

Internal Audit Report

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



MIAMI PARTNERSHIP FOR ACTION IN COMMUNITIES TASKFORCE (PROJECT MPACT)



Internal and management controls over the program's activities were inadequate and contributed to instances of non-compliance with grant requirements, mismanagement, misfeasance, waste, abuse and fraud. The results of the audit reported is a case study of "what not to do" in the management of contracts and grants, and provide "lessons learned" from which district management could benefit in managing future contracts, grants and programs.

June 2013

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Miami-Dade County Public Schools

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June 17, 2013

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:

At the request of the former Deputy Superintendent of District/School Operations, we performed an audit of The Miami Partnership for Action in Communities Task Force (Project MPACT). The objective of the audit was to assess the program's internal controls and the propriety of expenditures. The scope of our audit included the program's activities from the 2002-03 through 2009-10 fiscal years.

Although we completed our audit fieldwork in August 2010, the issuance of our audit report was delayed pursuant to a directive from the former Chief of Police of the Miami-Dade County Schools Police Department (M-DSPD), which was confirmed by the State Attorney's Office, which initiated joint criminal investigations of Project MPACT while our audit fieldwork was in progress. The U.S. Department of Labor's Office of Inspector General had also initiated a concurrent investigation of Project MPACT. On May 15, 2013, the Acting Chief of Schools Police officially informed us that the three investigative agencies had closed out their investigations and we were permitted to issue our report.

In its closeout memorandum, the State Attorney's Office concluded that records were inadequate and incomplete, there was the appearance that the contact entities did not perform the duties required, and that the comingling of funds and lack of oversight created a situation where there is very little hope of proving criminal charges against any person or persons beyond a reasonable doubt. Therefore, the case was closed without prosecution of any involved persons.

Office of Management & Compliance Audits

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Our audit disclosed numerous instances of material weaknesses, misfeasance, and a case of a small payroll fraud. We also noted several instances of non-compliance with grant requirements.

The process in place to disburse stipends to program participants was inadequate, wasteful and presented an apparent conflict of interest. One of the MPACT partnering firms was paid \$13,882 to serve as the "middleman" to disburse stipends to program participants when in fact the Project MPACT staff distributed the stipends to program participants. The use of \$140,800 allocated to another Project MPACT partnering company to provide on-the-job training, mentoring, supervision, and wages to program participants, was inequitably weighted to the company's advantage in that only a mere \$9,650 or 7% was paid in wages to six Project MPACT participants while the company retained \$94,955 or 67% of the funds it received.

Due to lax management practices, records detailing the number of program participants were inaccurate and incomplete. Also, a number of program participants did not meet the eligibility criteria for participation in the program. The program's manager demonstrated wasteful and abusive fiscal management. Payments to contracted program partners were sometimes made without ensuring that the services had been provided. Also, payroll taxes were not deducted from worksite stipends paid in cash to Project MPACT participants, and neither the required Internal Revenue Services (IRS) form was filed with the IRS nor was the appropriate payroll taxes paid to the Service.

Management was non-compliant with the parameters laid out in grant documents filed with the U.S. Department of Labor. Fifty-three program participants were permitted to work total hours that exceeded the 240-hour and eight-week work limits.

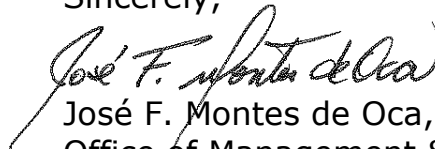
A payroll fraud in the amount of \$767 was perpetrated by a full-time Project MPACT employee, whereby that employee was paid overtime wages for hours reportedly worked during the same times the employee was enrolled in and attending classes at a local university. In addition, the payroll process was circumvented to allow four Project MPACT employees, including the employee already mentioned, to continue to receive wages in excess of their regular salaries while working in both full-time and part-time positions after a moratorium on overtime pay (which the employees were regularly receiving) was established.

Finally, we noted apparent conflicts of interest involving members of the Steering Committee whose companies or firms received contracts to provide

services to Project MPACT while these individuals were actively associated with the Committee.

We have discussed our findings and recommendations with management and their response and explanation are included in the attachment to this report. As noted in Finding No. 3, the United States Department of Labor terminated the funding of this program; therefore, the recommendations being made are intended to provide the framework for contract and grant program managers to assess their operations to ensure that adequate internal controls and management practices are in place to avoid the recurrence of the conditions found in Project MPACT in other district programs. We would like to thank the new management for the cooperation and courtesies extended to our staff.

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, CPA, Chief Auditor
Office of Management & Compliance Audits

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EXECUTIVE SUMMARY

Shortly after receiving organizational control of The Miami Partnership for Action in Communities Task Force (Project MPACT), pursuant to a reorganization on July 15, 2009, the former Deputy Superintendent of District/School Operations requested that we perform an audit of the program to assess the internal controls in place and the propriety of the program's expenditures. Prior to the reorganization, Project MPACT was layered organizationally under the Miami-Dade County Schools Police Department (M-DCSP), which in October 2002, created Project MPACT as a community-wide collaboration involving the School District, law enforcement, the juvenile justice system, local community based organizations, service agencies, local businesses and the community at large. The program's goals were to increase reading and math scores for youths served, reduce youth offenders drop-out numbers, reduce the number of students lost in the ninth grade, improve employment and education outcomes for out-of-school offenders, and reduce the number of youths involved in gangs and criminal activities.

In the course of performing our audit, we received assistance from the M-DCSP. Our audit fieldwork was completed between March and August 2010. However, the issuance of our audit report was delayed at the order of the M-DCSP and the State Attorney's Office, which initiated joint criminal investigations of Project MPACT while our audit fieldwork was in progress. The U.S. Department of Labor's Office of Inspector General also initiated a concurrent investigation of Project MPACT. On May 15, 2013, the Acting Chief of Schools Police officially informed us that the three investigative agencies had closed out their investigations and we were permitted to issue our report.

In its closeout memorandum, the State Attorney's Office concluded that records were inadequate and incomplete, there was the appearance that the contact entities did not perform the duties required, and that the comingling of funds and lack of oversight created a situation where there is very little hope of proving criminal charges against any person or persons beyond a reasonable doubt.

From August 2008 to October 2010, the program was funded with a \$4 million grant from the U.S. Department of Labor (DOL). The program was terminated upon expiration of DOL funding in October 2010.

Our audit disclosed numerous instances of material weaknesses, misfeasance, and a case of a small payroll fraud. We also noted instances of non-compliance with the DOL grant requirements.

- The process in place to disburse stipends to program participants was inadequate, wasteful and presented an apparent conflict of interest. Specifically, Counseling and Educational Consulting (CEC), one of the Project MPACT partnering firms, was paid \$13,882 to serve as the "middleman" to disburse stipends to program participants. However, in reality, the Project MPACT staff distributed the stipends to program participants.
- Monies received by CEC in trust for Project MPACT participants were not kept in a separate bank account; instead, they were commingled with the company's working capital. In addition, unused funds were retained by CEC and the MPACT Program Coordinator although contract specifications stated that unused funds should be returned to the District.
- As of August 2010, the date our fieldwork ended, CEC had not provided the specified contract deliverables, although the firm was paid 100% of the contract amount.
- Funds provided to Palmetto Homes of Miami, Inc., another Project MPACT partnering company, were disproportionately used to the company's advantage and not to the participants' benefit; and in some cases, were used for purposes not authorized by the contract. Records disclosed that of the \$140,800 allocated to the company to provide on-the-job training, mentoring, supervision, and wages to program participants, only a mere \$9,650 or 7% was paid in wages to six Project MPACT participants while \$94,955 or 67% was retained by the company.
- Lax management practices needlessly exposed Project MPACT and the District to increased risks. Records detailing the number of program participants were inaccurate and incomplete and some program participants did not meet the eligibility criteria for participation in the program.
- The program's manager demonstrated wasteful and abusive fiscal management. Payments to contracted program partners were sometimes made without ensuring that the services being paid for had been provided.
- Management was non-compliant with the parameters laid out in grant documents filed with the U.S. Department of Labor. Fifty-three program participants out of the list of 242 participants provided to us

were permitted to work total hours that exceeded the 240-hour and eight-week work limits. Some participants worked for as many as two years.

- Payroll taxes were not deducted from worksite stipends paid in cash to Project MPACT participants. In addition, neither the required Internal Revenue Services (IRS) form was filed with the IRS nor were the appropriate payroll taxes paid to the Service.
- A payroll fraud in the amount of \$767 was perpetrated by a full-time Project MPACT employee, whereby that employee was paid overtime wages for hours reportedly worked during the same times the employee was enrolled in and attending classes at a local university.
- The payroll process was circumvented to allow four Project MPACT employees to continue receiving wages in excess of their regular salaries after a moratorium on overtime pay (which the employees were regularly receiving) was established. To effectuate this circumvention, the employees obtained hourly positions in Project MPACT while maintaining their existing full-time positions.
- There was a lack of compliance with district payroll procedures regarding documenting employee's daily attendance, as outlined in the *Payroll Processing Procedures Manual*. For pay periods prior to July 25, 2008, the payroll clerk in Project MPACT failed to utilize the Daily Payroll Attendance Sheet (DPAS) to document employee's presence at work. A surrogate report – MPACT Biweekly Attendance Forecast Report, identified as being used in lieu of the DPAS contained no "sign-in" or "sign-out" markings to indicate employees' presence.
- Recordkeeping of time and attendance for both hourly and part-time payrolls was inadequate, necessitating numerous payroll corrections. Even after the recorded corrections were made, net overpayments of 139 hours to employees remained.
- Although they were only paid the maximum of 50 hours per pay period, 20 hourly-paid employees exceeded the 50-hour work limit for hourly-paid employees during various pay periods.
- The contracts executed with vendors to provide services were typically vague and lacked specificity regarding deliverables.
- Records we reviewed disclosed a number of relations involving Project MPACT which were apparent conflicts of interest. The apparent

conflicts emanated from the structure of governance. Companies or firms owned by some members of the Steering Committee received contracts to provide services to Project MPACT, while they were actively associated with the committee.

As stated earlier, the U.S. Department of Labor, the program's major provider of funds terminated its funding of the program. In October 2010, the major operations of Project MPACT ceased and several Project MPACT staff were terminated, leaving a limited number of staff, all of whom were subsequently either terminated or transferred to another district office. Although Project MPACT's operations have discontinued, we believe there are a number of lessons to be learned and benefits to be derived from chronicling these conditions as they occurred in this program. The recommendations provided could set the framework for district's contract and program managers to assess their respective programs to ensure that adequate internal controls and good management practices are in place.

Please refer to our detailed findings, which present more information that is integral to fully understanding the conditions described above and the circumstances giving rise to them.

INTERNAL CONTROLS

Our overall evaluation of internal controls for Project MPACT is summarized in the table below.

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

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

BACKGROUND

The Miami Partnership for Action in Communities Task Force (Project MPACT) was created by the Miami-Dade County Schools Police Department (M-DCSP) in October 2002. Project MPACT was created as a community-wide collaboration involving the School District, law enforcement agencies, the juvenile justice system, local community based organizations, service agencies, local businesses and the community at large. The program's goals were to increase reading and math scores for youth served, reduce youth offenders drop out numbers, reduce the number of students lost in the ninth grade, improve employment and education outcomes for out-of-school offenders, and reduce the number of youths involved in gangs and criminal activities. The stated strategies to achieve these goals included: education, community involvement, mentoring, social intervention, personal/social responsibility, job skills development, and career awareness.

Project MPACT targeted "at risk" youths between the ages of 12 and 22. For the purposes of Project MPACT, "at risk" youths were defined as youths with known gang affiliation, either by self-admission or through referral by a third party (e.g., school, the juvenile justice system, community agencies, police, parent). Younger siblings of known "criminally involved" youths, gang members, or those having the "potential" to become gang-affiliated or "criminally involved" were also considered to be "at risk." One of Project MPACT's goals was to increase number of participants served over the three-year period beginning December 1, 2007, by having 200 participants in the first year, 300 in the second year, and 400 in the third year.

The communities served by the program were all located in the North section of the county. The area expanding from 175th Street on the South to County Line Road on the North, and 27th Avenue on the East to 67th Avenue on the West. Seven secondary schools were included in the program: Carol City Senior, Carol City Middle, Lake Stevens Middle, American Senior, Jan Mann Opportunity School, Douglas McArthur North Senior, and Hialeah-Miami Lakes Senior. Douglas McArthur North Senior and Hialeah-Miami Lakes Senior housed the on-the-job training (OJT) component of the program in addition to providing referrals to the program.

Pursuant to Project MPACT's guidelines, once a youth was referred to the program, a comprehensive intake was to be conducted by an Intervention Team (IT). The IT was made up of representatives from law enforcement agencies, district schools, probation/parole office, the State Attorney's Office, the Department of Juvenile Justice, and social service. The IT was responsible for compiling and reviewing the intake file and voting on whether to accept the applicant into the program. Those applicants not meeting the

eligibility requirements were to be referred to the appropriate services, including entry into an alternative education school. Once the youth was accepted into the program, an Individual Treatment Plan (ITP) was to be tailored to his/her needs, based on the results of additional assessments completed and the ability of partnering agencies to provide the services.

Interventions included home and school visits, OJT, classroom instructions, counseling (including one-on-one contact), life skills training, etc. The type of intervention given to each participant was also dependent on his/her age. Youths between the ages of 12 and 15 were eligible to receive life skills/career development instructions. Upon reaching age 15, youths became eligible to participate in vocational training and job readiness skills classes. Upon completing both classes and reaching the age of 16, youths were eligible to commence the OJT component of the program, and were assigned to a worksite, either in the District or at one of the program's local business partners, where they were allowed to work a maximum of 30 hours per week for up to 8 weeks. This component was tailored to give participating youths an opportunity to learn construction, landscaping, painting, window glazing and secretarial skills while receiving wages while they worked. In addition, all students receiving OJT were to receive 10 hours of Occupational Safety and Health Administration (OSHA) training and certification that could be utilized in a variety of career fields.

Payments to youths participating in OJT were processed either through the District's payroll department or through two of the programs local business partners – Palmetto Home of Miami, Inc., and Counseling and Educational Consulting, Inc.; both members of the Steering Committee, Project MPACT's governance structure. The District contracted with these partners to facilitate payments to youths for OJT.

The program was funded mainly by two agencies, the Office of Juvenile Justice and Delinquency Prevention (OJJDP) and the United States Department of Labor (DOL), but also received funding from other entities. The OJJDP funded the program from September 2002,¹ through December 2006, via a grant of \$1,050,000 awarded to the District. Final expenditures reported under the OJJDP funding were \$831,027, of which the District was reimbursed \$614,513. After the OJJDP grant expired, Project MPACT's staff worked with the leadership of M-DCSP, the program's Steering Committee co-chairs, and the then Superintendent of Schools to keep the program. This effort resulted in the District funding the program from December 2006, through July 2008. From August 2008 through October 2010, the program

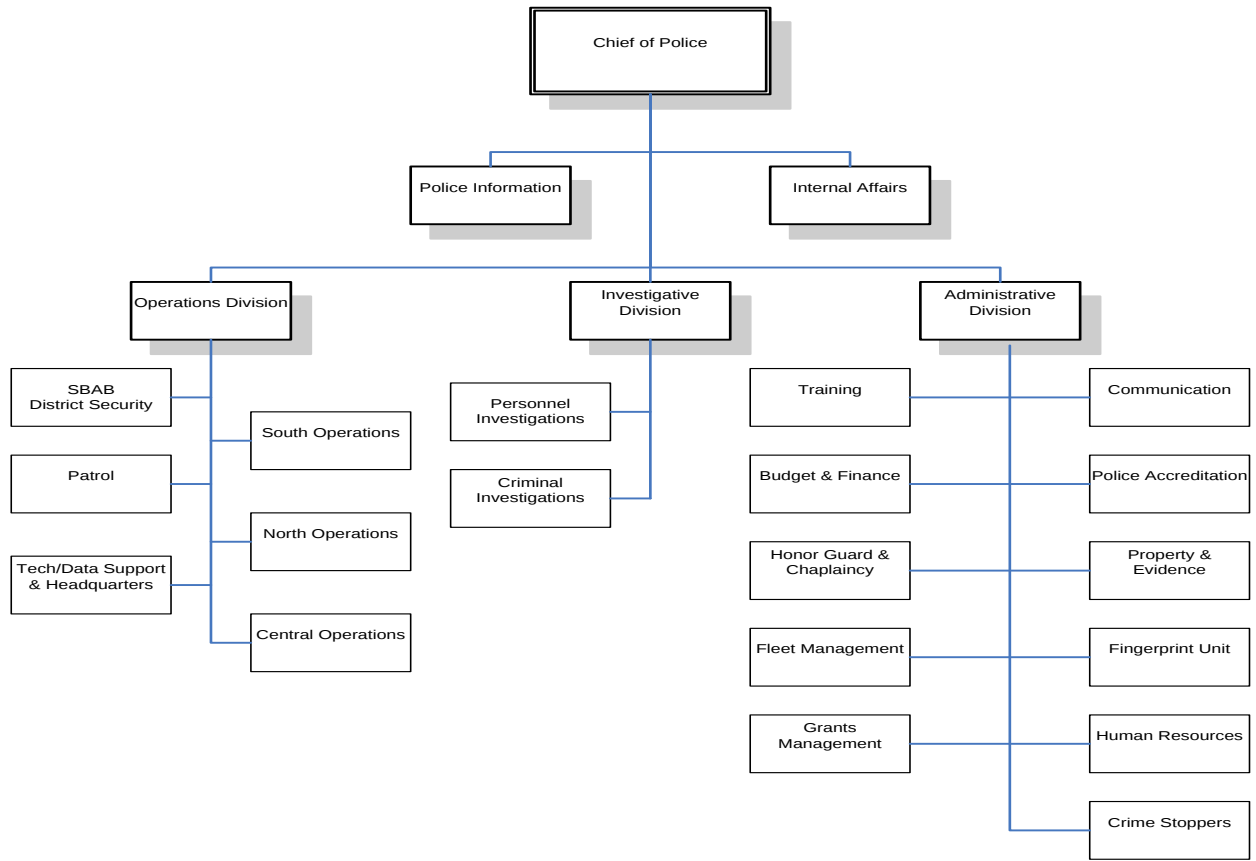
¹ At this time of initial funding, the program, in its predecessor form, operated under the name of Gangs Free Schools and Communities.

was funded with a \$4,000,000 grant from the U.S. DOL. On August 30, 2010, there was approximately \$1,600,000 of funds available from the DOL's grant.

At its inception, Project MPACT organizationally rested within the M-DCSP and was administered by a Program Coordinator under the direction of a Steering Committee. Project MPACT's Program Coordinator was responsible for the overall management of the program, including the program's budget and reported directly to the Steering Committee. The Steering Committee, consisting of representatives from each stakeholder group mentioned above, that is, the school district, law enforcement, the juvenile justice system, local community based organizations, service agencies, local businesses and the community at large, was responsible for the overall guidance and direction of the program.

The School Board of Miami-Dade County, at its July 15, 2009, meeting, approved a change in Project MPACT's reporting structure, whereby the program was moved from reporting to the M-DCSP to District/School Operations. At the beginning of our audit, in March 2010, the program had five full-time and approximately 60 part-time (hourly-paid) employees. The part-time employees included student workers participating in the OJT training section of the program. In September 2010, when the Program Coordinator was placed on alternate assignment, the program's staff was reduced to essentially three employees. The program was terminated upon the expiration of U.S. DOL funding in October 2010.

CONDENSED ORGANIZATIONAL CHART



1 Chief
 3 Majors
 3 Captains
 11 Lieutenants
 28 Sergeants
 115 Officers
 (AUTHORIZED STRENGTH = 161 Sworn Personnel)

August 2010

OBJECTIVES, SCOPE AND METHODOLOGY

At the request of the former Deputy Superintendent of the District/School Operations, we performed an audit of The Miami Partnership for Action in Communities Task Force (Project MPACT). The objectives of the audit were to assess the internal controls in place over the program and the propriety of expenditures. The scope of our audit included program activities during fiscal years 2002-03 through 2009-10.

Procedures performed to satisfy our audit objectives were as follows:

- Interviewed program and other district staff.
- Interviewed program's partners and other unrelated parties.
- Reviewed department's standard operating procedures, program's grant documents, applicable state statutes, school board rules and policies, and applicable district manuals.
- Examined invoices, contracts, bids, ledgers and other documentation supporting the department's purchases.
- Examined grant application and evaluation reports.
- Reviewed district's and participating vendors' payroll records.
- Examined participating vendors' bank statements and cancelled checks.
- Reviewed evidence of district employee's enrollment in university classes during the audit period.
- Examined documents evidencing tuition reimbursement for university class completed by a district employee.
- Performed various other audit procedures as deemed necessary.

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. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions, based on our audit objectives. This audit included an assessment of applicable internal controls and compliance with the requirements of policies, procedures, rules and grant agreements to satisfy our audit objectives.

FINDINGS AND RECOMMENDATIONS

1. COUNSELING AND EDUCATIONAL CONSULTING (CEC)

Counseling and Educational Consulting, Inc., (CEC) was a participating partner involved with Project MPACT and was represented on the Steering Committee through its corporate officers/directors. We reviewed four (4) contractual agreements totaling \$240,426 between the School District and CEC. The terms of the agreements were from February 2004 to June 2004 for a contract valued at \$17,500, September 2004 to August 2006 for a contract valued at \$110,000, September 2007 to June 2008 for a contract valued at \$62,926 and June 2008 to May 2009 for a contract valued at \$50,000. As stipulated in the contracts, CEC was to provide Project MPACT with consultation services as a research partner, serve as a fiscal agent and disburse stipends to student participants of the program.

Nature of the Agreements

Our review of the agreements disclosed that the process in place to disburse stipends to program participants was inadequate, wasteful and presented an apparent conflict of interest. Specifically, CEC was paid approximately \$13,900 to serve as the "middleman" for disbursing district grant funds. When asked about the rationale for this arrangement, the MPACT Program Coordinator indicated that CEC served as a fiscal agent or administrator of funds because it was too cumbersome to request funds from the District every time a disbursement for stipends was needed. The process to disburse the stipends to students, as described by the MPACT Program Coordinator, began with emailed requests for a predetermined amount from the Program Coordinator to CEC. In return, CEC issued checks payable to the Program Coordinator who would then go to the bank, cash the checks and disburse the stipends to the program participants. Records reviewed indicated that from March 2004, to May 2009, CEC issued checks payable to the Program Coordinator totaling \$86,364.

Participant's Stipends Under the Program

The program participants received two types of stipends, classroom stipends and worksite stipends. According to the MPACT Program Coordinator, classroom stipends were paid to program participants who attended an "on-the-job pilot program." The pilot program consisted of four (4) modules that coincided with each nine-week period of the established schedule for the pilot program. If students completed all four modules, they were awarded four stipends of \$250 each. However, if students were absent or late, a deduction of \$12.50 or \$6.25 was applied, respectively, for each incidence of absence or tardy. The total amount of classroom stipends each student received was determined based on the information obtained from the classroom teacher. Worksite stipends were paid on a hourly basis to program participants who were assigned employment at partnering companies through the program's OJT component. The vast majority of the worksite stipends was based on actual wages earned by the participants while working for or under the supervision of Palmetto Homes of Miami, Inc. From March 2004, to May 2009, \$78,355 was disbursed as cash stipends to 93 program participants, including 11 who received both, classroom and worksite stipends. The distribution of the cash stipends was as follows: \$71,285 in classroom stipends and \$7,070 in worksite stipends, of which \$4,562 was paid by Palmetto Homes of Miami, Inc., to nine program participants.

First Contract (\$17,500; February 2004 to June 2004)

Our review of the first contract (\$17,500) disclosed that the District paid for services and deliverables prior to their receipt. In addition, funds disbursed to CEC and the MPACT Program Coordinator were unaccounted for. The contract, executed on February 1, 2004, stipulated that CEC would administer the program's activities, serve as fiscal agent, distribute \$16,000 to authorized vendors and persons, and receive a lump sum payment of \$17,500 upon completion of the services. However, on March 8, 2004, the M-DCSP Administration submitted a "Vendor's Payment Manual Check Request" to pay CEC \$17,500 and CEC was paid the full contract sum prior to the completion of the said services. Further, our review of the account ledgers submitted by CEC disclosed that from the sum received, CEC disbursed \$9,159 to the MPACT Program Coordinator for participants' stipends and charged a fee of \$1,500 as fiscal agent. We did not find evidence that the remaining \$6,841 was returned to the District. The MPACT Project Coordinator indicated that unused funds were "carried over" beyond the contract term as long as the grant was funded. The CEC Co-Director who serviced the contract stated that during the terms of this contract, CEC did not keep a separate bank account for Project MPACT funds. Therefore,

the remaining funds were obviously commingled with the company's working capital.

We further analyzed the \$9,159 paid to the MPACT Program Coordinator to determine how the funds were used. Our review of receipt books submitted by the Project Coordinator, and signed by students who received stipends, disclosed that of the \$9,159, a total of \$8,150 or 89% was disbursed to participants as cash stipends. The Program Coordinator stated that from the checks received from CEC, she also purchased snacks, incentives and supplies for the program, and that any remaining cash, in this instance \$1,009, was kept in a locked box in her desk drawer. We reviewed several store receipts submitted by the Program Coordinator for snacks, supplies and incentives; however, no receipts were submitted for this contract period. Thus, the \$1,009 is unaccounted for and considered questioned costs.

Second Contract (\$110,000; September 2004 to August 2006)

Our review of the second contract (\$110,000) disclosed that the contract was vague and lacked specificity regarding how the contract amount was to be allocated. Similar to the first contract, the District paid for services and deliverables prior to their receipt. In addition, excess funds were disbursed to CEC and the MPACT Program Coordinator. Our review of the account ledgers submitted by CEC indicated that \$63,500 was allotted for stipends and vendor payments, \$6,500 for fiscal agent fee, and \$10,000 for grant management fee. However, we could not determine how the remaining \$30,000 was allocated since they were not reflected in the account ledgers. The CEC Co-Director who serviced the contract indicated that in a meeting with the MPACT Program Coordinator and her supervisor, it was agreed that for this contract, CEC would receive \$30,000 (\$15,000 each year for two years) as a "research partner" fee in addition to the \$6,500 allocated for fiscal agent fees.

Further review of the account ledgers disclosed that of the \$63,500 allotted for stipends, \$35,476 was disbursed in checks payable to the MPACT Program Coordinator. Our review of receipts books submitted by the MPACT Program Coordinator, and signed by the participants disclosed that \$28,320 or 80% was distributed as cash stipends. As stated above, the MPACT Program Coordinator indicated that any unused cash was stored in a locked box in her desk drawer. In this case, the unused funds amounted to \$6,675. A reconciliation of the amount awarded and the total expenditures disclosed that similar to the first contract, CEC had \$24,223 or 22% of the awarded amount remaining in its account. Again, because these funds were not kept

in a separate account, they were obviously commingled with the company's working capital.

Third Contract (\$62,926; September 2007 to June 2008)

In contrast to the second contract, the terms on the third contract, including the allocation of the contract sum, were specifically delineated. This contract was awarded for \$62,926 and earmarked \$3,146 to provide evaluation methodology, design, analyses and reporting; \$46,898 in stipends and incentives to be disbursed to program participants; \$2,882 for administrative fee and \$10,000 to pay subcontractors for worksite supervision and training of program youth in connection with the program's OJT component. However, our review disclosed that funds were not used as intended and similar to the first and second contracts, the District paid for services and deliverables prior to their receipt. In addition, excess funds were retained by CEC and the MPACT Program Coordinator in spite of contract specifications indicating that any unused funds be returned to the District.

In evaluating the propriety of the payments made under this contract, we requested and were provided with various documents and explanations from CEC and the MPACT Program Coordinator. However, evidence to corroborate that CEC was entitled to receive \$3,146 paid for evaluation methodology, design, analyses and reporting was not presented for audit. CEC indicated that this contract deliverable consisted of meetings with MPACT program staff to design a database for the program. Subsequent to the expiration of this contract, in June 2008, CEC was awarded a separate contract for \$50,000 to design and evaluate the same database. Therefore, it appears that the contracts overlapped and the District paid for the same services under both contracts.

As noted above, the contract allocated \$46,898 for stipends and incentives to be disbursed to program participants. CEC account ledgers indicated that within the ten-month contract term, it had disbursed only \$10,242 to the MPACT Program Coordinator for stipends and incentives, leaving a balance of \$36,656 for that intended purpose. However, based on receipts issued by Project MPACT's staff, within the 10-month contract term, only \$12,139 was paid as cash stipends to program participants. In this instance, the funds disbursed to the MPACT Program Coordinator were less than the sum paid to the program participants. The MPACT Program Coordinator indicated that funds from previous years were used to pay for the difference.

The contract states, "CEC will disburse stipends and incentives to students..." The receipts presented for audit indicate that stipends were in fact disbursed by Project MPACT's staff and not by CEC; therefore, CEC did

not earn the \$2,882 in administrative fee it received. One of the CEC Co-Director stated that CEC received \$2,882 to serve as the "fiscal agent" and that the MPACT Program Coordinator and CEC had agreed that the disbursing of funds to students would be performed by the MPACT Program Coordinator.

The fourth amount allocated by the contract was \$10,000 to pay subcontractors for worksite supervision and training of program youth in connection with the program's OJT component. CEC's account ledgers reflected a \$10,000 disbursement to Palmetto Homes of Miami, Inc. According to the MPACT Program Coordinator, Palmetto Homes of Miami, Inc., was the subcontractor in charge of supervising program participants while they were completing OJT. The MPACT Program Coordinator and the President of Palmetto Homes of Miami, Inc., indicated that these funds were used by the company to pay for workers' compensation, general liability and builders risk insurance. However, the contract specifically allocated these funds for the supervision and training of program youth; therefore, funds were not used for the intended purpose.

As noted above, this contract explicitly stated that unused funds were to be returned to the District. However, our review disclosed that CEC retained \$45,180 of unused funds instead of returning them to the District. Although CEC did not comply with this contract provision, starting in August 2008, the company deposited the funds in a separate bank account dedicated to the MPACT program only. Thus, the commingling of funds was eventually corrected after the contract's expiration.

Fourth Contract (\$50,000; June 2008 to May 2009)

The fourth contract reviewed was awarded for \$50,000 to CEC to provide "research evaluation services – research reports and related activities." The audit evidence reviewed indicated that as of August 2010, CEC had not provided the specified contract deliverables and was paid 100% of the contract amount.² Once again, the District paid for services and deliverables it did not receive. More specifically, two reports were not delivered. The first report was to provide the results of a client satisfaction survey of a focus group consisting of program participants and stakeholders. The second report was a comprehensive program evaluation. In May 2010, one year after the contract expired, we requested, from CEC copies of the reports CEC were engaged to prepare. At that time, a CEC Co-Director indicated that both reports were in progress and would be submitted to the District as soon as they were completed. Subsequently, in August 2010, 15 months after

² The fifth and final payment of \$10,000 was processed in June 2009.

the due date, and at our request, CEC submitted an evaluation report and stated that this was the only deliverable due.

Between 2004 and 2009, CEC disbursed \$86,364 of the \$240,426 received to the MPACT Program Coordinator. During the same period, the MPACT Program Coordinator paid \$78,355 in classroom and worksite stipends to program participants, including \$48,609 paid within the contracts' terms of agreement and \$29,746 paid outside of the contracts' terms of agreement. Store receipts for snacks and supplies submitted by the MPACT Program Coordinator accounted for approximately \$7,050 of the funds received from CEC. Therefore, \$959 of the funds disbursed to the MPACT Program Coordinator was unaccounted for. Moreover, although we reviewed and included these receipts in our reconciliation, we were unable to conclude, with certainty, that all expenditures benefited Project MPACT participants. (Please refer to Table 2.)

Fifth Contract (\$70,000; June 2009 to August 2010)

At the time of commencing our audit, Project MPACT's management had approved a contract with CEC to provide services that were similar to those already being provided³, starting on June 1, 2009, for a sum of \$70,000. The execution of this contract was halted and subsequently abandoned due to our audit activity.

Payroll Tax Matter

Through the first three contracts, \$7,070 was paid to participants for worksite stipends. According to the MPACT Program Coordinator, the worksite stipends were based on actual wages earned by the participants while working under the supervision of Palmetto Homes of Miami, Inc., and did not include a deduction for payroll taxes. Consequently, neither the payroll tax deduction from the participants' wages nor the portion required to be paid by the employer⁴ (i.e., M-DCPS) was remitted to the Internal Revenue Service (IRS)⁵. In addition, the appropriate IRS forms (i.e., Forms W-2 and 941) were not distributed to the participants or submitted to the IRS.

Conclusion

Overall, the contract management practices employed were inadequate and the process for disbursing cash stipends and monitoring receipt of contract deliverables was flawed. Furthermore, the disbursement of cash stipends and vendor payments did not conform to district policy or reflect sound business practice. Due to the lack of internal controls and appropriate bookkeeping practices, monies M-DCPS paid to CEC to serve as a research partner and fiscal agent were not used in a manner that maximized or accomplished Project MPACT's program objectives; and were wasteful. In fact, based on the evidence we reviewed, some monies were not even used

³ CEC was to provide evaluation services as established in the U.S. DOL grant proposal, continue to maintain the database designed to collect participant data, conduct focus groups with program participants, agency partners and staff to evaluate the program's success, and disburse scholarships and incentives to participants (\$20,000 carved out of the \$70,000 contract value).

⁴ Although the participants received OJT while working under the supervision and direction of Palmetto Homes of Miami, Inc., they were employed by M-DCPS.

⁵ Although the \$78,355 classroom stipends paid to program participants, as mentioned in pages 12 and 16 of this report, are taxable, pursuant to Section 117 of the Internal Revenue Code (26 USC § 117) and IRS Publication 970, the payer is not required to withhold taxes from these amounts or report these payments to the IRS. The recipient, however, is required to report the taxable amount received in his/her federal income tax return. In contrast, the worksite stipends are constructively wages and are subject to payroll tax withholding and reporting requirements.

for their intended purposes and unused funds were inappropriately retained by CEC.

RECOMMENDATIONS

- 1.1 The contract development and review process pertaining to the issuance of contracts for services should be evaluated and strengthened. In developing contracts for services, program managers should ensure that contract terms are specifically delineated in a manner that clearly identify deliverables, match performance/deliverables in a quantifiable way to support payment, and enable monitoring of vendor's performance. Structuring contracts for services in this manner would provide the contract manager with the means and leverage to better manage the contracts and control payments. In addition, after contracts are developed by the program managers, the contracts should be forwarded to the School Board Attorney's Office for their review of both the form and substantive content of the contracts.
- 1.2 The contract management and monitoring functions also require strengthening. Staff should ensure that prior to issuing payment; the specific deliverable has been received. Where deliverables are tangible, (i.e., a report, a certificate, completion of a specific task that is supportable by documentation), a copy of the supporting document should accompany the vendor's invoice. Where deliverables are intangible, (e.g., the passage of time, percentage of completion), a substantive progress report should accompany the vendor's invoice.
- 1.3 Program managers should coordinate the development and execution of the contract with the Office of the Controller and the School Board Attorney's Office to ensure compliance with tax reporting requirements.
- 1.4 Policies and procedures should be put in place to prohibit staff from structuring contractual instrumentality and methodology which creates conduits for indirect payment of district funds to employees or other third parties as described in this finding.

Breakdown of Funds Awarded to CEC, Inc. – TABLE 1						
Contract Term of Agreement	Amount Awarded to CEC	Fees Charged by CEC	Amount Disbursed by CEC to Other Vendors	Amount Disbursed by CEC to MPACT Program Coordinator	Remaining Amount - Not Disbursed from CEC Account	Amount Not Reflected on CEC MPACT Account Ledgers (Included in Fees Charged by CEC)
February 2004 to June 2004	\$17,500	\$1,500	\$0	\$9,159	\$6,841	\$0
July 2004- August 2004*	\$0	\$0	\$0	\$0	\$0	\$0
September 2004 to August 2006	\$110,000	\$39,500	\$10,800	\$35,477	\$24,223	\$30,000
September 2006 to August 2007*	\$0	\$0	\$1,918	\$17,668	n/a	\$0
September 2007 to June 2008	\$62,926	\$6,028	\$1,476	\$10,242	\$45,180	\$6,028
June 2008 to December 2009 (contract ended May 2009)	\$50,000	\$50,000	\$43,494**	\$13,818	\$0	\$0
Net Totals	\$240,426	\$97,028	\$57,688	\$86,364***	\$76,244	\$36,028

Breakdown of Funds Paid to MPACT Program Coordinator – TABLE 2				
Contract Term of agreement	Amount Disbursed by CEC to MPACT Program Coordinator	Amount Disbursed by MPACT Program Coordinator to Program Participants	Amount Disbursed by MPACT Program Coordinator for Program Related Expenditures	Net Disbursement to Program Coordinator Over / (Under)
February 2004 to June 2004	\$9,159	\$8,150	\$0	\$1,009
July 2004- August 2004*	\$0	\$500	\$0	-\$500
September 2004 to August 2006	\$35,477	\$28,320	\$482	\$6,675
September 2006 to August 2007*	\$17,668	\$15,095	\$100	\$2,473
September 2007 to June 2008	\$10,242	\$12,139	\$589	-\$2,486
June 2008 to December 2009 (contract ended May 2009)	\$13,818	\$14,151	\$5,878	-\$6,211
Net Totals	\$86,364	\$78,355	\$7,050	\$959

* No contract was awarded during this period.

** This amount includes \$28,449 disbursed to students via check.

*** See Table 2 for a breakdown of this amount.

2. PALMETTO HOMES OF MIAMI, INC.

According to the Project MPACT grant document filed with the U.S. DOL, on-the-job training (OJT) is the principal intervention used to change the behavior of targeted at-risk youths. On June 1, 2008, M-DCPS, the grant's fiscal agent of record, contracted with Palmetto Homes of Miami, Inc., (herein after referred to as Palmetto Homes) a for-profit construction company, to provide on-the-job training, mentoring and supervision of up to 40 Project MPACT participants for the sum of \$140,800. Participants' wages and other related costs were to be paid from this amount. According to Project MPACT's management, Palmetto Homes was expected to serve as the vehicle through which approximately 40 participants who were not expected to pass the District's background screening would be hired for OJT. Contrary to expectations, most of the participants passed the District's background screening and were hired by the District for OJT. There were only six participants who were unable to pass the District background screening and were employed by Palmetto Homes for OJT.

Budget Modifications

To obtain grant funding from the U.S. DOL for Project MPACT, M-DCPS was required to submit a budget of planned expenditures. The initial budget submitted to the DOL included \$804,865 in the Personnel Object Class Category for salaries and wages to program staff, and \$100,000 in the Contractual Object Class Category for Palmetto Homes. The cost of students' wages for OJT was included in the Contractual Object Class Category in the original budget. Subsequently, once it was determined that most of the participants engaging in the OJT component of the program had passed the District's background screening, Project MPACT's management requested authorization, from the DOL, to reallocate funds from the Contractual Object Class Category to the Personnel Object Class Category to enable the District to pay wages to OJT participants under the Personnel Object Class Category. The Standard Form 424A, Budget Information (Non-Construction Programs), submitted to the DOL showed an increase of \$142,684 (from \$804,865 to \$947,549) in the Personnel Object Class Category. The budget document also showed a net decrease of \$233,797 (from \$793,797 to \$560,000) in the Contractual Object Class Category. We noted that while the amount was decreased for seven of the 10 subcontractors in this Class Category, Palmetto Homes' budget was increased by \$40,800, from \$100,000 to \$140,800.

Distribution of On-the-Job Training Funds

Project MPACT program participants who were directly employed at Palmetto Homes for OJT received a grossly diminutive amount of wages from the program funds allocated to provide OJT.

We analyzed Palmetto Homes' payroll records, tax filings, and bank statements and found that of the \$140,800 allocated to the company, only a mere \$9,650 or 7% was paid in wages to six Project MPACT participants. Payroll taxes (employee's and employer's portions of FICA) of \$1,476 related to those wages were also paid from the funds allocated to Palmetto Homes.

At the direction of the MPACT Program Coordinator, three Project MPACT staffers (not at risk program youths) were paid a total of \$17,911 in salaries from the \$140,800 allocated to Palmetto Homes. According to the MPACT Program Coordinator, the employees were paid through Palmetto Homes because she was unable to hire the employees on the M-DCPS' payroll due to hiring freezes at the District.

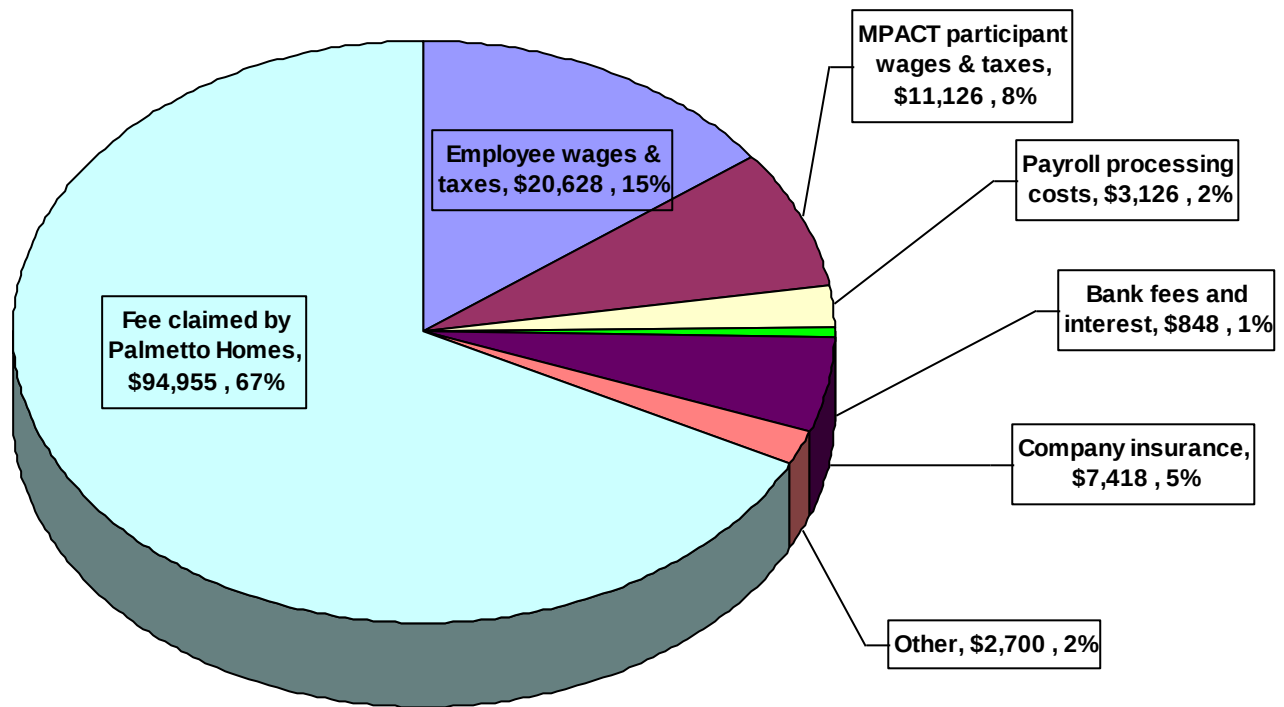
Palmetto Homes used some of the allocated funds to pay \$2,004 of the company's general liability insurance premium of \$3,531 for one year policy starting December 17, 2008, and ending December 17, 2009. Also, \$5,414 was used to pay the company's workers' compensation premium of \$6,318 for the period April 2009 to January 2010. The contract between Palmetto Homes and M-DCPS did not contain any provision to allow the contractor to use the allocated funds to purchase the typical business insurance coverage. The \$7,418 (\$2,004 plus \$5,414) paid for these coverage are therefore considered questioned costs.

Our analysis of the company's bank statements showed that \$712⁶ in non-sufficient funds (NSF) fees and interest on the overdrawn monthly account balances were paid from the funds allocated to Palmetto Homes. The account remained overdrawn for four consecutive months from November 2009 to February 2010.

In total, only \$45,845 (33%) of the \$140,800 was disbursed to individuals and entities other than Palmetto Homes. The remaining \$94,955 (67%) was retained by Palmetto Homes. The president of the company asserted that at the time of executing the contract with M-DCPS, it was understood that only \$40,800 of the \$140,800 would go towards participants' wages and \$100,000 would be his company's fee for providing the OJT services to the program.

⁶ This amount does not include an additional \$136 in monthly account maintenance fees.

The following chart shows the distribution of the funds allocated to Palmetto Homes through the June 1, 2008 contract.



At the time of commencing our audit, Project MPACT's management had approved a continuation contract with Palmetto Homes to provide the same services starting on June 1, 2009, for a sum of \$300,000. The execution of the contract was halted and subsequently abandoned when we began to uncover improprieties during our audit.

Conclusion

Our analyses, which are based on of the evidence obtained, revealed that the amount paid to Palmetto Homes was excessive considering the services that were received. In addition, the company's use of these funds was inequitably weighted to the company's advantage and not to the participants; and in some cases, was for purposes not authorized by the contract.

RECOMMENDATION

- 2.1 In addition to the measures proposed in Recommendations 1.1 and 1.2, for contracts that are similar to this one, wherein portions of the awarded contract sum are intended to provide direct benefits to district students or employees, program managers should request specific periodic reports detailing how the awarded amount was expended to the benefit of district students or employees. Such reports may include a detailed budget-to-actual expenditure analysis or itemized activity report (profit and loss statement). To determine the kind of report(s) that are required to maintain an effective monitoring process, the program manager should collaborate with the contracted provider, prior to the commencement of the contracted services, to reach an understanding about the specific reports that will be submitted and at what intervals.

3. PROJECT MPACT MANAGEMENT

As mentioned in the Background section of this report, the M-DCPS Project MPACT Program Coordinator was responsible for the overall day-to-day management of the program, including the program's budget, and reported directly to the Steering Committee. We observed a number of internal control deficiencies surrounding the management of the program, and have presented the significant ones in the sections that follow.

The Legitimacy of Participants Listed Is Questionable

Project MPACT hired a vendor to create and install a computerized tracking system that would maintain all participants' information and generate reports on the program's activity. The tracking system was installed, but was not used by Project MPACT's staff in any measurable way. Therefore, to satisfy our request for a list of program participants, rather than automatically generating the list from the tracking system, Project MPACT's staff created a spreadsheet containing the names of participants by manually sorting through the weekly intervention meeting agendas.

We were provided with a list of 242 program participants and were informed that the list contained all past and present participants in the program, and that a file was maintained for each participant. Project MPACT required that each participant's file contain Case Planning Forms, Intake Narratives, and Referral Information Forms. These documents were supposed to contain information such as the date the participant was admitted to the program, the participant's grades, gang affiliation, truancy and criminal history, behavioral issues, and the reason for his/her referral to the program.

To test the existence of the participants listed, we randomly selected 30 names from the list of 242 participants and requested the attendant files. There were 11 individuals in our sample for which no file was provided for audit. In response to our finding, the MPACT Program Coordinator stated that she was not sure how those names had gotten on the list. This condition raised doubt about the accuracy of the list of participants and the legitimacy of the 11 participants for whom files were not provided.

Participants Meeting Program Eligibility Was Questionable

From the list of 242 participants, we generated another sample of 30 participants to test whether each participant met the eligibility requirements for inclusion into the program. In generating our sample, we systematically selected 20 participants⁷ and requested that the MPACT Program Coordinator provide 10 additional participants from the list. Our intent in making this request was to ensure that there were no "auditor's bias" in our sampling.

According to the grant application filed with the U.S. DOL, to be eligible for participation in the MPACT program, an individual must be an "at risk"⁸ youth between the ages of 12 and 22. This youth must be affiliated with a gang by either self-admission or through identification by a third party. He/she may also be identified as a younger sibling of known "criminally involved" youths, gang members, or those having "potential" to become gang affiliated or become involved in criminal activity based on behavior and/or association or questionable activity in the community where they live or frequent.

⁷ Ten participants without an identification number were initially select and then every 24th name, starting from the last name in our initial selection, was selected, for a total of 20 names.

⁸ An "at risk" student is a student with two or more of the following criteria:

- Retention in the same grade for one year or more.
- Three or more grades of "D" or "F" in the previous school year.
- Low grade point average (GPA) of less than 2.00
- Falling behind in earning credits.
- Not meeting the State of Florida Requirements or district proficiency level in reading mathematics, or writing.
- Pattern of excessive absenteeism totaling 15 or more during the previous school year.
- Habitual Truant: absences of any type (excused or unexcused) totaling 15 or more during previous semester.

For two of the participants in our sample, the participant's file could not be located and were not present for audit⁹. For the remaining 28 participants, we reviewed the Referral Information Forms, Case Planning Forms, Intake Narratives, School Grades and Attendance Records, and Criminal Records in the participant's file and found that the eligibility for seven of the 30 individuals tested was questionable. Six of the seven individuals with exceptions were from the 10 sample items selected by the MPACT Program Coordinator. In six cases, the MPACT Referral Information Form listed "employment" as the reason for referring the individual to the program. Employment was not among the eligibility criteria for admittance into the program. The participant's file for the remaining individual did not contain the MPACT Referral Information Form and the other information on file was not supportive of that individual meeting the eligibility for admittance into the program. In fact, most of the seven students had good grades, had no truancy history, and had no noted indication of gang affiliation or behavioral issues. Our review of the MPACT Steering Committee's meeting minutes disclosed that at its January 13, 2004 meeting, the Steering Committee had raised concerns that the students being referred to the program were not meeting the criteria. Our tests corroborated these concerns.

The MPACT program was design to provide support and assistance to youths in need of positive alternatives to criminal activities. Admitting individuals who did not meet the program's eligibility into the program misused the program's resources and effectively constrained the program's ability to provide services to its intended population.

Inaccurate and Incomplete Records

Because of the number of exceptions disclosed in our two previously mentioned samples while performing our tests of existence and eligibility, we tested the completeness of the list of the 242 program participants. In performing this test, we compared the names and identification (ID) numbers of the 242 participants included in the list provided to us by the MPACT Project Coordinator. Our test disclosed 60 individuals with incorrect ID numbers and 20 individuals with no ID number, for a total of 80 discrepancies (33% error rate). Based on other auditing procedures we performed in other areas of MPACT's operations, we concluded that the information maintained on the number of participants serviced by the program was not only inaccurate, but was also incomplete. Our tests in those areas found an additional 57 participants that were not in the list of

⁹ These two participants were also selected in our sample of 30 participants selected in completing our test of existence and were among the 11 participants whose files were not presented for audit noted earlier. Their selection in both samples was simply a faction of the randomness of our samples, given that the samples were selected from the same population of 242 participants.

participants maintained by Project MPACT. The following lists the areas through which the additional participants were uncovered:

- 47 additional names were uncovered while performing our audit test of stipends distributed to MPACT participants. Forty-four (44) names were obtained from the receipts books, maintained by Project MPACT, that recorded the cash distribution of stipends paid to MPACT participants and three (3) names were obtained from documents received from CEC detailing participants to whom stipends checks were distributed.
- Nine (9) additional names were uncovered while performing our audit test of payroll for wages paid to Project MPACT participants. Seven (7) names were obtained from the District's part-time payroll Final Rosters, which documented the wages the District paid to Project MPACT participants and two (2) names were obtained from the payroll registers received from Palmetto Homes listing participants to whom wages for OJT were paid.
- One (1) additional name was uncovered while attempting to trace the names on 20 randomly selected participant files located in the Project MPACT office to the list of 242 participants.

The list of Project MPACT participants increased to 299 when accounting for these omissions. However, due to the timing at which these additional 57 names were uncovered, the additional names were not subjected to the audit tests described in the two immediately preceding sub-sections titled 'The Legitimacy of Participants Listed Is Questionable' and 'Participants Meeting Program Eligibility Was Questionable,' as they were not in our population from which our samples were selected. As a result, we are uncertain whether the rate of exceptions/discrepancies resulting from our tests reflects the characteristics of the newly established population of 299 participants.

Non-compliance With Program's Work Experience Hour Limit

Grant documents filed with the U.S. DOL contained the program's strategic framework, which included "personal development and life" components, and indicated that these components were intended to offer program participants opportunities to learn and apply marketable employment skills. Participants who completed the program's vocational instruction and job readiness skills training were to be assigned to a job site to obtain work experience and receive monetary stipends of \$10 per hour, according to the document. The participants would be permitted to work a maximum of 30

hours per week for a period of up to eight weeks. As such, each participant would amass a maximum of 240 hours in targeted skills such as, work ethics, career awareness, setting goals, and personal, social and financial responsibility.

We found that in executing the program's strategic framework, management was non-compliant. The total hours worked by 53 participants exceeded the 240-hour limit¹⁰. The limit was exceeded by total hours ranging from 35 to 2,329 hours, with an average of 706 hours per participant. Moreover, program participants in this group were permitted to work for periods well beyond the eight-week limit established for Project MPACT – some for as long as two years. The program was not intended to provide uninterrupted long-term income to participants, but to provide an opportunity to gain the work experience that would facilitate the participant's successful transition into the workforce and adulthood. Moreover, allowing a select group of program participants to exceed the 240-hour work limit reduced Project MPACT's ability to provide this program component to a greater number of participants and created inequity among participants. Furthermore, we question the soundness of permitting the program's participants to work six hours per day during the school year, given that these students are deemed "at risk," as previously defined in this report¹¹.

Our analysis further revealed that the participants had been paid work-related stipends at a rate of \$7.80 per hour instead of \$10 per hour as stipulated in the grant document.

Payment Process Promoted Waste and Abuse

The processes in place for approving and paying the program's partners and participants were inadequate. The following practices were observed:

- Payments to contracted program partners were routinely made without adequate documentation to evidence that the services being paid for had been provided. Invoices and evidence of deliverables were routinely not presented by the vendors and were not included in the payment packets. Payments were typically supported by only one or more of the following: a request for payment from the program staff, a copy of a purchase order, a copy of the contract, and a copy of a School Board agenda item referencing authorization to contract with the vendor. While these documents are important to the payment process, none of these

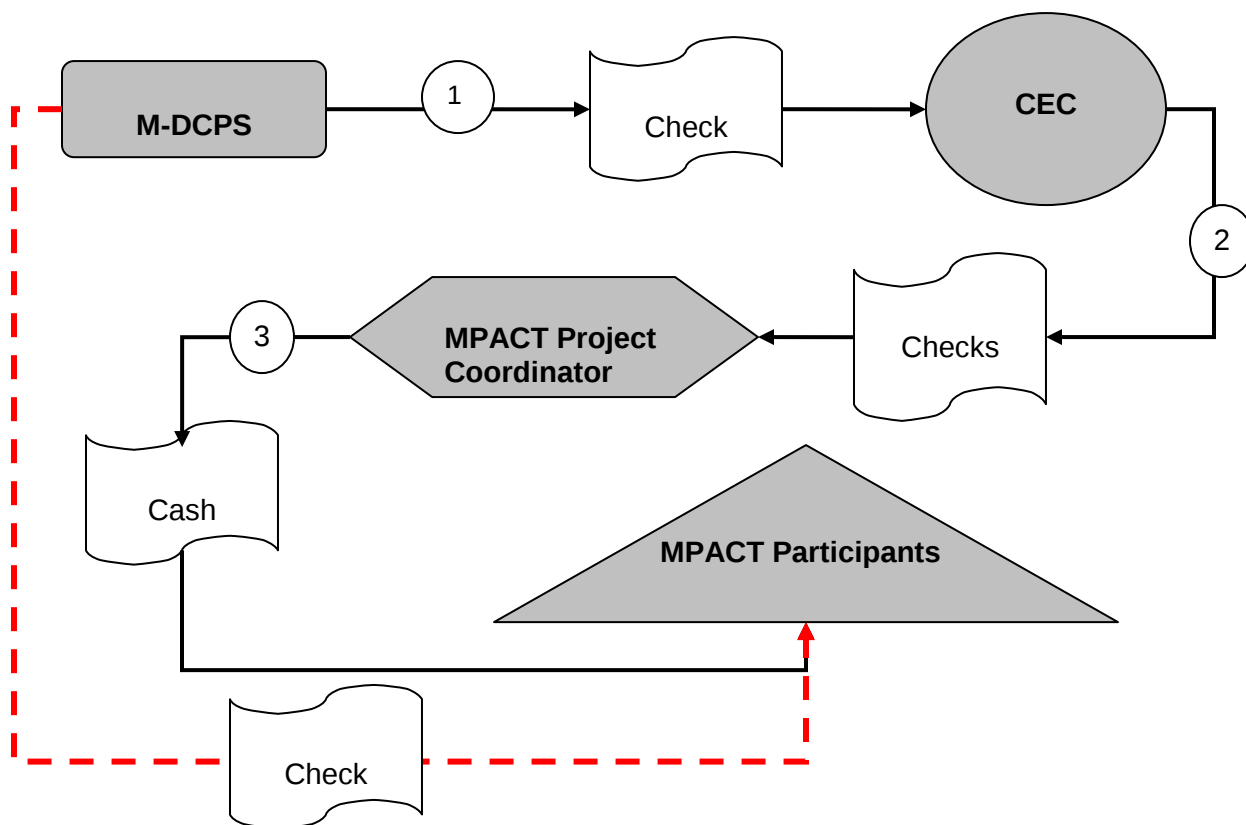
¹⁰ Some of the participants worked in district offices and some worked with the program's partnering companies.

¹¹ *Supra* page 25.

documents provide evidence that the contracted services had been rendered and the vendor is entitled to remuneration. Documents such as invoices, timesheets, and reports provide greater assurance that the contracted services were actually delivered.

- Similarly, payments to program participants for stipends and other expenses lacked adequate documentation. In the case of stipends, no documentation other than a handwritten receipt noting that a payment was remitted to a program participant was maintained on file. In the case of other reported expenses for food and supplies, although store receipts were maintained, there was no indication as to the reason for the expense. Consequently, it was extremely difficult and in some cases impossible to determine whether the charges were valid program expenditures. This exposure was particularly heightened given that these expenditures were for items that are susceptible to theft and misuse, such as food, household goods and services, clothes, gift cards, supplies, and restitution, among other items.
- Between February 2004 and June 2008, the District executed a series of three contracts with Counseling and Educational Consulting, Inc., (CEC) to distribute stipends to program participants and to pay another program partner for providing OJT training and supervision to Project MPACT participants, among other tasks. Effectively, through these agreements, M-DCPS disbursed \$190,926 to CEC, which in turn returned the funds to M-DCPS in installments via checks made payable to the MPACT Program Coordinator, upon requests (typically via email) from the MPACT Program Coordinator. The MPACT Program Coordinator would then cash the checks and pay Project MPACT participants cash stipends or purchase snacks and supplies for the participants. In essence, through this process, CEC was simply a pass-through conduit, which was paid \$16,882 in administrative fee under these contracts for issuing installment checks back to M-DCPS, which would subsequently distribute the monies as stipends to the program's participants. The diagram on page 30 depicts the flow of funds under this arrangement.

Diagram of Funds/Cash Flows



The described payment model does not comport with district processes and by design is subject to abuse. The practice also created waste in that district staff actually distributed the funds to the participants even though the consultant was paid a fee for this service. The “go-between” was unnecessary, wasteful, and unwarranted.

Conclusion

The lax management practices described in this section of the report needlessly exposed Project MPACT and the District to increased risks. The disorder and inaccuracies found in the recordkeeping raises doubt about the reliability and integrity of information generated by and about the program. When the eligibility of the program's participants is questioned and the program management demonstrates wasteful and abusive fiscal practices, the entire program and school district become subjects of scrutiny. Such scrutiny exposes the District to external risks, including a sullied reputation, loss of confidence by its business partners and citizens, difficulty in obtaining future grant awards, and having to reimburse the grantor for questioned costs.

In this case, some of these risks were realized by Project MPACT. The program was the subject of separate criminal investigations conducted by the Miami-Dade County Schools Police Department, the State Attorney's Office, and the U.S. Department of Labor Office of Inspector General. The U.S. Department of Labor, the program's major provider of funds, terminated its funding of the program.

RECOMMENDATION:

- 3.1 Program managers should ensure that systems are in place to collect and report accurate information about programs and should develop a quality control process to monitor the systems and information for integrity. The quality control process should also include a review of program requirements, including eligibility and restrictions to ensure they are being complied with.
- 3.2 Procedures should be put in place to ensure that adequate supporting documentation, which proves that services were provided, is received from vendors prior to approving payment. The nature of the required documentation should be communicated to the vendor at the time of executing the contract.

4. PAYROLL FRAUD, MISFEASANCE AND NON-COMPLIANCE

Certain payroll practices engaged in by some Project MPACT full-time employees appeared to have been initiated to circumvent district policy in order to accrete additional earnings to these employees.

Payroll Fraud – Being Paid Overtime While Earning A College Degree

We reviewed payroll and other records, which disclosed that a full-time Project MPACT employee defrauded M-DCPS of \$767. According to these records, during the period of October 2008, to December 2009, while this individual was employed by M-DCPS as a full-time Police Support Specialist and received regular and overtime pay, this employee was enrolled and in attendance in classes at a local university during the same time of the day for which she had reported overtime hours worked at Project MPACT. The employee typically claimed overtime for hours worked Monday through Friday between 5:00 P.M. and 10:00 P.M., and Saturdays between 9:00 A.M. and 4:00 P.M. However, university transcripts and class attendance records showed that the employee was enrolled in and attended various classes during these time periods.

Furthermore, records showed that the District reimbursed this employee \$3,120 for tuition she paid to the university to obtain her baccalaureate degree.

This information was forwarded to the M-DCSP.

Circumvented Payroll Policy To Obtain Additional Wages

School Board policy permits an employee to receive part-time/hourly compensation for multiple jobs within the District as long as those jobs are different from the employee's full-time job. If an employee performs the same functions or job that is essentially a continuation of his/her regular full-time job for any amount of time beyond his/her standard workday, then he/she is to be paid overtime or given compensatory time.

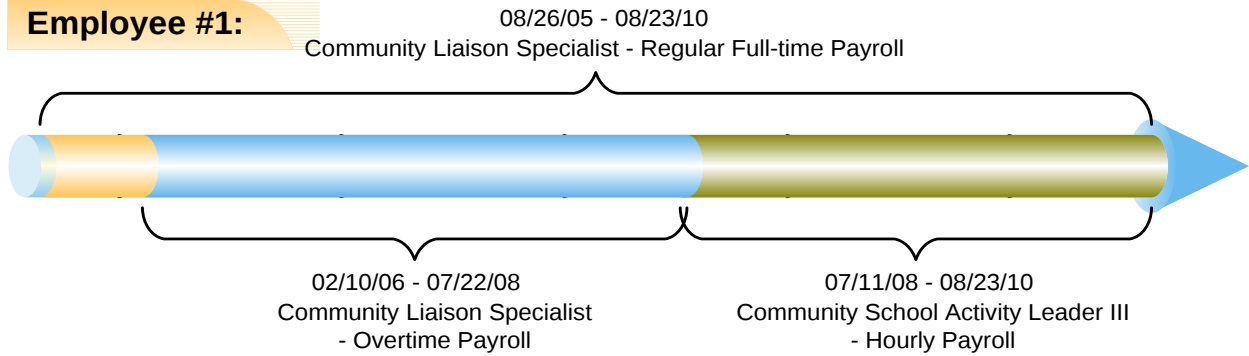
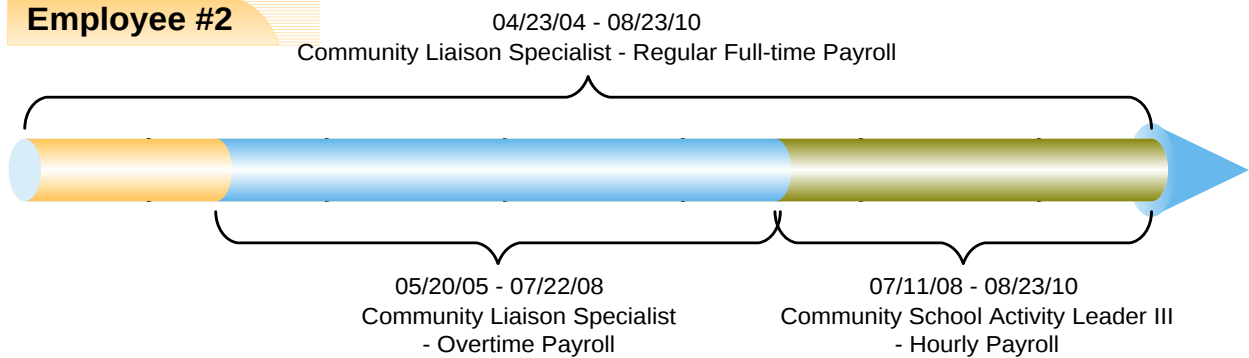
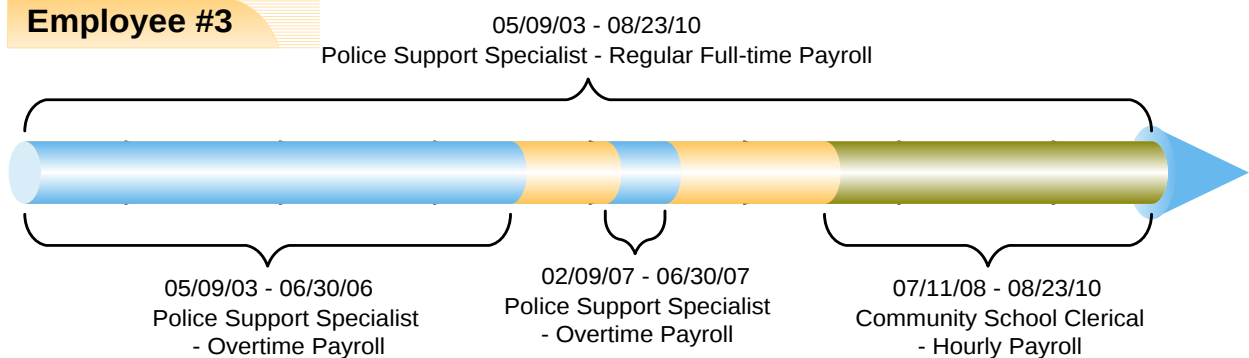
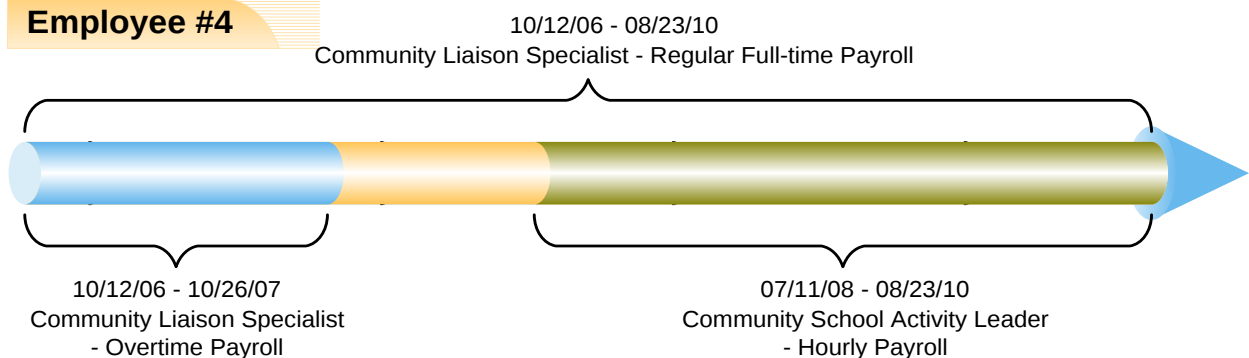
We observed a continuous trend, which began in July 2008, wherein four of the five full-time Project MPACT employees received both their regular pay and hourly pay during the same payroll period. These employees worked and were paid in both full-time and part-time status continually for a period in excess of two years, while essentially performing the same job. Although the payments to each employee were made for two different job classifications, in one case, based on the job functions performed, the employee appeared to have been simply continuing her regular full-time duties in part-time

(hourly) status. In the remaining cases, based on our review of the job descriptions and the functions the employees reportedly performed, there appeared to be a likelihood that some of the functions were duplicative of the employees' regular full-time duties. Moreover, the circumstances surrounding the payroll practice observed raised questions regarding whether the intended purpose was to contravene School Board and administrative policies, and whether it provided a business model that promoted efficiency.

A. Contravening School Board and administrative policies:

Providing some background is essential for understanding our basis for questioning these transactions. For as many as 49 months prior to July 2008, the full-time Project MPACT employees in question were paid regular full-time salaries ("C" payroll) and overtime wages ("V" payroll) while holding a singular job classification or position. At about the same time, the Office of Management and Compliance Audits issued an internal audit report detailing abuses of overtime in the M-DCPS Police Department; and in response to the District's budget crisis, the new Superintendent of Schools established a moratorium on payment of overtime. Also, the M-DCPS Police Department was transitioning to new leadership and in response to the recommendations made in the audit report, had vowed to drastically curtail overtime pay.

Beginning in July 2008, two of the employees in question stopped receiving overtime pay along with their regular full-time pay, but began receiving part-time pay ("F" payroll), under a different job classification, along with their regular full-time pay. A similar pattern was discovered for the remaining two employees in question, but occurring at different dates. Our review of several payrolls and the Retirement Earnings Verification System (REVS) indicated that this payment pattern was consistent from one payroll to the next from July 2008 to August 2010 for all four employees. These actions appeared to have the intended purpose of contravening School Board and administrative policies. The following illustrative timelines for each employee graphically depicts the events described.

Employee #1:**Employee #2****Employee #3****Employee #4**

B. Inefficient business model:

As noted above, the employees reported working both full-time and an average of four to five hours overtime or hourly each workday for as long as five years. Given the demands such a work schedule would place on an employee, we questioned the efficacy of maintaining such a schedule over an extended period of time.

Function Was Poorly Monitored and Records Were Poorly Processed

We sampled 13 payrolls between December 2007, and June 2009. During this period of time, the payroll records were prepared by the Project MPACT payroll clerk and reviewed by the MPACT Program Coordinator. This information was then sent to the payroll clerk in General Investigative Unit (GIU), who in turn merged it into that location's payroll records.

Our audit tests disclosed the following conditions, which, in our opinion, are indicative of a payroll function that was poorly monitored and resulted in inaccurate payroll reporting.

A. The Required Daily Payroll Attendance Sheets (DPAS) Were Not Maintained:

The M-DCPS *Payroll Processing Procedures Manual* (hereinafter referred to as the "*Manual*") establishes procedures for recording, documenting and reporting the payroll. According to the *Manual*, the DPAS is one of the most important documents in the payroll process. Its accuracy is critical, and in most cases, it is the only tool available to the administrator to certify that the payroll is correct.

The payroll clerk at Project MPACT did not use the DPAS to report payrolls in our sample prior to July 25, 2008. Specifically, we found this condition in our sampled payrolls ended January 24, 2008, March 20, 2008, June 12, 2008, and July 14, 2008. According to the MPACT Program Coordinator, the condition existed because the administration of GIU, to which Project MPACT then reported, instructed them to send to GIU only a "daily strength report" indicating that everyone was on duty and signed leave cards if a person was not on duty. Payroll records for these four pay periods also include a "MPACT Biweekly Attendance Forecast Report," which listed all full-time Project MPACT personnel and contained entries for various types of leave. The report contained no entries ("sign-in" or "sign-out") to indicate an employee's presence. According to the *Manual*, employees must indicate their presence in the DPAS on a daily basis. Therefore, although intended to

be used as an alternative to the DPAS, the "MPACT Biweekly Attendance Forecast Report" lacked the required information to ensure an accurate and properly supported payroll.

B. Numerous Payroll Corrections Resulted In Net Overpayment:

Employees' time and attendance reported on the Final Roster did not always agree with the attendance recorded on the DPAS, work logs, or leave cards. Specifically, in 60 instances, corrections to the Final Roster were needed to bring it into agreement with the hours reported for hourly employees on the DPAS or individual work logs. This condition resulted in a net overpayment of approximately 139 hours. In one case, an employee worked a total of seven hours according to the DPAS and was paid for 50 hours on the Final Roster. Review of the DPAS and work logs indicated that in some situations, the daily total for hours worked was added and posted incorrectly in the employees' pay period totals. Also, the conversion schedule available in Chapter 2 of the *Manual* for converting minutes into tenths of an hour was not consistently utilized. In addition, corrections were required to properly reflect leave taken by seven employees.

According to the *Manual*, the total hours reported in both the DPAS and Final Roster must agree and leave information for daily-paid employees must be accurate, complete, and consistent with all payroll documents (DPAS, Final Roster and individual leave cards).

C. Other Isolated, But Notable Errors and Discrepancies:

Although not found at high rates of frequency, our audit disclosed the following conditions, which we deemed notable due to their nature and effect on internal control.

- An employee signed-in on the DPAS on a day when he was on a full day vacation leave.
- For one day, an employee signed-in but did not sign-out. That employee reportedly worked 17.5 hours according to the DPAS, but was paid for 23.5 hours based on the Final Roster.
- Although they were only paid the maximum of 50 hours, 20 hourly-paid employees were allowed to work more than the 50-hour limit during various pay periods.

Conclusion

In our opinion, the excess and fraudulent payroll costs the District incurred occurred because of management override of the system of internal control, inadequate monitoring, and a model that could be easily manipulated. It is also evident that the level of scrutiny and diligence needed to detect these errors and irregularities as they occurred was not applied.

RECOMMENDATION

- 4.1 To the extent allowed, consider initiating disciplinary action against the employee who perpetrated the payroll fraud. We also recommend that restitution be sought. We believe taking such actions and publicizing it would act as a deterrent to other employees from committing similar fraudulent acts.
- 4.2 Although having the ability to be employed by the District in multiple job classifications is popular with employees, management should review this policy to determine if it is an efficient employment model. Also, to prevent this model from being abused, management should develop a process whereby the job descriptions and job functions of an individual employed in multiple job classifications are carefully reviewed to ensure that the employee is not in violation of the existing policy.
- 4.3 The strength and effectiveness of the system of internal control depends as much on management and supervisory staff as it does on

subordinates, as either group of employees could circumvent controls. Ethics training and refresher courses should be given to department staff at planned intervals.

- 4.4 Payroll clerks and persons who maintain, process, or approve payroll should be required to attend training and refresher courses at planned intervals. The courses should contain not only "how to process the payroll," but also "what must be present to ensure an accurate payroll."

5. THE CONTRACT USED TO PROCURE SERVICES WAS STRUCTURALLY AND FUNCTIONALLY LIMITED

To accomplish its mission, Project MPACT collaborated with a number of community businesses and organizations. Project MPACT partners that are compensated typically execute a contract with M-DCPS to provide the required services. In general, we found the contracts used to procure the required services from the Project MPACT partners to be inadequate.

The contracts executed between the compensated Project MPACT partners and M-DCPS that we reviewed were essentially the same standard contract – AGREEMENT FORM FOR CONTRACTED SERVICES, FM-2453. This document is either a three or five page document, depending on the forms' date of revision. The document contains boilerplate language detailing compliance requirements for various School Board rules and policies, Florida Statutes and Federal Regulations. The document also contains the following sections with existing standard boilerplate language and blank lines to be filled in for each section: Scope of Work, Term of Agreement, Compensation, and Payment Schedule. The spaces provided to delineate service-specific requirements and deliverables are very limited and the form does not contain any instructions to attach additional written provisions. Consequently, the space limitation relegates the originator of the contract to include only very broad descriptions of the nature of the services required and expected outcomes or deliverables. Thus, we observed that some of the contracts reviewed did not contain sufficient detail to permit one to determine whether all contracted services were received.

The inefficient design of the contract and its inherent limitations increase the likelihood of misunderstanding between the parties to the contract regarding their obligations. Also, managing the contract to ensure that all deliverables are received becomes more difficult. Further, a fertile ground for potential abuse is created.

Conclusion

Contracts that lack clear and specific terms regarding the contracting parties' rights, obligations and expectations are subject to a greater degree of interpretation and misunderstanding, and are more difficult to manage. Although standardization and brevity may contribute to ease of executing the contract, standard boilerplate contract may at times be inadequate, as was the case with some of the contracts reviewed in this audit.

RECOMMENDATION

- 5.1 Subject the standard contract used – AGREEMENT FORM FOR CONTRACTED SERVICES, FM-2453 – to a qualitative review for legal sufficiency, operational substance and structure, to ensure that the contract is not only legally sufficient, but is also effective in communicating the rights, duties and responsibilities of the contracting parties. As an alternative, Form FM-2453 should be supplemented by a document detailing service-specific requirements and expectations when needed.

6. APPARENT CONFLICTS OF INTEREST

We reviewed records, which disclosed a number of relations involving Project MPACT that were apparent conflicts of interest. The apparent conflicts emanated from the structure of the program's governance itself.

As stated in the Background section of this report, oversight of Project MPACT rested with a steering committee, which members comprised individuals from various partnering agencies and businesses. Our review of various documents, including the Steering Committee meeting minutes, disclosed that companies or firms owned by some members/representatives of the Committee received contracts to provide services to Project MPACT while they were actively associated with the Committee. We noted the following contractual relationships.

- CEC received four contracts totaling \$240,426 to provide services to Project MPACT while the firm's co-directors were listed in the minutes of the Steering Committee as members or representatives. See pages 11 – 19 of this report for a detailed discussion concerning these contracts.
- Palmetto Homes received a contract for \$140,800 plus an additional \$10,000 to provide services to Project MPACT while the company's owner was listed in the minutes of the Steering Committee as a member or representative. See pages 20 – 23 of this report for a detailed discussion concerning this contract.
- I.B.B./Oasis Youth Experience received a contract for \$800 to provide services to Project MPACT while the entity's owner was listed in the minutes of the Steering Committee as a member or representative. This individual was also an employee of M-DCPS working at Project MPACT.
- Florida Economic Empowerment Development, Inc., (FEED), a non-profit corporation, was awarded a \$15,000 grant from the MetLife Foundation. The company also received a personal check for \$5,000 from a Costco Wholesale manager. The donation was made and intended to be matched by Costco through its Executive Matching Gifts Program. Both the grant and donation were obtained under the auspices of the M-DCPS Police Department and Project MPACT on the representation that FEED would provide certain services to Project MPACT. Corporate filings with the Florida Department of State, Division of Corporation showed that former and present district employees,

some in the M-DCPS Police Department, were officers and directors of FEED. At the time those funds were awarded, Project MPACT reported to the M-DCPS Police Department.

- Corporate filings with the Florida Department of State, Division of Corporation disclosed intertwined relations among the companies, company owners and employees associated with Project MPACT. For example, some full-time and part-time district employees who worked at Project MPACT were corporate officers or registered agent for multiple companies that shared the same owner, officers or directors, and one or more of which provided services to Project MPACT.

Conclusion

The documents we reviewed disclosed apparent conflicts of interest. It was evident that proper governance was lacking, as some of the conflicts involved members of the governance structure. In such cases, the fundamental underpinning of an effective internal control system – the “tone at the top” – was not present. Without the proper tone – a commitment to legal and ethical conduct at all levels of the organization – an effective system of internal control cannot be achieved.

RECOMMENDATION

- 6.1 The District should develop and implement a process in its procurement process to require that officers/directors of contracting vendors make full disclosure of their relationship with any district committees, tasks force, or associations. This disclosure should be used to monitor whether an individual is complying with the District’s conflict of interest policy.

Management Response – (Attachment)

Management's response to the audit findings and recommendations is included in the attachment to this report.

MIAMI-DADE COUNTY PUBLIC SCHOOLS 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.

Veterans are provided re-employment rights in accordance with P.L. 93-508 (Federal Law) and Section 205.07 (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.

Revised: (07-11)

INTERNAL AUDIT REPORT

Miami Partnership for Action in Communities Taskforce (Project MPACT)



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