



Internal Audit Report



Graphics and Material Production Department



Customers are very satisfied with the services provided by the Graphics and Material Production Department, but opportunities to improve efficiency and increase capacity exist. Additionally, recordkeeping and management practices need improvement.

June 2009

THE SCHOOL BOARD OF MIAMI-DADE COUNTY, FLORIDA

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Dr. Marta Pérez, Vice Chair
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Ms. Ana Rivas Logan

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Miami-Dade County Public Schools

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Superintendent of Schools

Alberto M. Carvalho

June 17, 2009

Miami-Dade County School Board

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

Ladies and Gentlemen:

In accordance with the approved Audit Plan for the 2007-08 Fiscal Year, we have performed an audit of the Graphics and Materials Production Department for the period July 1, 2007 to June 30, 2008. The objectives of the audit were to identify cost saving opportunities and operational efficiencies..

Our audit concluded that users of the Graphics department are satisfied with the products and services received. However, the department could likely increase its revenues by focusing on the 23% of potential customers surveyed that were not aware of the services and products available from Graphics. The prices offered by Graphics are competitive with most vendors, but the same products and services are priced inconsistently. Monthly lease and maintenance payments complied with contract terms. Nevertheless, the District paid more than \$22,000 to maintain and/or lease three machines that were not in the district's possession. Poor recordkeeping prevents staff from accurately determining the copier rebate amounts due to M-DCPS. Supplies inventory management and purchase/lease decision-making criteria and procedures are needed.

We have discussed our findings and recommendations with management. We are awaiting their responses and explanations. We would like to thank management for the cooperation and courtesies extended to our staff during the audit.

Sincerely,

Jose F. Montes de Oca, CPA

Interim Chief Auditor

Office of Management and Compliance Audits

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EXECUTIVE SUMMARY

M-DCPS' Graphic's and Materials Production department (Graphics) provide services that are integral to the district's operations. Principal among these are in-house document reproduction and printing services, and managing lease and maintenance agreements for copy machines that are at district's administrative buildings. These are the two functions performed by Graphics that were the focus of our audit.

Sustainability –

Graphics operations appear to be anchored in historical context. The function and department were established to be self-sustaining. As such, users of the printing and duplicating services provided by Graphics are charged a fee for those services. Our analysis of Graphics' operations indicated that the department falls short of being self-sustaining. The department's printing and duplicating services revenues and expenses for the fiscal year ended June 30, 2008, revealed that the department's operations were subsidized by the general fund in an amount of \$656,396. Graphics' printing and duplicating services revenues and expenses for the same period were \$559,819¹ and \$1,216,215, respectively.

Our analysis further revealed that for the last three fiscal years, the Graphics department has achieved its revenue goal of \$500,000. This goal was reportedly established several years ago and has not been adjusted. During the same period, Graphics has operated below its stated estimated full capacity of \$1 million in revenues that was in place through June 30, 2008. (Please refer to the table below.) According to management, the department's maximum revenue capacity has decreased to \$600,000 beginning in fiscal year 2008-09.

| Analysis of Reported Sales For Printing and Duplicating Services | | | |
|---|-------------------|-------------------------------|--------------------------|
| Fiscal Year Ended | Reported Sales | Amount Under Full Capacity | Percent Underutilized |
| June 30, 2006 | \$ 751,255 | \$248,745 | 25% |
| June 30, 2007 | \$ 713,305 | \$286,695 | 29% |
| June 30, 2008 | \$ 525,368 | \$474,632 | 47% |

¹ This amount includes \$34,451 in rebates received from one copy machine supplier for not reaching the monthly allotment for copies made.

A survey of 535 principals and administrators throughout the district was conducted and 330 responded. The survey disclosed high levels of satisfaction among user of Graphic's services. Ninety-three percent of the 254 respondents who reported using the services rated the quality of services "excellent" or "good", while only 7% rated it "fair" or "poor". The survey also disclosed that 23% (76) of the 330 total respondents were not aware of the services Graphics provided. Additionally, 97 respondents indicated that budgets are allocated for printing and duplicating services. Of these 97, 46% (45) indicated that all or more than half of their allotted printing budget was spent with outside vendors. These conditions present Graphics an opportunity to increase sales through a strategy of low cost advertising and awareness campaigns. Increase sales will assist the department in operating at its full capacity, thus saving money to the district as a whole.

Copier Lease and Maintenance Services –

Graphics makes the lease and maintenance payments for 209 copy machines listed in its equipment inventory. They receive revenues through the form of rebates on 190 machines from two of the four vendors. For the most part, monthly lease and maintenance payments complied with contract terms. Nevertheless, improved management of these machines is needed. We were able to physical verify 19 of the 23 inventoried machines sampled. The remaining four machines had been removed from the district. The district, however, continued making lease and maintenance payments on three of the machines even after their removal. From the time of the machines' removal until January 2009, maintenance payments on the machines totaled \$13,549 and monthly lease payments totaled \$8,911 for a combined total of \$22,460.

Discrepancies were noted between the records submitted by vendors participating in the copy machine rebate program and

SUMMARY CAPSULE

- Graphics' annual revenue goal and operating capacity are conflicting and the department has generated operating deficit over the last three fiscal years.
- Customers are overwhelming satisfied with Graphics' printing services, but many are unaware of the department and its services. This presents an opportunity to increase existing underutilized capacity.
- Graphics' prices compare favorably with most print shops used by M-DCPS, but district offices and schools procure a significant amount of printing services from outside print shop.
- For the most part, monthly lease and maintenance payments complied with contract terms. Nevertheless, more than \$22,000 was paid to maintain and/or lease three machines that were not in the district's possession.
- Poor recordkeeping prevents staff from accurately determining the copier rebate amounts due to M-DCPS.
- Payments for services rendered are being billed and received in a timely manner, however, unit prices charged for the same products and services are inconsistent, and invoicing practices and recordkeeping are poor.
- Supplies inventory management and purchase/lease decision making criteria and procedures are needed.

those developed by the Graphic's department. The number of machines and machine meter readings did not always agree between both sets of records. In addition, two different sets of records to support one rebate amount were provided for audit. Therefore, it is unlikely that Graphics was able to determine whether it was receiving the correct amount of rebates.

Pricing of Services –

We compared printing and duplicating prices offered by Graphics to those of 11 outside vendors used by the surveyed principals and administrators. Graphic's prices were competitive and resulted in savings when compared to the prices of nine of the 11 vendors tested. Graphics cannot compete with two of the nine vendors due to those vendors' significantly lower prices.

The audit disclosed that payments for services rendered are being billed and received in a timely manner. However, there were several inconsistencies in the price charged for the same service. Furthermore, unit prices reflected on the customers' quote sheet/invoice were not accurately presented to allow for proper review and verification of charges.

Supplies Inventories –

The department could benefit from having written procedures for safeguarding its more than \$109,000 printing supply inventory. There were no such procedures in place. A consistent process to inventory, track, reconcile, and adjust supply quantities maintained is also lacking. The department also does not have written procedures to substantiate decision-making process to purchase or lease copiers.

Based on the audit evidence obtained, we made 14 recommendations. We are awaiting responses to our findings and recommendations from management and will incorporate them into our report. The detailed findings and recommendations start on page 7 of this report and provide additional information that is integral to understanding the substance and context of the conditions noted above.

INTERNAL CONTROLS

Our overall evaluation of internal controls for the Graphics and Material Reproduction department 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 | |

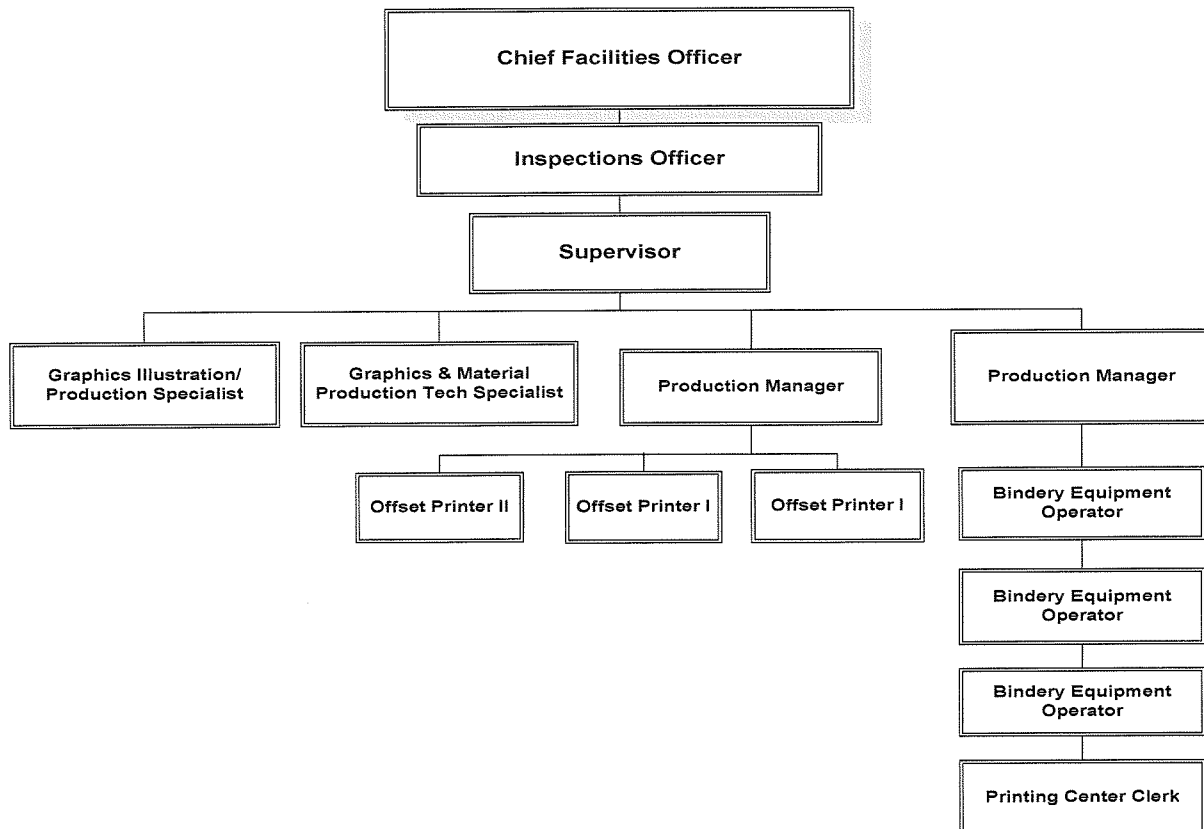
| INTERNAL CONTROLS LEGEND | | | |
|--------------------------------|--|---|--|
| CRITERIA | SATISFACTORY | NEEDS IMPROVEMENT | INADEQUATE |
| Process Controls | Effective | Opportunities exist to improve effectiveness. | Do not exist or are not reliable. |
| Policy & Procedures Compliance | In compliance | 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 Graphics and Materials Production Department (Graphics), is an in-plant duplicating center located at the School Board Administration Building. Principally, it offers printing and duplicating services district-wide, as well as managing lease and maintenance agreement for copy machines. Additionally, the department oversees parking assignment for some 2,000 district office personnel. Graphics averages about two million digital black and full-color offset printing and finishing impressions per month.

Graphics was designed to function as a self-sufficient unit, under an abated budget structure. Under this budget structure, each customer is charged for the services the department renders and revenues received are used to offset the departments operating expenditures. The department had an income goal of \$500,000 for fiscal year 2007-08. For the same fiscal year, the department's revenues were approximately \$560,000. Its total expenditures and unpaid purchase orders for fiscal year 2007-08 were \$1.6 million and \$974,000, respectively.

Department of Graphics and Reproduction
Partial Organization Chart



OBJECTIVES, SCOPE AND METHODOLOGY

In accordance with the approved 2007-08 Annual Audit Plan, we performed an audit of the Graphics and Material Reproduction department. The objectives of the audit were to identify cost saving opportunities and operational efficiencies.

The scope of our audit covered operations during the period of July 1, 2007 to June 30, 2008. Procedures performed to satisfy the audit objectives were as follow:

- Interviewed department's staff.
- Reviewed operating policies, procedures, Florida Statutes, and School Board rules.
- Analyzed the department's costs related to its printing and duplicating functions.
- Surveyed users and non-users of the services provided by Graphics.
- Surveyed, on a sample basis, duplicating costs district-wide.
- Performed a physical inventory of copy machines managed by the department and assessed the safeguards over these.
- Recalculated copy allotment rebates and assessed the controls in place over the management of this process.
- Verified the accuracy of the department's pricing and invoicing for services rendered.
- Compared the department's prices to other vendors used by district schools, offices and other departments.
- Reviewed and assessed the various processes in place in the copier leasing and maintenance function as performed by Graphics.
- Performed various other audit procedures, as deemed necessary.

Our audit was conducted in accordance with generally accepted government auditing standards applicable to performance audits contained in 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 requirements of policies, procedures and School Board rules to satisfy our audit objectives.

FINDINGS AND RECOMMENDATIONS

1. THE ESTABLISHED REVENUE GOAL OF \$500,000 SHOULD BE RE-EVALUATED TO ACHIEVE SELF-SUSTAINED STATUS

Analysis of the department's revenues and expenses revealed that rather than being self-sufficient, as intended, approximately \$656,000 of the department's operation is being subsidized by the General Fund. The department's printing and duplicating services revenues and expenses for fiscal year ending June 30, 2008 were \$559,819² and \$1,216,215³ respectively.

According to the department's administrator, the department had the labor and technological resources to support an estimated maximum capacity of \$1 million in revenues through the 2007-08 fiscal year. Management has also stated that reduction in labor force, cause by budgetary constrains in the current fiscal year, and decrease in efficiency due to equipment depreciation has reduced the department's revenue capacity to an estimated \$600,000.

The department, however, continued to operate with a long ago established revenue goal of \$500,000. This amount is at variance with Graphics stated maximum capacity. A trend analysis of the last three fiscal years disclosed that while the department has achieved its stated revenue goal of \$500,000, the department has been operating at below its capacity, and could achieve greater efficiency.

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Budgetary constraints throughout the district may have been one of the factors causing the sales level to decrease by almost \$190,000 or 26% in 2008. In addition, a survey conducted by us disclosed that 23% of the respondents were not aware of the services

² This amount includes \$34,451 in rebates received from one copy machine suppliers for not reaching the monthly allotment for copies made.

³ This amount excludes \$524,744 lease and repair and maintenance payment for district's copy machines and \$973,992 of unpaid purchase orders.

offered by Graphics. This suggests that there is an opportunity for increased operating capacity through advertising and awareness campaigns.

RECOMMENDATIONS

- 1.1 Develop low cost strategies to maximize efficiency that will result in fuller capacity utilization. This may include advertising the services offered by Graphics via the district's website or email systems, and encouraging all schools and offices to allow Graphics to compete with vendors for printing and duplicating services to be purchased, in line with Section 7-II of the district's procurement policies and procedures manual "How To Do Business With Miami-Dade County Public Schools".**

Responsible Department: Graphics Department

Management Response: The printing services offered by the Department were posted in all bulletin boards throughout the School Board Administration Building's District office complex on November 5, 2008. Management agrees that additional marketing of the Department's services are in order, particularly since they are both price-competitive and high quality, and as such, proposes to undertake a low-cost marketing campaign as follows:

Phase I: An Open House will be held in September 2009 for District offices and schools to showcase Graphics and Materials Production printing products.

Phase II: A list of all available printing services will be included in the 2009-10 School Operations Opening of Schools Handbook.

Phase III: The Department's services will also be advertised quarterly through the District's e-mail system and District website beginning in June 2009.

Additionally, Management will discuss a process with the Procurement Department that would not only encourage schools and District offices to utilize the services offered by the Department but also allow it to bid on printing jobs alongside outside vendors, as a standard operating procedure.

- 1.2 Re-evaluate the department's established annual revenue goal and align it with the department's service capacity. The department's goal should be established at a level to allow the department to operate as a self-sufficient unit as intended.**

Responsible Department: Graphics Department

Management Response: The Department has acquired two large printing projects for the 2009-2010 fiscal year, which include 1) the printing of the School Facilities Construction Project Specification forms, and 2) Title I Administration's "No Child Left Behind" Parental Choice brochures. Additionally, as noted above, the Department strongly supports the implementation of procedures that would allow it to compete for printing jobs with outside vendors. This notwithstanding, realistic expectations must be considered when evaluating the Department's service capacity. Budget reductions have eliminated 5 employees from the Department since 2007, overtime has been eliminated, and outdated equipment has not been replaced. When District budgets are reduced, this Department is fiscally impacted as well.

2. CUSTOMER SATISFACTION IS VERY HIGH, BUT OPPORTUNITY TO INCREASE SALES EXIST

We surveyed principals and administrators of the district's 535 schools and non-school site departments to determine:

- the quality of service provided by Graphics and related customer satisfaction,
- awareness of the department and the various services it offers,
- the volume of printing services contracted with outside print shops and the reasons that schools and departments would chose to procure such services from outside vendors versus Graphics, and
- which are the most often purchased Graphics services.

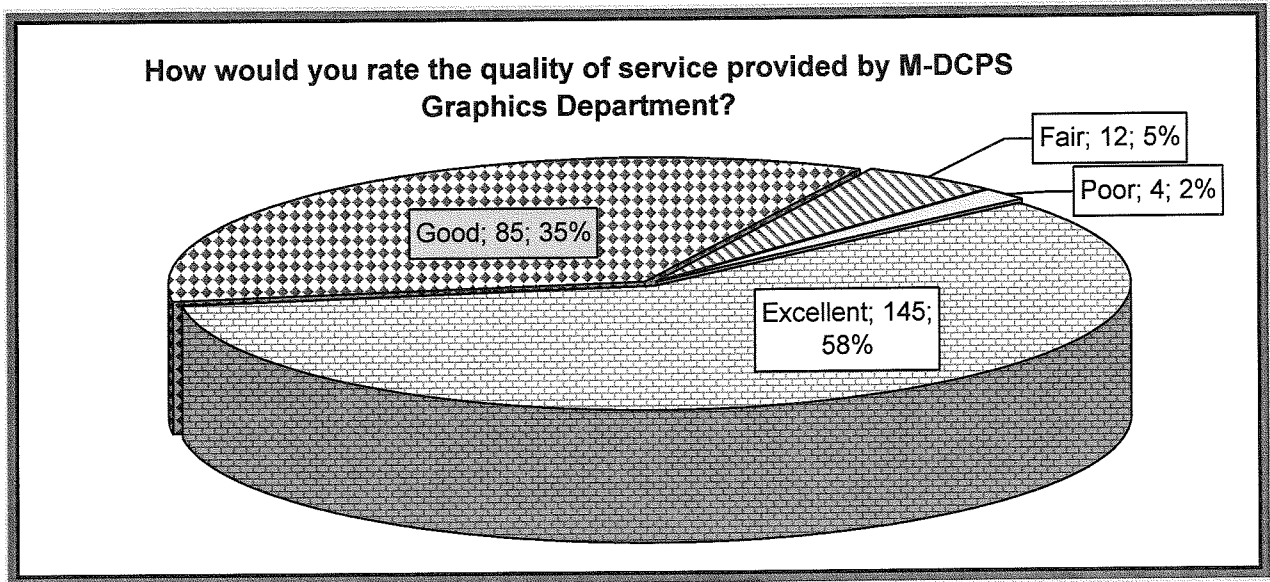
The survey was sent to all 535 principals and department heads and responses were received from 330 (62%). In collecting the data, we found that all respondents did not answer all survey questions or provided valid responses. The data used to formulate our conclusion were only the valid responses. The following are the primary findings of the survey:

| Ten Most Used Graphics Services | |
|--|-------------------------------------|
| 1. | Envelopes |
| 2. | Business Cards |
| 3. | School/Department Related Documents |
| 4. | Letterheads |
| 5. | Student/Parent Handbooks |
| 6. | Brochures |
| 7. | Carbonless Forms |
| 8. | Certificates |
| 9. | Report Cards |
| 10. | Flyers |

Very High Customer Satisfaction Ratings

Schools and departments that have used Graphics value the department's quality of service. Ninety-three percent 93% (230) rated the quality of service excellent or good, while only 7% rated it fair or poor. This corresponds with comments from various staff of user departments who have expressed appreciation for the flexibility and convenience in the services received. For example, Graphics routinely accommodates last minute changes and

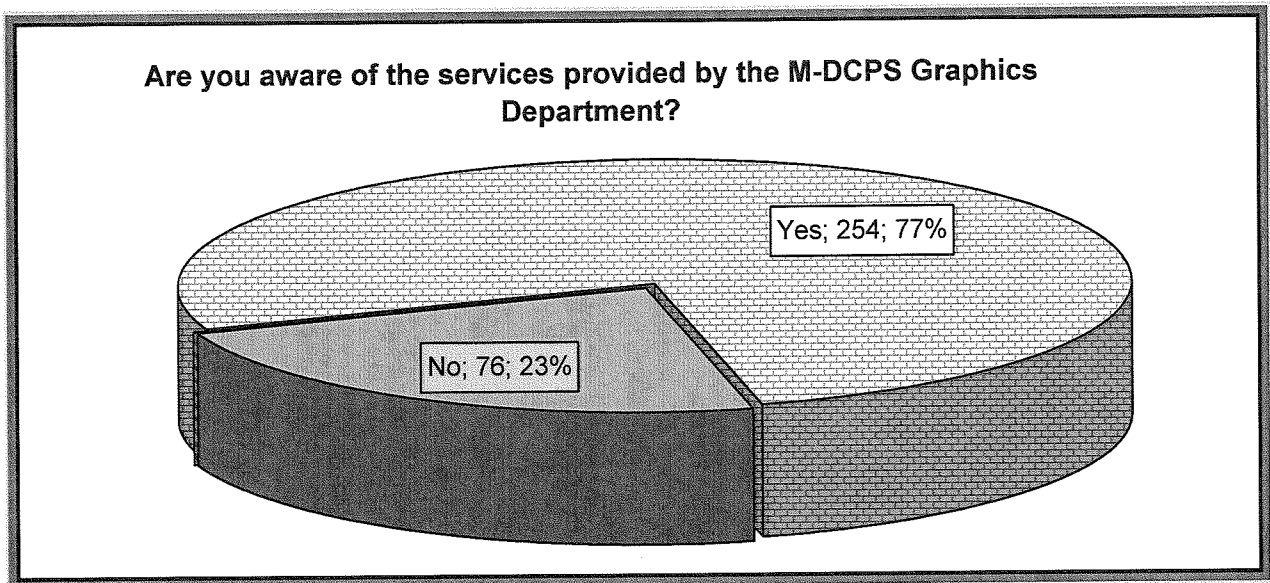
replacement of pages in the printing of documents. The following chart depicts the level of customer satisfaction with the printing and duplicating services provided by Graphics.



Twenty-Three Percent of Respondents Are Not Aware of the Department or Its Services

Twenty-three percent (23%) (76) of the respondents surveyed indicated they were not aware of Graphics or its services. This

suggests that there is an opportunity to increase revenues through advertising and awareness campaigns. The following chart depicts Graphics level of visibility within the district.



Additionally, 92 respondents cited the following main reasons for using an outside print shop instead of Graphics (in order of response frequency):

1. Fair price or better pricing,
2. Not aware of all the services provided by the Graphics Department,
3. A prior established working relationship with outside vendor,
4. Services needed not available at Graphics,
5. Quick turnaround service,
6. Geographic location.

Significant M-DCPS Schools' and Departments' Printing and Duplicating Business Goes To Outside Vendors

The survey results show that approximately \$200,000 of printing and duplicating services were purchased from outside print shops by schools and departments during FY 2007-08.

However, this amount is likely substantially understated, since many of the respondents indicated that all or a large portion of their allotted printing budget was spent with outside vendors, but did not include a dollar amount. Furthermore, the district's Vendor Activity Report for fiscal year ended June 30, 2008 reflected that as much as \$1.4 million were paid to vendors providing printing and duplicating services. This finding, coupled with the fact that 23% of respondents are not aware of Graphics or its services, implies that Graphics may have an opportunity to increase its market share of schools and departments printing business. This is discussed more fully in Finding 1, regarding the department not operating at full capacity, relative to its space, equipment and personnel.

RECOMMENDATION

None (Refer to Recommendation 1.1)

**3. MONTHLY LEASE AND MAINTENANCE
PAYMENTS MADE FOR COPY MACHINES
NOT IN THE DISTRICT POSSESSION**

Graphics is responsible for making the lease and maintenance payments for 209 copy machines located in some district offices and schools. Seventy-eight of these machines are leased, while 131 that are owned by the district.

From a sample of 23 copy machines we noted the following:

- a. Lease and maintenance payments for all 23 machines complied with the terms and conditions of their respective contracts.
- b. All but four of the machines listed in the department's inventory of machines were physically observed as being present at district's sites. The four machines were traded in for other machines. In fact, the vendor supplying the replacement machines reportedly donated one of the machines, (which was still under an active lease with a different vendor and owned by that vendor) to a charity in Haiti. Staff completed Property Control forms for two of the four machines removed. However, the signature of a representative from Graphics was included in only one of the forms, effectively making them aware of the removal of only that machine. Accordingly, Graphics canceled the maintenance payments on that district-owned machine. The administrations in Bilingual Education and World Language, Alternative Education, and Adult General Education did not inform Graphics of their removing the machines assigned to them.
- c. The district continued making monthly lease and maintenance payments for three of the four machines that were traded in. From the time the machines were removed from the district until January 2009, a total of \$22,461 in monthly lease and maintenance payments (\$8,911 and \$13,550, respectively) were made for these machines. Because the machine that was reportedly sent to Haiti was still under lease and owned by a different vendor, that vendor demanded that the monthly lease payments continue for the full term of the lease and that the district pay them the residual value of the machine at the end of the lease term. Subsequent to January 2009, the district did not make any additional lease and maintenance payments for any of the machines. The Graphics department has received a buy-out offer of \$1,734 for the leased machine that was shipped to Haiti. Subsequently, the department received a credit memo of \$4,036 for the annual maintenance overpaid on the other two machines, and has applied \$1,103 against May and June invoices. The remaining balance of \$2,933 will be applied to July, August, and September 2009 invoices.

School Board Rule 6Gx13-3B-1.09, Disposal of Tangible Personal Property, states that an appropriate outgoing equipment form is to be used to record any request for

disposition of a property included in a bid. Each request for disposition shall be submitted for review and approval of two persons.. One individual is the location administrator into whose custody the property has been assigned. The other individual should be entirely familiar and qualified to appraise the equipment's condition and its further usefulness. In the above cases, the administrators of Bilingual Education and World Language, Alternative Education, and Adult General Education, would be the custodians of the equipment and would be responsible for initiating the outgoing equipment form. The Graphic's administrator would be the individual familiar with the equipment since it manages the lease and maintenance agreements.

RECOMMENDATIONS

- 3.1 Develop procedures to ensure that monthly lease and maintenance payments are made for only copy machines that are in use at the district. Those procedures should include a process whereby Graphics receives verification from all applicable work locations of the identity of the copy machines in use before monthly payments are made.**

Responsible Department: Graphics Department

Management Response: *The District Office/Ancillary Facilities Copier Guideline Manual* requires District staff to notify the Department via e-mail when a copier is not being utilized so that the applicable maintenance agreement can be cancelled for the copier. The key is to request that District offices strictly comply with existing procedures rather than develop new procedures. Management will nevertheless review the current process to ascertain what if any additional steps could be taken to ensure stricter enforcement of current processes and procedures.

- 3.2 Pursue recovery from the responsible vendor any cost incurred to buyout the improperly removed and donated copy machine.**

Responsible Department: Graphics Department

Management Response: The Office of Bilingual Education and World Language was the custodian of the copier that was improperly removed and donated to a charitable agency in Haiti and as such, that office is responsible for the recovery of all maintenance, lease payments and buyout for the copier. The Department's supervisor intervened by meeting with the vendor's CEO in an attempt to assist with cost recovery, but was unsuccessful. She has referred the matter to the School Board Attorney's Office and should the vendor not pay the recovery cost, the repercussion could be debarment with a suspension of all business dealings with Miami-Dade County Public Schools for a period of 5 years.

As noted previously, the Department's administrator must sign all Outgoing Property Control forms when copiers from the District office and ancillary facility are surplused and/or transferred, and in this instance, that practice was not followed.

3.3 Enforce Board Rule 6Gx13-3B-1.09 Disposal of Tangible Personal Property. The Graphics department administrator must be one of the two individuals who reviews and approves the disposition of the copy machines that are leased or maintained through Graphics.

Responsible Department: Graphics Department

Management Response: The Department is aware of the referenced Board Rule and adheres to it; the process weakness in this audit finding did not originate with the Department, and the paperwork required in the Rule was not submitted to the Department for review and processing. Since the Department cannot enforce the Rule unless there is compliance from the originating offices, in an effort to avert similar future occurrences, the Department will forward a reminder e-mail to all District offices calling their attention to the governing Board Rule and reminding them of the need to seek and obtain the Department's sign-off before any copier equipment is surplused.

4. DEPARTMENT'S AND VENDOR'S RECORDS ARE NOT MAINTAINED IN A MANNER TO ACCURATELY DETERMINE THE AMOUNT OF REBATE DUE M-DCPS

Pursuant to bids 128-FF11 and 114-DD11, M-DCPS receives rebates for copy quantities that are less than the contract-specified monthly copy count. To determine the rebate due, M-DCPS' Graphics department semiannually in December and June obtains the meter reading from each machine participating in the rebate program. These counts are made only for the copiers that are leased from the two vendors participating in the rebate program. The readings are then submitted to the two participating vendors. Each vendor then submits a rebate check along with the documentation supporting the amount remitted.

We compared the data prepared by the Graphics departments to the supporting documentation and checks received from the vendors. The following discrepancies were noted:

- The check amounts did not agree to the amounts on the supporting documentation the vendors remitted with their checks. Further inquiry from the Graphics department and the vendor resulted in a second set of records being provided, which subsequently agreed to the check amounts.
- There were differences in the number of machines listed by each Graphics and vendors. For one of the rebate periods tested, one vendor had 13 more machines listed than Graphics records showed. For another period the Graphics department had 10 more machines listed than the vendor's records showed.
- Copier meter readings on the Graphics' records did not always agree with the meter readings on documents received from the vendors. Variances ranged from 121 copies to 6,129,379 copies. According to management, some of the variances may be the result of receiving the incorrect meter readings from staff at remote locations. This condition could be improved by instructing personnel at these remote locations the proper way to obtain the meter readings and holding them accountable.
- Rebate checks were received from vendor as much as six to twelve months after the close of the inventory date. Moreover, there was no evidence of follow-up regarding the delay in the check receipt.
- There was a check for \$12,786.05, which according to Graphics related to the rebate program. This check, however, was an amount due to the district for maintenance overpayments on two machines.

The data submitted by the vendors are not being reconciled. It was not possible for us to determine if the district is receiving all the money it is entitled to, under the lease program.

RECOMMENDATION

- 4.1 Reconcile all data relative to the copier rebates program prepared by the Graphics department to vendors' supporting documentation and investigate differences.**

Responsible Department: Graphics Department

Management Response: In the future, when there is a difference in the semi-annual meter reading submitted to vendors and the meter readings submitted by the Department, all vendors will be required to submit documentation for the difference, and any differences will be reconciled.

5. DEVELOP WRITTEN CRITERIA AND PROCEDURES TO SUBSTANTIATE PURCHASE OR LEASE DECISIONS FOR COPY MACHINES

Our analysis of the 209 copy machines listed in Graphic's equipment inventory revealed that 63% (131) of the machines are owned by the district and 37% (78) are leased. Bids 128-FF11 and 114-DD11 allow the Graphics department choices for either purchasing or leasing machines that are added to the district's copier inventory. However, management has acknowledged that there are no written procedures or criteria that provide guidance on the decision to purchase or lease a copy machine. Additionally, staff does not currently document the factors considered and reasons for its decision to lease or purchase a copy machine.

RECOMMENDATIONS

- 5.1 Develop and maintain written criteria and procedures to guide staff in its decision of whether to purchase or lease copy machines. Those procedures should also ensure that documentation supporting the decision is maintained on file.**

Responsible Department: Graphics Department

Management Response: Administrators and administrative professional personnel can best determine their office copier needs based upon the office's print schedule and copier volume. As such, in the future any department requesting a copier will be required to transmit this information to the Department's administrator for recommendation of an appropriate copier, based on the District's copier bid. Recommendations will then be made to the requesting department for either a purchase or lease of a copier.

6. GRAPHICS' PRICES COMPARE FAVORABLY WITH MOST OUTSIDE VENDORS

We received and compared invoices for reproduction services performed by 11 outside vendors. The invoices were obtained from 20 schools and district offices. The Graphics department was also asked to provide prices for the products and services contained in the sampled vendor's invoices. The comparison disclosed the following:

- Graphics' prices for comparable products and services compared favorably with nine of the 11 vendors' prices. The differences ranged from \$15 to \$1,351. This suggests that Graphics has a price advantage that could be used as a marketing point to increase sales to achieve fuller capacity and cover the subsidized portion of its operations. As already emphasized, a low cost marketing strategy could be employed to promote this fact.
- Graphics prices did not compare favorably with two of the 11 vendors, mainly due to those vendors' pricing of student agenda booklets. The price differences using those two vendors were significant, ranging from \$5,826 to \$23,479. One of those vendors specialized in student agenda books and has the technology and resources available to provide schools with very low prices. Our Graphics department does not produce agenda books. The other vendor is able to provide low prices because of its low overhead cost.

RECOMMENDATION

- 6.1 To optimize district-wide resources, Graphics, in collaboration with School Operations, should issue a notice encouraging all schools that provide student agenda books to procure these from the two vendors referred to in this report as providing favorable pricing for this product.

Responsible Department: Graphics Department

Management Response: Management understands the basis for this recommendation, i.e. to have the subject books produced in the most cost-effective way at the present time since the Department does not currently have the equipment capability in-house to handle this product. Management feels however that an equally appropriate measure would be to pursue the lease of the equipment needed to fulfill these requests so as to adequately compete for the work, and it is Management's intent to immediately start that search and analysis process. Management very strongly encourages the printing of all documents at the District's in-plant facility (Graphics and Materials Production) which in turn supports the Superintendent's recommendation not to outsource work if it can be completed cost-effectively in-house.

7. PRICING, INVOICING, AND RECORDKEEPING PRACTICES NEED IMPROVEMENTS

Certain practices and documentation relative to the pricing of printing and duplicating services offered by Graphics need improvement. We found that: (1) the department does not maintain a comprehensive price list; (2) in some cases, prices were inconsistent for the same services; (3) invoices provided to customers do not always allow for proper review and verification of billing; and (4) the department does not maintain on file invoices used to billing customers for products and services provided.

1. Comprehensive Price List and Inconsistent Pricing

Typically, businesses maintain a price list for products and services offered to ensure consistent pricing. While Graphics maintains prices for products and services offered in its computerized work order system, it does not maintain a comprehensive list of prices for all products and services offered outside of the aforementioned work order system. Moreover, the work orders generated by Graphics work order system contained inconsistencies in the prices charged for the same product or service.

For example, although the printing of business cards is one of the services routinely provided this service is not on the department's price list. Moreover, our test found that three different customers were charged three different prices for service: \$24.86, \$22.50 and \$18.50.

In another case, although on the price list, discrepancy in pricing was also discovered for digital black and white copies and digital color copies. Customers were charged at \$0.03, \$0.05, or \$0.07 for one-sided digital black and white copies. Two-sided digital black & white copies were charged to customers at either \$0.05 or \$0.06 per copy. Customers were charged either \$0.60 or \$0.80 cents for each digital color copy.

Good public policy and best practices require that a price list be maintained and that the customers be charged the same unit price for the same product or service, in order to avoid the possible appearance of preferential treatment.

2. Invoices and Work Orders Not Always Verifiable

There are two documents where the specifications for each order are outlined. The first document is the Department of Graphics & Materials Production Work Request or form FM-0875. The individual soliciting the service outlines the specifications on this document. This form is then used by Graphics to develop the second document, which is the Quote Sheet. The Quote Sheet serves as an invoice and consists of line items describing the specification and unit price for each item in the completed form FM-0875.

The invoiced amount for each of the 40 sample orders selected was recalculated. Twenty (50%) invoices had audit discrepancies, as follow:

- In seven cases, the invoice and work order amounts did not agree because the work order (FM-0875) kept on file was not updated for changes made to the job specifications. The invoices/quotes for those orders, however, were correctly priced based on the new specifications.
- In 11 cases, the extended invoice values shown in the invoice was different from the values recalculated because the "unit prices" shown on the invoice were extended to only two decimal places, whereas the actual "unit prices" used to generate the invoice amounts were extended up to seven decimal places in the work order system. For example, one of the orders revealed an apparent overcharge of \$231 because the invoice reflected a unit price of \$0.01; whereas, the actual unit price in the system was \$0.0121999. The range of these differences was between \$231 and \$2.50. Therefore, customers are unable to properly review and verify the accuracy of the charges to them.
- In two cases, the invoice subtotals and totals did not agree because these values were manipulated to reflect the total desired. In one of these cases, in order to compete with an outside vendor, a \$500 discount was given on an order. In order for the quote sheet to reflect this discounted amount, the total price of the order was manually entered at \$26,000. Therefore, the unit price times the quantities listed did not yield the total amount reflected. In the other instance, because the unit price for business cards is not programmed in the computer pricing system, the total due was manually entered at \$1,480. Similarly, the unit price times the quantities listed did not yield the total amount reflected.

3. Sales Invoices Are Not Maintained

According to the Graphics' "Production Work Report Log", there were 1,402 orders filled in the FY 2007-08. It was discovered that it is not the department's practice to keep invoices for work orders on file. The only record kept on file as proof of the orders filed is the Department of Graphics & Materials Production Work Request Form (FM-0875). This form includes the order's specification and the total amount due however, it does not include itemized charges to arrive at the amount due. Good business practice requires keeping invoices to verify details of the products or services provided and the prices charged.

RECOMMENDATIONS

- 7.1 Update price list to include the prices for each product and service offered and keep it current.**

Responsible Department: Graphics Department

Management Response: Management is implementing steps to improve pricing and general recordkeeping as follows:

1. New software has been ordered to replace the Department's outdated pricing system.
 2. The Department's price list of available services has been updated and will continue to be updated as needed.
 3. An updated pricing manual is being developed; discounts, when applicable, will be applied after unit prices have been listed on a customer's invoice.
 4. Procedures have been developed to ensure that all revisions to original invoices will be approved by the worksite administrator and placed on the work order (FM-0875) with administrative approval.
- 7.2 Discontinue the practice of charging different prices for the same types of product and service. Prices for the same types of product and services should be consistent for each customer. If a properly authorized discount is to be applied to an order, the invoice should be calculated using the established unit prices and the approved discount applied after and specifically identified on the invoice.**

Responsible Department: Graphics Department

Management Response: (Please see management response to recommendation 7.1.)

- 7.3 Include complete unit price in customer invoices that will allow them to properly review and verify charges.**

Responsible Department: Graphics Department

Management Response: (Please see management response to recommendation 7.1.)

- 7.4 Develop procedures to ensure that form FM-0875 are revised to reflect subsequent changes requested by customers and management's approval of the changes.**

Responsible Department: Graphics Department

Management Response: (Please see management response to recommendation 7.1.)

7.5 Maintain copies of final customer invoice on file with form FM-0875.

Responsible Department: Graphics Department

Management Response: (Please see management response to recommendation 7.1.)

8. DEVELOP AND IMPLEMENT WRITTEN PROCEDURES TO SAFEGUARD SUPPLIES INVENTORY

Graphics provided an inventory count of printing supplies such as paper, ink toner, and binding supplies valued at \$109,542 as of September 2008. The staff described informal procedures to perpetually track the inventory, and to periodically conduct a physical count of the supplies. We found there are no written procedures to document this process. In addition, records to document inventory adjustments were not provided and the only documented physical inventory count presented for audit was as of September 2008.

Adequate internal controls required that there is a process in place to perpetually track supplies inventory, reconcile the perpetual to a periodic physical inventory, and make any required adjustments accordingly. We found that no such consistent process is in place. Not having such controls in place increases the risk of unnecessary shrinkage, theft, misuse, and expense.

RECOMMENDATION

- 8.1 Develop written procedures and implement to track perpetual supplies inventory, to conduct periodic physical inventories, to reconcile the inventory to perpetual records, and to make adjustments, accordingly.**

Responsible Department: Graphics Department

Management Response: Written procedures have been developed to track the supplies inventory on an on-going and systematic basis; a physical inventory will be performed three times a year (June 1st, December 15th, and March 1st) to reconcile the inventory to perpetual records. Adjustments will be made every two weeks to reconcile the perpetual inventory, and record incoming and outgoing stock. Department staff is also working with Information Technology to develop a program for automated inventory tracking.


APPENDIX A – MANAGEMENT’S RESPONSE

MEMORANDUM

June 16, 2009

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

FROM: Jaime G. Torrens, Chief Facilities Officer
Office of School Facilities



SUBJECT: RESPONSE TO THE INTERNAL AUDIT REPORT FOR GRAPHICS AND MATERIALS PRODUCTION (GRAPHICS)

Please allow me to thank you and your staff for conducting the audit of Graphics and Materials Production in a professional manner. Listed below are our responses to the final Audit Report (Report).

Cover Letter

As noted in the Report’s cover letter, users of the Graphics and Materials Production Department’s (Department) services are satisfied with the products and their delivery. That notwithstanding, the cover letter states that “the District paid more than \$22,000 to maintain and/or lease three machines that were not in the district’s possession”. It must be emphasized that these copiers were surplus by other District offices and the Department was not made aware of this occurrence. As such, the inherent process weaknesses in this finding should not be ascribed to the Department but rather to the District offices which failed to adhere to the established procedures for disposal of Board property. Validating that when properly notified, the Department takes appropriate action, is the fact that upon having been made aware of the need to surplus a fourth copier by the originating office, the Department took all required and appropriate steps to ensure that the corresponding lease was canceled along with any additional payments.

School Board Rule 6Gx13-3B-1.09, Disposal of Tangible Personal Property clearly provides that no administrator can surplus District property without an outgoing Property Control Equipment form and without the proper authorizations. The problem uncovered as part of this audit can be addressed very simply and effectively by reminding District offices that they must strictly adhere to the governing Board Rule, and that in cases where one or more copiers are being recommended for surplus, prior to that action being implemented, an acknowledgement and sign-off from the Department will be required. It is noteworthy that despite the lack of initial notification, the Department did recover a credit in the amount of \$4,036 for the annual maintenance of two (2) of the surplus copiers from the respective vendor.

Summary Capsule

As noted in the Capsule, the Department's customer base is "overwhelmingly satisfied with Graphics' printing services" and "Graphics' prices compare favorably with most print shops used by M-DCPS." Management agrees that there is an opportunity to potentially capture some of the printing that is presently being carried out by outside vendors and to that end, a process should be developed to ensure the Department is given an opportunity to also submit a proposal on any printing job being considered for outsourcing.

As to the assertion that the Department has been operating at a deficit over the last three years, it should be noted that the annual revenue generation goal of \$500,000 has actually been exceeded in each of the last three years (see table of page 7 of the Report). A revenue goal of \$1 million was never established by the Department or by the Budget Department for the subject three fiscal years.

Recommendation 1.1

Develop low cost strategies to maximize efficiency that will result in fuller capacity utilization. This may include advertising the services offered by Graphics via the district's website or email systems, and encouraging all schools and offices to allow Graphics to compete with vendors for printing and duplicating services to be purchased, in line with Section 7-II of the district's procurement policies and procedures manual "How To Do Business With Miami-Dade County Public Schools".

Response:

The printing services offered by the Department were posted in all bulletin boards throughout the School Board Administration Building's District office complex on November 5, 2008. Management agrees that additional marketing of the Department's services are in order, particularly since they are both price-competitive and high quality, and as such, proposes to undertake a low-cost marketing campaign as follows:

- Phase I: An Open House will be held in September 2009 for District offices and schools to showcase Graphics and Materials Production printing products.**
- Phase II: A list of all available printing services will be included in the 2009-10 School Operations Opening of Schools Handbook.**
- Phase III: The Department's services will also be advertised quarterly through the District's e-mail system and District website beginning in June 2009.**

Additionally, Management will discuss a process with the Procurement Department that would not only encourage schools and District offices to utilize the services offered by the Department but also allow it to bid on printing jobs alongside outside vendors, as a standard operating procedure.

Recommendation 1.2

Re-evaluate the department's established annual revenue goal and align it with the department's service capacity. The department's goal should be established at a level to allow the department to operate as a self-sufficient unit as intended.

Response:

The Department has acquired two large printing projects for the 2009-2010 fiscal year, which include 1) the printing of the School Facilities Construction Project Specification forms, and 2) Title I Administration's "No Child Left Behind" Parental Choice brochures. Additionally, as noted above, the Department strongly supports the implementation of procedures that would allow it to compete for printing jobs with outside vendors. This notwithstanding, realistic expectations must be considered when evaluating the Department's service capacity. Budget reductions have eliminated 5 employees from the Department since 2007, overtime has been eliminated, and outdated equipment has not been replaced. When District budgets are reduced, this Department is fiscally impacted as well.

Recommendation 3.1

Develop procedures to ensure that monthly lease and maintenance payments are made for only copy machines that are in use at the district. Those procedures should include a process whereby Graphics receives verification from all applicable work locations of the identity of the copy machines in use before monthly payments are made.

Response:

The District Office/Ancillary Facilities Copier Guideline Manual requires District staff to notify the Department via e-mail when a copier is not being utilized so that the applicable maintenance agreement can be cancelled for the copier. The key is to request that District offices strictly comply with existing procedures rather than develop new procedures. Management will nevertheless review the current process to ascertain what if any additional steps could be taken to ensure stricter enforcement of current processes and procedures.

Recommendation 3.2

Pursue recovery from the responsible vendor any cost incurred to buyout the improperly removed and donated copy machine.

Response:

The Office of Bilingual Education and World Language was the custodian of the copier that was improperly removed and donated to a charitable agency in Haiti and as such, that office is responsible for the recovery of all maintenance, lease payments and buyout for the copier. The Department's supervisor intervened by meeting with the vendor's CEO in an attempt to assist with cost recovery, but was unsuccessful. She has referred the matter to the School Board Attorney's Office and should the vendor not pay

the recovery cost, the repercussion could be debarment with a suspension of all business dealings with Miami-Dade County Public Schools for a period of 5 years.

As noted previously, the Department's administrator must sign all Outgoing Property Control forms when copiers from the District office and ancillary facility are surplus and/or transferred, and in this instance, that practice was not followed.

Recommendation 3.3

Enforce Board Rule 6Gx13-3B-1.09 Disposal of Tangible Personal Property. The Graphics department administrator must be one of the two individuals who reviews and approves the disposition of the copy machines that are leased or maintained through Graphics.

Response:

The Department is aware of the referenced Board Rule and adheres to it; the process weakness in this audit finding did not originate with the Department, and the paperwork required in the Rule was not submitted to the Department for review and processing. Since the Department cannot enforce the Rule unless there is compliance from the originating offices, in an effort to avert similar future occurrences, the Department will forward a reminder e-mail to all District offices calling their attention to the governing Board Rule and reminding them of the need to seek and obtain the Department's sign-off before any copier equipment is surplus.

Recommendation 4.1

Reconcile all data relative to the copier rebate program prepared by the Graphics department to vendor's supporting documentation and investigate differences.

Response:

In the future, when there is a difference in the semi-annual meter reading submitted to vendors and the meter readings submitted by the Department, all vendors will be required to submit documentation for the difference, and any differences will be reconciled.

Recommendation 5.1

Develop and maintain written criteria and procedures to guide staff in its decision of whether to purchase or lease copy machines. Those procedures should also ensure that documentation supporting the decision is maintained on file.

Response:

Administrators and administrative professional personnel can best determine their office copier needs based upon the office's print schedule and copier volume. As such, in the future any department requesting a copier will be required to transmit this information to the Department's administrator for recommendation of an appropriate copier, based on the District's copier bid. Recommendations will then be made to the requesting department for either a purchase or lease of a copier.

Recommendation 6.1

To optimize District-wide resources, Graphics in collaboration with School Operations, should issue a notice encouraging all schools that provide student agenda books to procure these from the two vendors referred to in this report as providing favorable pricing for this product.

Response:

Management understands the basis for this recommendation, i.e. to have the subject books produced in the most cost-effective way at the present time since the Department does not currently have the equipment capability in-house to handle this product. Management feels however that an equally appropriate measure would be to pursue the lease of the equipment needed to fulfill these requests so as to adequately compete for the work, and it is Management's intent to immediately start that search and analysis process. Management very strongly encourages the printing of all documents at the District's in-plant facility (Graphics and Materials Production) which in turn supports the Superintendent's recommendation not to outsource work if it can be completed cost-effectively in-house.

Recommendations 7.1 through 7.5 (Improving Pricing, Inventory, and Recordkeeping Practices)

Response:

Management is implementing steps to improve pricing and general recordkeeping as follows:

1. New software has been ordered to replace the Department's outdated pricing system.
2. The Department's price list of available services has been updated and will continue to be updated as needed.
3. An updated pricing manual is being developed; discounts, when applicable, will be applied after unit prices have been listed on a customer's invoice.
4. Procedures have been developed to ensure that all revisions to original invoices will be approved by the worksite administrator and placed on the work order (FM-0875) with administrative approval.

Recommendation 8.1

Develop written procedures and implement to track perpetual supplies inventory, to conduct periodic physical inventories, to reconcile the inventory to perpetual records, and to make adjustments, accordingly.

Response:

Written procedures have been developed to track the supplies inventory on an on-going and systematic basis; a physical inventory will be performed three times a year (June 1st, December 15th, and March 1st) to reconcile the inventory to perpetual records. Adjustments will be made every two weeks to reconcile the perpetual inventory, and record incoming and outgoing stock. Department staff is also working with Information Technology to develop a program for automated inventory tracking.

Should you have questions, feel free to contact me at 305-995-1401. Thank you in advance for your cooperation.

JGT:bcp
M294

cc: Mr. James J. Dillard
Mr. Trevor Williams
Ms. Bernadette C. Poitier

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

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

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

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

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

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

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

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

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

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

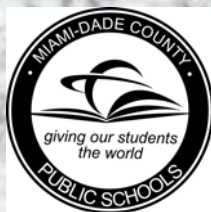
Florida Educational Equity Act (FEEA) - prohibits discrimination on the basis of race, gender, national origin, marital status, or handicap against a student or employee.

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

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

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

INTERNAL AUDIT REPORT



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