest cost to the District. The solicitation through which auction services were provided during FY 2014-15 did not meet this principle and was in violation of the Board's procurement policy.

Until March 31, 2013, auction services were procured using Bid No. 064-HH12, which was in effect beginning on June 18, 2008. Subsequently, at two separate times, S&MD's management solicited written quotations from three vendors in lieu of formal competitively sealed bids,¹⁰ as was historically the case. In May 2014, three vendors submitted written quotations of the following rates, respectively: 2.68%, 2.75%, and 3.98%. S&MD's management thereafter awarded the Auction Services work to the vendor who offered the apparent lowest quoted rate of 2.68%.

As stated in Finding No. 1, total unauthorized payments of \$24,000 above and beyond the contracted rate, including \$9,000 in FY 2014-15, were made based on invoices submitted by the vendor for completed auctions. The effect of these additional payments on auction costs as compared to the expected rate of 2.68% is shown in the following table.

Auctioneer's Compensation Rate: 2014-15 Fiscal Year						
Auction Date	Total Sales	Auctioneer Quoted Fee Rate (2.68%)	Additional Payments	Effect (Additional Payment Only)	Total Payment	Effective Costs % (Total Payment Only)
November 1, 2014	\$ 20,725.00	\$ 555.43	\$3,000.00	+14.47%	\$ 3,555.43	17.15%
January 31, 2015	215,050.00	5,763.34	3,000.01	+1.39%	8,763.35	4.07%
May 2, 2015	158,405.00	4,245.25	3,000.01	+1.89%	7,245.26	4.57%
Totals	\$394,180.00	\$10,564.02	\$9,000.02	2.28%	\$19,564.04	4.96%

Table 3

¹⁰ School Board Policy 6320 requires that, except as authorized by law or rule, competitive solicitations shall be requested from three (3) or more sources for each purchase of more than \$50,000. According to the Policy, the term "competitive solicitation" includes an Invitation to Bid, Request for Proposals and Invitation to Negotiate. The Policy further requires that for each purchase of \$50,000 or less and over the minimum quotation threshold established by Procurement Management, \$1,000; written, telephone, or electronic quotations shall be obtained from three (3) or more sources, including, if possible, an M/WBE vendor.

According to S&MD management, the additional unauthorized payments to the winning vendor were intended for a former S&MD employee who retired from M-DCPS and was needed to organize events in preparation for the auctions. The tasks the retired individual performed were considered to be the responsibility of S&MD. S&MD's management stated that "they stopped allowing anyone to come back to work" and arranged to pay the Auctioneer an agreed-upon flat amount, which the Auctioneer in turn would remit to the retired individual, according to an investigative report.

It should be understood that although the unauthorized payments made through this arrangement were not intended to compensate the Auctioneer for contracted services, at the time of submitting a quotation, the Auctioneer was aware that these payments would be made to him. Moreover, for FY 2014-15, the Auctioneer retained \$3,000 of the \$9,000 paid and intended for the retired individual. Therefore, even when only the \$3,000 retained by the Auctioneer is included in the Auctioneer's compensation for FY 2014-15, the overall commission rate increases from the quoted 2.68% to 3.44%.

2013 and 2014 Fiscal Years:

A review of Auctioneer payments made during the 2013 and 2014 fiscal years revealed a similar pattern of compensation. Two separate, identically dated invoices, were processed for each of the six auctions held; one for a percentage fee, and a second for \$2,000 for FY 2013 and \$3,000 for FY 2014, respectively. The same vendor provided auction services for the six auctions.

Competitive Bidding of Auction Services:

Since the expiration of Bid #064-HH12 on March 31, 2013, the District has not had a bid in place for providing auction services. Although the solicitation for auction services may be obtained either through competitively sealed bids or competitive quotations, as permitted by School Board Policy 6320, the service is appropriately suited for the former as evidenced by the award of Bid No. 064-HH12 in 2008 and the predecessor Bid No. 077-BB09 awarded in 2002.

In addition to opening competition, which would usually result in better pricing, competitively sealed bids solicitation also improves transparency. The model also allows the District to firmly set consistent specification to which all bidders may bid. The procurement of Auction Services falls under the "Professional Services Contracts" definition due to licensing requirements and requires a minimum of 3 vendors to be contacted in writing, one of which should be a Minority/Women Business Enterprise.

RECOMMENDATION:

- 2.1 The District should solicit competitive sealed bids to procure auction services as soon as possible.**

RESPONSIBLE DEPARTMENT:

Procurement Management

MANAGEMENT RESPONSE:

As stated previously, Procurement Management will release a formal solicitation for Auction Services, no later than November 30, 2015.

3. THE REPORTING OF AUCTION ACTIVITY TO THE SCHOOL BOARD DID NOT PROPERLY REFLECT ALL EXPENSES

As required by School Board Policy 7310, a Report of School Board Auctions [Report] is presented to the Board, usually at the end of the fiscal year, summarizing the year's auction activity, including total revenues and expenditures. Accordingly, the most recent Report—Board Agenda Item D-67 (Exhibit A, page 29)—was submitted to the Board at its June 17, 2015, meeting. The Report listed various categories of expenses such as the Auctioneer's premium, sales tax, overtime, towing, and other miscellaneous expenses. A reconciliation of the amounts in the Report revealed that some expenses were either improperly classified and/or omitted.

Based on our findings with the Report for FY 2014-15 auction activity, we extended our tests to the Reports for FYs 2013-14 and 2012-13. Our findings by FY are as follows:

Report of School Board Auctions for FY 2014-15

The Auctioneer's Premium was reported as \$10,564.02, which is the sum of three payments, and are based on the quoted commission rate (2.68%), applicable to the total sales of each auction (see Table 2, page 14). However, as stated earlier, additional payments totaling \$9,000.02 were made to the Auctioneer for services related to the three auctions reported on. These additional unauthorized payments, which significantly increased the Auctioneer's compensation, were not reported in the "Auctioneer's Premium" subtotal, but instead in the "Overtime, Towing and Misc. Expenses" subtotal. As a result, the Auctioneer's Premium was understated and should have been reported as \$19,564.04, and "Overtime, Towing and Misc. Expenses" was overstated and should have been reported as \$11,845.15 rather than \$17,845.15.

In addition, the reported expenses did not include an unauthorized payment to the Auctioneer in the amount of \$3,000 associated with the November 1, 2015, auction, which was charged to the S&MD general operating budget account. Therefore, the "Total Expenses" reported to the School Board should have been \$32,678.08, not \$29,678.08.

When asked for an explanation, the S&MD management responded that the November 1, 2015, auction did not generate enough Buyer's Premium to cover expenses. However, this auction generated \$20,725 in sales, which was more than ample to cover all expenses. We are not aware of any requirement that auction expenses should be paid exclusively from the Buyer's Premium or that precludes using any portion of auction proceeds to pay auction expenses.

Even if the additional payments to the Auctioneer had been authorized, adding these amounts to the "Overtime, Towing and Misc. Expenses" category, instead of to the "Auctioneer's Premium" category, is improper and misleading in that the Report misrepresented the Auctioneer's compensation and did not reflect the true auction-related expenses.

Report of School Board Auctions for FY 2013-14

Three auctions were conducted during FY 2013-14, and were reported to the School Board separately at different meetings as Board Agenda Item E-41. Similar to what is described above for the FY 2014-15 Report, the October 16, 2013, February 12, 2014, and June 18, 2014, Reports on auction activity reported "Auctioneer's Premium" collectively as \$18,800.53, which was based on the quoted commission rate (3.35%), applicable to the total sales of each auction. Similarly, the Reports did not disclose three additional unauthorized payments totaling \$9,000.02 for Auctioneer compensation. Had these three additional payments been properly reported, the total "Auctioneer's Premium" would have been \$27,800.55 rather than the \$18,800.53 reported. Only \$8,000.00 of the three additional payments totaling \$9,000.02 was reported, albeit in the "Overtime, Towing and Misc. Expenses" category instead of in the "Auctioneer's Premium" category. This reporting was improper and misleading, in that the Report misrepresented the Auctioneer's compensation. The remaining \$1,000.02 was not included in the reported expenses, which meant that the Report did not reflect the true auction-related expenses.

Report of School Board Auctions for FY 2012-13

Three auctions were conducted during FY 2012-13. Similarly, the Report dated April 17, 2013 to the School Board on auction activity did not disclose that three additional unauthorized payments of \$2,000.00 each were made to the Auctioneer. The Report showed that the Auctioneer was compensated a composite total of \$14,636.74 based on the commission rate (3.85%) bid, applicable to the total sales of each auction. Had these three additional payments been properly reported, the total "Auctioneer's Premium" reported would have been \$20,636.74 rather than the \$14,636.74 reported. The three additional payments totaling \$6,000.00 were reported in "Overtime, Towing and Misc. Expenses" category instead of in the "Auctioneer's Premium" category. Similarly, this reporting was improper and misleading, in that the Report misrepresented the Auctioneer's compensation and did not reflect the true auction-related expenses.

RECOMMENDATIONS:

- 3.1 All payments made to vendors that are providing auction services to the District should be listed on the activity report to the School Board under the "Auctioneer's Premium" expense category and not allocated under any other category. The total sales amount subject to the Auctioneer's Premium as well as the fee rate in effect at the time of the auction, should be noted on the report.**

RESPONSIBLE DEPARTMENT:**Procurement Management****MANAGEMENT RESPONSE:**

Procurement Management, working with Accounting, will ensure that all future auction activity reports are verified and correct, prior to submission to the School Board for review and approval. Staff from Materials Management under Procurement Management will prepare the reporting documents that will be reviewed by the Controller and then the Chief Financial Officer who will transmit the report to the Superintendent for inclusion in the School Board Meeting Agenda.

- 3.2 Procurement Management should develop a process to review and approve auction activity reports and their supporting documentation prior to the reports' submission to the School Board.**

RESPONSIBLE DEPARTMENT:**Procurement Management****MANAGEMENT RESPONSE:**

Procurement Management, working with Accounting, will implement a process of verification of all auction activity reports prior to submission to the School Board. The verification process will be further reviewed by the Controller and the Chief Financial Officer.

- 3.3 A final report which summarizes the year's auction activity should be submitted to the School Board once all auctions for a fiscal year have concluded, showing itemized auction expenses and revenue, detailed separately by auction date, and then summarized for the fiscal year.**

RESPONSIBLE DEPARTMENT:**Procurement Management****MANAGEMENT RESPONSE:**

Procurement Management will submit auction activity reports upon completion of each auction to the Controller and then to the Chief Financial Officer. Subsequently a summary annual report will be transmitted to the School Board. Procurement Management, working with Accounting, will verify the content of these reports, prior to submission to the Controller and the Chief Financial Officer, who will transmit them to the Superintendent for inclusion in the School Board Agenda.

4. SOME CONTROLS APPLICABLE TO THE AUCTION PROCESS WERE CIRCUMVENTED OR IGNORED

Our review of the payment documents maintained to support auction services commission expense disclosed certain inconsistent and unorthodox invoicing practices. The following describes these practices and provides examples for elucidating purposes:

Requisition and Invoicing Patterns:

Split Invoices

Rather than submitting a single invoice, the Auctioneer submitted two separate, identically-dated invoices for services related to each of the nine auctions conducted during all three fiscal years reviewed. To illustrate, two separate invoices dated May 2, 2015, were submitted for the auction held on the same date. The description on one invoice stated, “Auctioneer’s Commission (\$158,405.00 X 2.68%)” for an amount of \$4,245.25. The description on the other invoice stated, “Purchase Order Number: 90006169821 Auction Services & Costs” for an amount of \$3,000.00.

It is unclear to us exactly why this pattern of splitting the invoices was employed. However, the practice could likely be interpreted as intended to circumvent School Board Policy 6320 – *Purchasing*, which states that, “*Split requisitions, to bypass the approval requirements and/or the bidding process, are specifically forbidden.*”

Inconsistent Invoice Details

Various invoices submitted by the vendor lacked important details, such as the total sales amount subject to the Auctioneer’s commission rate and reference to an authorizing document (i.e., Purchase Order or bid). To illustrate, for the 18 invoices submitted during the period covered by this audit, only half of them—those associated with the nine unauthorized payments—referenced a Purchase Order. Moreover, only three of these nine invoices referenced a bid while the remaining six did not.

Furthermore, none of the nine invoices submitted for services that were authorized, whether via written bid or quotation, referenced a Purchase Order. Among this group of invoices, only four of the nine referenced an approved bid (including one which referenced an expired bid) and the total sales amount used in calculating the Auctioneer’s commission.

Requisitioning Pattern

As indicated in the previous subsection, the nine invoices associated with the unauthorized payments each referenced a Purchase Order, while the nine invoices submitted for services that were authorized, whether via written bid or quotation, were processed using the “check requisition” process. Our examination disclosed that for

purchases processed through the “Purchase Order” process, only the S&MD administrator’s approval was required; whereas, for purchases processed through the “check requisition” process, the approval of the S&MD administrator and processing by an additional employee were required.

Depositing of Payment:

Our review of deposit records from both the November 1, 2014, and May 2, 2015, auctions revealed that the deposits of monies collected by the due dates for final settlement after auction day, as permitted, were delayed by nine and two days, respectively. The amounts deposited were \$4,055.00 and \$139,064.98, respectively.

Based upon the untimely deposits observed for the two aforementioned auctions, we also reviewed the deposits for the January 31, 2015, auction. Of the total auction day sales, \$98,765.80 was collected and deposited on the same day. However, of the remaining balance of \$143,976.60, a total of \$138,081.60, (consisting of two separate bank deposits), was deposited 12 days later on February 12, 2015, which were nine (9) to ten (10) days after receipt of the funds.¹¹ A third check in the amount of \$5,895.00, received on February 2, 2015, was deposited on February 18, 2015, sixteen (16) days after its receipt. Receipts records reviewed showed that with the exception of two checks totaling \$4,510, all other receipts appeared to have been received by February 3, 2015.¹²

Proper internal control over cash receipts dictates that monies collected are deposited in a timely manner. Pursuant to School Board Policy 6140 – *Depository Accounts*, policies and procedures for the collection of checks, money orders and cash by non-school departments are documented in the Office of Treasury Management’s Procedures Manual (the “Manual”). According to the Manual, cash collections must be remitted to Treasury Management no later than 9:30 a.m. of the following day of the cash collection. The Manual further states that cash collected must be deposited once the balance exceeds \$200.00. The management of S&MD was provided bank deposit tickets for the purpose of depositing auction proceeds directly, thereby obviating the need to remit the cash collection to Treasury Management. Even so, the due date by which cash deposits should be made remains intact.

Furthermore, on September 5, 2013, the OMCA issued a recommendation to management, which addressed certain post-auction wrap-up processes, including the transporting and holding of auction proceeds (Exhibit B, page 30). We are formally reissuing this recommendation again in this report.

¹¹ There were 36 certified checks and money orders comprising this deposit. According to the receipts records reviewed, all of the items except for two checks totaling \$4,510.00 were received on either February 2nd or 3rd.

¹² We could not determine with certainty the exact date all payments were received, because for 33 of the 123 entries in the receipts log, totaling \$98,403.10, the payment date was missing.

RECOMMENDATIONS:

- 4.1 Provide refresher training and instructions to Procurement Management staff on identifying split-purchases.**

RESPONSIBLE DEPARTMENT:

Procurement Management

MANAGEMENT RESPONSE:

As stated previously, Procurement Management will provide training in Procurement to all staff involved in auction activity, as stated within School Board Policy 6320, Purchasing.

- 4.2 In conjunction with the issuance of a competitive sealed bid for auction services, the District should therein stipulate that invoices for auction services must be complete and descriptive. Specifically, future auction services invoices should contain additional information, such as a detailed description of the services being invoiced, the total sales amount subject to the Auctioneer's Premium rate, the applicable rate, and the bid and/or purchase order numbers.**

RESPONSIBLE DEPARTMENT:

Procurement Management

MANAGEMENT RESPONSE:

As stated previously, Procurement Management will release a formal solicitation for Auction Services no later than November 30, 2015. Within the scope of work, vendor invoices must contain a detailed description of services provided, as well as Auctioneer(s) rates, in order to be considered a properly submitted invoice.

- 4.3 The District should review the electronic approval business rules to ensure there is proper segregation of duties between the creator and approver of requisitions and purchase orders. The functions of creating and approving requisitions and purchase orders by the same person should be systematically disallowed.**

RESPONSIBLE DEPARTMENT:

Procurement Management

MANAGEMENT RESPONSE:

Procurement Management, working with system security staff in the Office of Information Technology, will review the current SAP business rules for approval of shopping carts to ensure segregation of creation/approval responsibilities. It is important to note that, the segregation of creating and approving requisitions is now in place.

- 4.4 Enforce deadlines established for depositing auction proceeds received. Payments accepted after the day of the auction should be deposited on the same day they are received, if possible, or the next business day to ensure that payments are processed timely and securely.**

RESPONSIBLE DEPARTMENT:

Procurement Management

MANAGEMENT RESPONSE:

All proceeds from auction activities will be delivered promptly, to the bank via armored carrier at the close of the auction, while those proceeds received after the close of the auction will be deposited as required.

- 4.5 Future payments for auction services should be reviewed and approved by Procurement Management or the Administrator to whom the S&MD administration reports.**

RESPONSIBLE DEPARTMENT:

Procurement Management

MANAGEMENT RESPONSE:

All auction activity payments will follow terms and conditions of the Auction Services solicitation, which includes but is not limited to the submission of a properly completed invoice(s).

**5. SCHOOL BOARD POLICY
GOVERNING DISPOSITION OF
SURPLUS PROPERTY SHOULD BE
SIMPLIFIED**

In reviewing the auction process, we referenced laws, policies, and procedures that govern the activity. Such standards are then used to measure compliance with the activity.

Auctions are administered according to School Board Policy 7310 – *Disposition of Surplus Property*, which is governed by Chapter 274 – TANGIBLE PERSONAL PROPERTY OWNED BY LOCAL GOVERNMENTS, Florida Statutes. Policy 7310 could be updated to provide improved guidance, controls, and simplify the disposition process. For example, there are three property value thresholds, each with individual disposition requirements:

7310 – DISPOSITION OF SURPLUS PROPERTY		
Property Value		Disposition
1	Less than \$1,000	sale or donation to any person
2	\$1,000 - \$5,000	sale or donation to government/non-profits if not included in a bid or auction
3	Greater than \$5,000	disposition ONLY via public auction

Value Thresholds:

A concern with the first threshold involves property estimated to be valued at less than \$1,000, which can be *given away to anyone at the discretion of the S&MD management*. Disposition of property with an estimated value of between \$1,000 and \$5,000 is limited to government or non-profits only. Property estimated to be worth over \$5,000 shall be auctioned to any and all buyers, whether governmental, non-profit, for-profit, private business, or individuals.

The three threshold levels, together with the varying disposition methods, establish a confusing disposition methodology which can be, at best, challenging to implement.

Establishing Value:

Determination of value is at the discretion of the S&MD's management, creating a condition where values for all surplus, obsolete, or damaged property are subject to the opinion of a few (or one) individuals. In addition, since property valued at less than \$1,000 can be given away to anyone without the formality of a sale or auction, reporting of such disposal of School Board property to the Board is bypassed.

However, if all surplus property were auctioned, the need for the establishment of value by District staff is eliminated. Lastly, advertisement of surplus property is only needed if an item is intended to be auctioned, which only happens at threshold levels two and three.

Policy 7310 essentially mirrors Chapter 274 of the Florida Statutes, which states that the District *may* dispose of surplus property by donation or sale except when an item's value is estimated to be over \$5,000, at which point it *shall* be sold or auctioned. Nothing precludes School Board policy from being further strengthened as long as it complies with the minimum conditions prescribed by law.

Lastly, School Board policy 7310 currently references Florida Statute 1006.44 which apparently, no longer exists.

RECOMMENDATION:

5.1 The District Administration should consider revisiting Policy 7310 with the goal of simplifying requirements and providing for a disposition methodology that creates reportable activity, regardless of the property's value:

- **Authorize the *donation* of property only to other government agencies or non-profits. Such donations should be periodically reported to the School Board.**
- **Eliminate the need for determination of value by District staff by requiring that property, which has not been donated to other government agencies or non-profits, be disposed of exclusively via public auction or direct sale. Such auctions or sales should continue to be periodically reported to the School Board.**
- **Require advertisement of all auctions, without regard to individual item value.**
- **The District Administration should consult the School Board Attorney's Office in order to update references to the appropriate enabling statute(s) governing disposition of surplus property.**

RESPONSIBLE DEPARTMENT:

Procurement Management

MANAGEMENT RESPONSE:

School Board policy 7310 will be reviewed with the School Board Attorney's office so as to include recommended changes. Once completed, this policy will be presented to the School Board prior to the end of FY 15-16.

Exhibit A

Office of Superintendent of Schools
Board Meeting of June 17, 2015

June 5, 2015

Valtena G. Brown, Deputy Superintendent/Chief Operating Officer
School Operations

SUBJECT: YEAR END REPORT OF SCHOOL BOARD AUCTIONS

**COMMITTEE: PERSONNEL SERVICES AND STUDENT AND SCHOOL
SUPPORT**

**LINK TO STRATEGIC
FRAMEWORK: FINANCIAL EFFICIENCY/STABILITY**

School Operations held three auctions of surplus/obsolete equipment and vehicles during the 2014-2015 school year. The results of the auctions are as follows:

GROSS PROCEEDS

Total Sales		\$ 394,180.00
Buyer's Premium (Paid by buyers)		\$ 39,418.00
Sales Tax (Paid by buyers)	1	\$ 1,268.91
Forfeited Deposit		\$ 300.00
Total Monies Collected	2	\$ 435,166.91

Unauthorized payment in the amount of \$3000.00 was not disclosed on this report.

Should have been reported as \$19,564.04

EXPENSES

Auctioneer's Premium (2.68% of Buyer's Premium paid by buyers)		\$ 10,564.02
Sales Tax (Paid by buyers)		\$ 1,268.91
Overtime, Towing and Misc. Expenses		\$ 17,845.15
Total Expenses	3	\$29,678.08

Should have been reported as \$11,845.13

NET PROCEEDS FROM AUCTION \$405,488.83

Should have been reported as \$32,678.08

RECOMMENDED: That The School Board of Miami-Dade County, Florida, receive the report of the auctions of surplus/obsolete equipment and vehicles.

VGB:mf


D-67


Exhibit B (page 1 of 2)

MEMORANDUM

September 5, 2013
JFM 2013-2014/M016
JFM 305-995-1436

TO: Dr. Marcos Moran, Assistant Superintendent
School Operations

FROM: Jose F. Montes de Oca, Chief Auditor 
Office of Management and Compliance Audits

BY: Trevor L. Williams, Assistant Chief Auditor 
Operational and Performance Audits

SUBJECT: **OBSERVATION OF MIAMI-DADE COUNTY PUBLIC SCHOOLS
STORES AND MAIL DISTRIBUTION SURPLUS VEHICLE AND
EQUIPMENT AUCTION CONDUCTED ON JULY 17 AND 18, 2013**

The Office of Management and Compliance Audits, in its ongoing oversight and advisory capacity was pleased to observe the two-day surplus vehicle and equipment auction conducted on July 17 and 18, 2013. Our observation was not an audit performed in accordance with generally accepted government auditing standards, and accordingly, we do not provide any assurance regarding the integrity of the process or the accuracy of auction proceeds generated.

There are some general observations noted about the process, which we are communicating through this correspondence. We made the following observations:

- The auction was well organized and controlled.
- Auction items were properly organized, staged and labeled with lot number and description.
- Access to auction items was generally controlled.
- Instructions to bidders were adequate and appropriately communicated in writing and verbally.
- There was proper segregation of duties.
- Adequate armed security was present.
- The process was adequately monitored by M-DCPS staff to ensure adherence to the rules of the auction.
- Proper reconciliation of funds was performed.

Based on the efficiency by which the auction proceeded, it was evident that it was properly planned. Staff deserves to be commended.

We did, however, noted a matter of concern to us relative to the "post auction wrap-up" process, specifically, custody of funds collected. We were informed and observed that at the close of the auction, after the performance of a reconciliation of funds collected,

Exhibit B (page 2 of 2)

Page 2 of 2
September 5, 2013

Observation of Miami-Dade County Public Schools Stores and Mail Distribution Surplus Vehicle and Equipment Auction Conducted on July 17 and 18, 2013

that Mr. Delgado, accompanied by his staff, takes the funds on hand (i.e., cash, cashier's checks and money orders) to his office at the S&MD facility and locks them in his desk drawer overnight. For the auction observed, cash on hand at the end of the first day was approximately \$2,500, not including checks and money orders of \$13,800. At the end of the second day, cash on hand was \$4,600, not including checks and money orders of \$360,700. The group is not accompanied by armed security when making this trip to S&MD.

This process could increase the risk exposure to staff's safety and well-being, and secondarily, to the theft of assets, given that it is general knowledge to persons attending the auction that money is being collected, held on site and then transported from the site, it could create a situation for an individual(s) to monitor the activity of staff and attempt a robbery during the transporting of the funds to S&MD. We have discussed our concerns with Mr. Delgado and recommended that he consider developing an alternative process such as having one of the police officers present at the auction accompany him to the bank and deposit the funds in the drop off box, to mitigate the potential exposure.

We believe that given the efficiency and control we observed during the auction process, that the recommendation being made herein will only further strengthen the process.

Please feel free to call Mr. Williams at 995-1328 should you have any questions or require additional details concerning matters discussed in this correspondence. I would like to take this opportunity to once again express my appreciation for the cooperation and courtesies your staff extended to us during our observation.

JFM:TLW/em

cc: Mr. Raimundo Delgado
Ms. Teresita Rodriguez
Mr. Michael Hernandez
File

Management's Responses (Complete Text)

MEMORANDUM

November 18, 2015

TO: Jose F. Montes de Oca, Chief Auditor
Office of Management and Compliance Audits

FROM: Judith M. Marte, Chief Financial Officer
Financial Services

**SUBJECT: RESPONSE TO DRAFT REPORT – AUDIT OF DISTRICT'S SURPLUS
EQUIPMENT AND VEHICLE AUCTIONS FOR FY 2014-2015**

Please find the attached response to the above-referenced Draft Report – Audit of District's Surplus Equipment and Vehicle Auctions for FY 2014-2015. As noted on page 10 of your report, Stores and Mail Distribution (S & MD) was realigned under Financial Operations as a result of the Superintendent's administrative reorganization dated June 15, 2015. Prior to notification of the audit findings listed below, staff had already commenced procurement training with staff from S & MD and will continue streamlining operations in the central warehouse to afford the greatest level of control, efficiency and accountability.

The following is a list of responses to the recommendations presented within the Draft report:

1. UNAUTHORIZED PAYMENTS FOR AUCTION SERVICES WERE PROCESSED DURING THE LAST THREE FISCAL YEARS

RECOMMENDATIONS:

- 1.1 Discontinue the practice of incurring and paying additional amounts to the Auctioneer through a verbal agreement. The management and staff responsible for holding surplus equipment and vehicle auctions should be informed that the Auctioneer should only be compensated the agreed upon rate stated in the authorizing written contracts for auction services (i.e., bid or quotation).

RESPONSIBLE DEPARTMENT: Procurement Management

MANAGEMENT RESPONSE: Procurement Management will release a formal solicitation for Auction Services no later than November 30, 2015. No invoices will be paid outside the scope of the solicitation and the contract as awarded.

- 1.2 Procurement Management should provide training on proper procurement rules and practices to the management and staff responsible for holding surplus equipment and vehicle auctions. In this training, efforts should be made to inform management and staff about procurement practices that are permitted and prohibited.

RESPONSIBLE DEPARTMENT: Procurement Management

MANAGEMENT RESPONSE: Procurement Management staff, coupled with staff from Accounting will be facilitating the auctions with the awarded vendor. The staff at the Materials Management location will be assigned to take a lead role in any auction that take place under the direction of Financial Operations. All staff involved are receiving training in Procurement, as stated within School Board Policy 6320, Purchasing.

1.3 Given that the vendor with whom the District contracted for Auction Services during the last three fiscal years knowingly submitted invoices for additional payments in excess of the rates authorized by written agreements, albeit through the knowledge and instructions of the S&MD management, the District should:

- (a) Consider pursuing available means of redress, as allowed by School Board Policy 6320, to recover the unauthorized payments.
- (b) Reevaluate its business relationship with the vendor who is the subject of the unauthorized payments.

RESPONSIBLE DEPARTMENT: Procurement Management

MANAGEMENT RESPONSE: Procurement Management, with the School Board Attorney's Office will seek to suspend and/or debar this vendor from conducting any further business with the District. Additionally, staff will meet with School Board Attorney to pursue redress to recover unauthorized payments.

2. APPROPRIATE AND FAIR AWARDING OF AUCTION SERVICES CONTRACTS MAY HAVE BEEN OBSTRUCTED

RECOMMENDATION:

2.1 The District should solicit competitive sealed bids to procure auction services as soon as possible.

RESPONSIBLE DEPARTMENT: Procurement Management

MANAGEMENT RESPONSE: As stated previously, Procurement Management will release a formal solicitation for Auction Services, no later than November 30, 2015.

3. THE REPORTING OF AUCTION ACTIVITY TO THE SCHOOL BOARD DID NOT PROPERLY REFLECT ALL EXPENSES

RECOMMENDATIONS:

3.1 All payments made to vendors that are providing auction services to the District should be listed on the activity report to the School Board under the "Auctioneer's Premium" expense category and not allocated under any other category. The total

sales amount subject to the Auctioneer's Premium as well as the fee rate in effect at the time of the auction should be noted on the report.

RESPONSIBLE DEPARTMENT: Procurement Management

MANAGEMENT RESPONSE: Procurement Management, working with Accounting, will ensure that all future auction activity reports are verified and correct, prior to submission to the School Board for review and approval. Staff from Materials Management under Procurement Management will prepare the reporting documents that will be reviewed by the Controller and then the Chief Financial Officer who will transmit the report to the Superintendent for inclusion in the School Board Meeting Agenda.

- 3.2 Procurement Management should develop a process to review and approve auction activity reports and their supporting documentation prior to the reports' submission to the School Board.

RESPONSIBLE DEPARTMENT: Procurement Management

MANAGEMENT RESPONSE: Procurement Management, working with Accounting, will implement a process of verification of all auction activity reports prior to submission to the School Board. The verification process will be further reviewed by the Controller and the Chief Financial Officer.

- 3.3 A final report which summarizes the year's auction activity should be submitted to the School Board once all auctions for a fiscal year have concluded, showing itemized auction expenses and revenues, detailed separately by auction date, and then summarized for the fiscal year.

RESPONSIBLE DEPARTMENT: Procurement Management

MANAGEMENT RESPONSE: Procurement Management will submit auction activity reports upon completion of each auction to the Controller and then to the Chief Financial Officer. Subsequently a summary annual report will be transmitted to the School Board. Procurement Management, working with Accounting, will verify the content of these reports, prior to submission to the Controller and the Chief Financial Officer, who will transmit them to the Superintendent for inclusion in the School Board Agenda.

4. SOME CONTROLS APPLICABLE TO THE AUCTION PROCESS WERE CIRCUMVENTED OR IGNORED

RECOMMENDATIONS:

- 4.1 Provide refresher training and instructions to Procurement Management staff on identifying split-purchases.

RESPONSIBLE DEPARTMENT: Procurement Management

MANAGEMENT RESPONSE: As stated previously, Procurement Management will provide training in Procurement to all staff involved in auction activity, as stated within School Board Policy 6320, Purchasing.

- 4.2 In conjunction with the issuance of a competitive sealed bid for auction services, the District should therein stipulate that invoices for auction services be complete and descriptive. Specifically, future auction services invoices should contain additional detail, such as a detailed description of the services being invoiced, the total sales amount subject to the Auctioneer's Premium rate, the applicable rate, and the bid and purchase order numbers.

RESPONSIBLE DEPARTMENT: Procurement Management

MANAGEMENT RESPONSE: As stated previously, Procurement Management will release a formal solicitation for Auction Services no later than November 30, 2015. Within the scope of work, vendor invoices must contain a detailed description of services provided, as well as Auctioneer(s) rates, in order to be considered a properly submitted invoice.

- 4.3 The District should review the electronic approval business rules to ensure there is proper segregation of duties between the creator and approver of requisitions and purchase orders. The functions of creating and approving requisitions and purchase orders by the same person should systematically be disallowed.

RESPONSIBLE DEPARTMENT: Procurement Management

MANAGEMENT RESPONSE: Procurement Management, working with system security staff in the Office of Information Technology, will review the current SAP business rules for approval of shopping carts to ensure segregation of creation/approval responsibilities. It is important to note that, the segregation of creating and approving requisitions is now in place.

- 4.4 Enforce deadlines established for depositing auction proceeds received. Payments accepted after the day of the auction should be deposited on the same day they are received, if possible, or the next business day to ensure that payments are processed timely and securely.

RESPONSIBLE DEPARTMENT: Procurement Management

MANAGEMENT RESPONSE: All proceeds from auction activities will be delivered promptly, to the bank via armored carrier at the close of the auction, while those proceeds received after the close of the auction will be deposited as required.

- 4.5 Future payments for auction services should be reviewed and approved by the Procurement Management or the Administrator to whom the S&MD administration reports.

RESPONSIBLE DEPARTMENT: Procurement Management

MANAGEMENT RESPONSE: All auction activity payments will follow terms and conditions of the Auction Services solicitation, which includes but is not limited to the submission of a properly completed invoice(s).

Procurement Management will receive and process invoices utilizing SAP. Backup documentation will be verified to ensure compliance with the solicitation.

5. SCHOOL BOARD POLICY GOVERNING DISPOSITION OF SURPLUS PROPERTY SHOULD BE SIMPLIFIED

Recommendations:

5.1 The District Administration should consider revisiting Policy 7310 with the goal of simplifying requirements and providing for a disposition methodology that creates reportable activity, regardless of the property's value:

- Authorize the donation of property only to other government agencies or non-profits. Such donations should be periodically reported to the School Board.
- Eliminate the need for determination of value by District staff by requiring that property, which has not been donated to other government agencies or non-profits, be disposed of exclusively via public auction or direct sale. Such auctions or sales should continue to be periodically reported to the School Board.
- Require advertisement of all auctions, without regard to individual item value.
- The District Administration should consult the School Board Attorney's Office in order to update references to the appropriate enabling statute(s) governing disposition of surplus property.

RESPONSIBLE DEPARTMENT: Procurement Management

MANAGEMENT RESPONSE: School Board policy 7310 will be reviewed with the School Board Attorney's office so as to include recommended changes. Once completed, this policy will be presented to the School Board prior to the end of FY 15-16.

JMM:aar
M032

cc: Ms. Melody Thelwell
Trevor L. Williams

Anti-Discrimination Policy

Federal and State Laws

The School Board of Miami-Dade County, Florida adheres to a policy of nondiscrimination in employment and educational programs/activities 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 gender 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.

Title II of the Genetic Information Nondiscrimination Act of 2008 (GINA) - prohibits discrimination against employees or applicants because of genetic information.

Boy Scouts of America Equal Access Act of 2002 – no public school shall deny equal access to, or a fair opportunity for groups to meet on school premises or in school facilities before or after school hours, or discriminate against any group officially affiliated with Boy Scouts of America or any other youth or community group listed in Title 36 (as a patriotic society).

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.

In Addition:

School Board Policies 1362, 3362, 4362, and 5517 - Prohibit harassment and/or discrimination against students, employees, or applicants on the basis of sex, race, color, ethnic or national origin, religion, marital status, disability, genetic information, age, political beliefs, sexual orientation, gender, gender identification, social and family background, linguistic preference, pregnancy, and any other legally prohibited basis. Retaliation for engaging in a protected activity is also prohibited.

INTERNAL AUDIT REPORT

AUDIT OF DISTRICT'S SURPLUS EQUIPMENT AND VEHICLE AUCTIONS FOR FY 2014-2015



**MIAMI-DADE COUNTY PUBLIC SCHOOLS
Office of Management and Compliance Audits
1450 N.E. 2nd Avenue, Room 415
Miami, Florida 33132**

Telephone: (305) 995-1318 ♦ Fax: (305) 995-1331
<http://mca.dadeschools.net>
