

**AUDIT REPORT
OF
IMPROVEMENTS NEEDED
IN THE AWARD & ADMINISTRATION OF
ARCHITECTURAL & ENGINEERING
CONTRACTS**

OCTOBER 2004

OFFICE OF MANAGEMENT AND COMPLIANCE AUDITS



Miami-Dade County Public Schools

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October 13, 2004

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

**Re: Audit Report – Improvements Needed in the Award &
Administration of Architectural & Engineering Contracts**

Ladies and Gentlemen:

In accordance with the Audit Plan for the 2004-05 fiscal year, we have performed an audit of the Architectural and Engineering (A/E) contracts. The objectives of the audit were to establish whether these types of contracts are properly awarded and administered by School District Staff and that good internal controls are in place to ensure that the A/E contracting process comports with applicable laws, regulations, and Board rules, and best business practices. During the audit period, July 1, 2001 to February 29, 2004, the District awarded 54 contracts to design professional consultants for approximately \$13.8 million in fees. These contracts had total estimated value of related construction costs of approximately \$194 million.

We found instances of non-compliance with contract administration procedures and areas where improvements are needed. These issues are discussed in further detail in the remaining sections of the report. The observations/recommendations and report contents were discussed with management. They provided input into the report's contents and provided written responses along with explanations needed to assure that the findings and recommendations will be properly addressed.

As always, we are ready to assist management in making the necessary changes to improve the operations. We would like to thank the administration and participating school districts and A/E firms for the cooperation, assistance and courtesies extended to the internal audit staff during our audit. This report will be presented to the Audit Committee at its October 26, 2004 meeting and to the School Board at its November 17, 2004 meeting.

Sincerely,

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

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EXECUTIVE SUMMARY

We found that, in general, architectural and engineering (A/E) consulting contracts are written in terms that appear to protect the District's interest and limit its exposure to obvious associated risks. The contracts include remedies for default; a fee or payment schedule, based on deliverables, where appropriate; and timetables or schedules, by which deliverables must be met. They also outline penalties for non-compliance when certain, (but not all) deliverables or contract requirements are not met. We found that for the most part, fees outlined in the contracts and amounts paid were in agreement with the amounts approved by the School Board. In general, the selection process appears to be objective and fair, and conforms to the Consultant's Competitive Negotiation Act (CCNA) and applicable Federal Acquisition Regulations (FAR), in spite of the fact that there was some incidental errors made in their execution. The range (percent) of fees negotiated and the method of determining the fees were in line with the District's peer group and industry-wide averages.

We did, however, find some areas in the process of awarding and administering architectural and engineering contracts, requiring management's attention. We noted errors and inconsistencies in the execution of these processes. Management needs to ensure that contracts are executed in a timely manner. Some A/Es have been working for upwards of some 366 days without fully executed contracts. Related to the contracts, we found that 32% of those we reviewed did not have a project schedule attached, while most of the others had schedules attached that were stale-dated. Some contracts do not outline penalties for not meeting the project's design schedule.

The areas of contract negotiations and management appear to present the greatest risk to the District. The maintenance of negotiation files is inadequate: 14 files were missing. Additionally, in most cases negotiation meeting minutes were not kept. The negotiation efforts over reimbursables and additional services need to be revisited. Improvements can be achieved by re-evaluating the type of professional liability insurance required and how printing fees are negotiated, as well as closely scrutinizing invoices prior to paying them. Related to the payment of invoices, we found that about 12% of the invoices we reviewed were paid late.

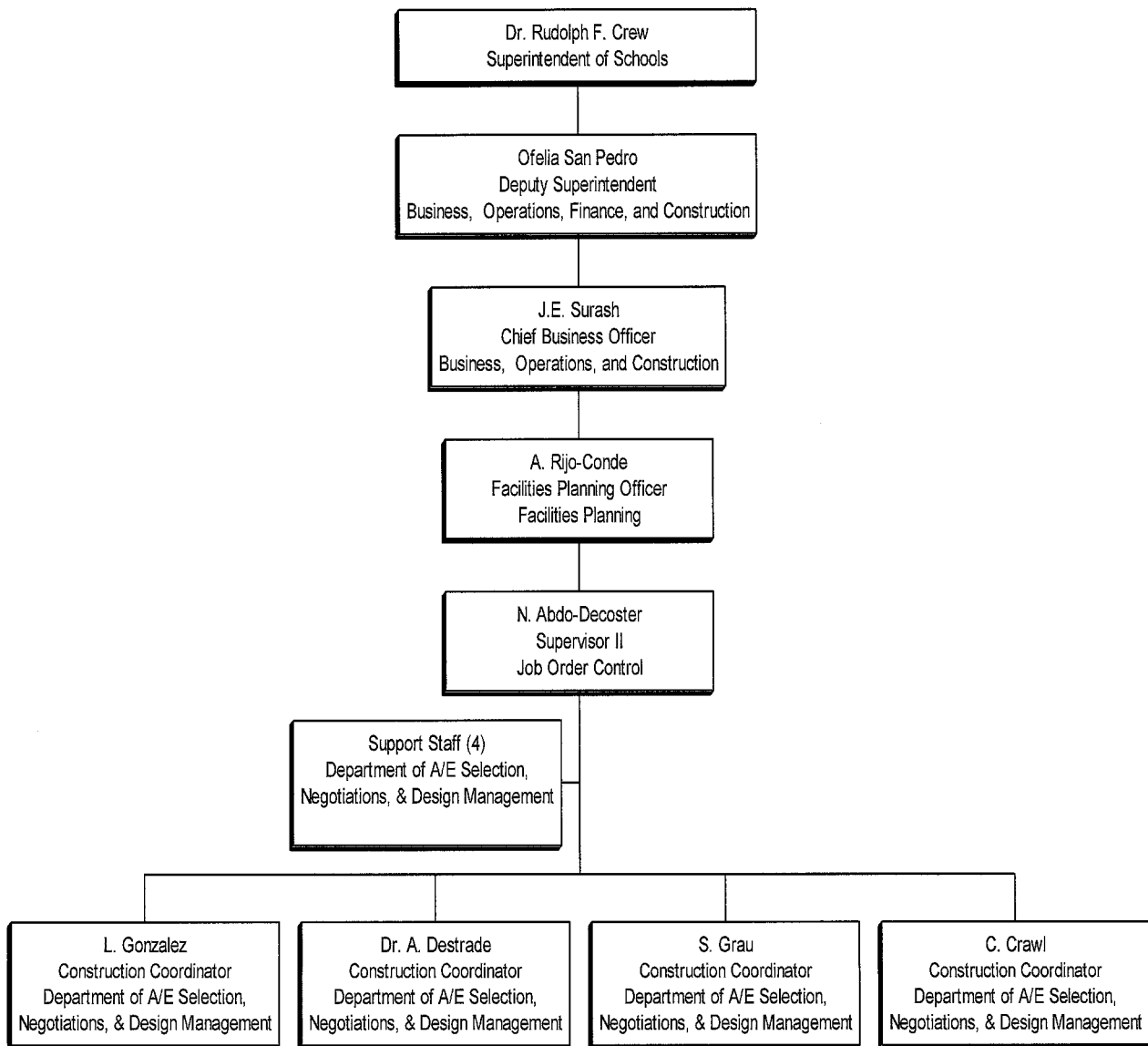
We also found instances where re-using prototype designs and employing better planning would have saved the District thousands of dollars.

Based on our observations, we made 21 recommendations. We received a response from the Chief Facilities Officer (see Appendix page 34). Management accepted the recommendations and provided implementation dates. Please turn to page 6 for details.

BACKGROUND

The Department of A/E Selection, Negotiations and Design Management (The Department) consists of four administrators and four non-administrative support staff, in addition to a Supervisor II.

DEPARTMENT OF A/E SELECTION, NEGOTIATIONS AND DESIGN MANAGEMENT PARTIAL ORGANIZATIONAL CHART (July 2004)



The Department's stated mission is to ensure that the most qualified professional consulting firm is recommended to the School Board to be commissioned. During the period under audit (July 2001 to February 2004), the Department recommended approximately 54 action items to the School Board requesting approval of contracts for professional design services, with a total estimated contract value of approximately \$13.8 million in professional fees with related estimated construction costs of approximately \$194 million.

The Department is responsible for facilitating and administering the selection, negotiation and contract execution processes for design, testing, and other construction-related professional consulting services employed in executing the District's Five-Year Educational Facilities Work Plan. The Department's responsibility as it relates to the administration of these contracts does not extend beyond contract execution. After the contract is approved by the School Board and executed, Project Managers (PM) within Facilities Operations, Maintenance, and Planning handle the day-to-day management of the contracts.

When construction projects listed in the District's Five-Year Educational Facilities Work Plan are identified for commencement, the Department begins the selection process. The process begins with the Department advertising the project and requesting either Request For Proposals (RFP) or Request For Qualifications (RFQ) from all interested parties. The advertisement is sent to firms that are currently on the Department's list of professional consultants and to professional organizations known to have members or interest in the field, including: The Miami Builders Exchange, The Dodge Report, Broward County Builders Exchange, The Miami-Dade Chamber of Commerce, The Florida Registry, and the South Florida and Broward County American Institute of Architect (AIA) Chapters, as well as local newspapers.

Consulting services procured include architectural, engineering, design criteria package development, construction cost estimating, land surveying, geotechnical testing, construction management, and design-builder. To assist it in this process, the Department maintains a list of professional consultants in each applicable field of discipline, who are interested in providing such services.

OBJECTIVES, SCOPE AND METHODOLOGY

The objectives of this audit were to determine whether A/E contracts are awarded and administered in accordance with applicable laws, regulations, and School Board Rules. Specifically we wished to satisfy ourselves that:

- these contracts are adequately reviewed and monitored and protect the District's interest;
- the selection process is fair;
- the fee negotiation process results in reasonable fees;
- fees paid are allowed by contract and are reasonable; and
- the entire process is adequately supported by sufficient, relevant and competent documentation.

The scope of our audit covered an examination of the current operations of the Department. We applied our testing and analyses to design professional consultants commissioning by the School Board between the period of July 1, 2001 to February 29, 2004.

The procedures performed on a selective basis to satisfy the audit objectives were as follows:

- interviewed responsible M-DCPS administrators;
- reviewed the operating procedures manual and organizational structure for this function;
- examined applicable management reports;
- examined responses to RFP and RFQ and professional service contracts;
- examined vendor invoices;
- analyzed firms financial data: employees pay rates, overhead rates and financial statements;
- reviewed evidence of A/E's performance;
- analyzed and compared selected peer and industry data to M-DCPS;
- interviewed selected peer groups for their best practices;
- reviewed applicable laws, regulations, and School Board Rules;
- performed various other audit procedures deemed necessary.

Our audit was conducted in accordance with generally accepted governmental auditing standards applicable to performance audits contained in Government Auditing Standards issued by the Comptroller General of the United States of America. This audit included an assessment of applicable internal controls and compliance with requirements of policies, procedures, School Board Rules, and Florida Statutes, to satisfy the audit objectives.

FINDINGS AND RECOMMENDATIONS

1. RESULTS OF BENCHMARKING SURVEY OF A/E CONTRACTING BEST PRACTICES

We performed peer group and industry-wide analyses and comparisons to determine whether fees negotiated by M-DCPS compared favorably to those of other major school districts and the design industry as a whole. We obtained project design fees and construction cost data from 11 of the 17 school districts we surveyed. We also consulted a number of authoritative sources. Some of the information referred to in the analyses was from a nationwide study and comparison of 128 design firms.¹ We also obtained some statewide data from Florida Department of Education (DOE).²

Overall, the results of our analyses and comparisons of M-DCPS indicate that M-DCPS design fees (in terms of a percent) are in line with the peer group and industry. Additionally, we found that the type of contracts used for projects and the basis for calculating design services fees are in line with the peer group and industry.

The data collected, however, had certain limitations. Basic services fees may vary from one district to another. For example, services that one district may include in its contract definition of basic services might be included in the contract definition of additional services by another district. For this reason, for comparative purposes we emphasized the total fees. Another limitation to keep in mind is that the data collected include projects that are at different stages of completion. Based on the results of our analyses of total fees paid by the other school districts in our peer group, we concluded that the fees paid by M-DCPS to design professionals are reasonable.

M-DCPS' average total design fees rate of 7.90% of estimated construction costs is within the range of average total design fees rate of 2.82% to 10% of the peer group and industry. The 7.90% is in the upper 25% range of the group averages. (See the last column of the table on page 7.) Another industry cost guide³ however, proposed that architect's fees associated with the building of elementary and high schools should be about 6.76% and 6.80% of the total estimated construction costs (not including land, furnishings, landscaping, and financing), respectively. Data from DOE indicate that Florida school districts overall average rate for total design fees was 5.63% of total construction costs.

M-DCPS' average basic services fees rate is 6.17% of estimated construction costs and is within the range of average basic services fees of the School Districts that responded to our survey. That range is from 2.46% to 8.58%. This would suggest that M-DCPS is achieving acceptable fee ranges, which on a case by case basis is dependent on the complexity of the individual project.

¹ PSMJ Resources, Inc., (Frank A. Stasiowski, FAIA), *A/E Fees and Pricing Survey, 19th Edition 2004*, ed. H.E. Daniels, Jr. (Newton, Massachusetts, 2004).

² Florida Department of Education, Cost of Construction – Public Schools, www.firn.edu/doe/oef/cocps.htm.

³ Design and Construction Resources, *Architects Contractors Engineers Guide to Construction Costs 2004, Volume 35*, p. SF-5.

ANALYSIS OF PEER GROUP AND INDUSTRY DESIGN FEES PERCENTAGES				
School Districts And Industry	Basic Services Fees As A Percent of Estimated Construction Costs	Basic Services Fees As A Percent of Actual Construction Costs	Additional Services As A Percent of Basic Services Fees	Total A/E Fees As A Percent of Estimated Construction Costs
M-DCPS	6.17%	7.03%	4.70%	7.90%
District No. 1	NR	NR	NR	NR
District No. 2	NP	NP	NP	NP
District No. 3	5.21%	NP	0.00%	5.21%
District No. 4	NP	NP	NP	NP
District No. 5	2.46%	2.46%	74.22%	4.29%
District No. 6	NP	NP	NP	NP
District No. 7	3.59%	4.35%	NR	3.59%
District No. 8	2.67%	4.73%	5.57%	2.82%
District No. 9	5.99%	6.18%	NR	5.99%
District No. 10	6.70%	6.23%	NR	6.70%
District No. 11	NP	NP	NP	NP
District No. 12	4.86%	6.67%	8.33%	5.27%
District No. 13	5.04%	NR	38.32%	5.88%
District No. 14	8.58%	8.58%	NR	8.58%
District No. 15	7.11%	NR	NR	7.11%
District No. 16	NP	NP	NP	NP
District No. 17	6.58%	7.70%	12.32%	7.39%
Industry	NR	NR	NR	10.00%

NR – School District did not response to this survey question.

NP – Fees are based on percentage of construction cost, but fee schedule was not provided.

The preferred basis for calculating design fees among the peer group is to base the fees as a percentage of construction costs. Almost all districts in the peer group do this except for one district, which uses an analysis of historical project data. M-DCPS uses both of these approaches, either concomitantly or exclusively in negotiating specific project design fees.

M-DCPS uses lump sum contracts to procure design services. Similarly, all of the respondent districts in our peer group survey use lump sum contracts to purchase design services. Similarly, industry information provided by design firms indicated that 56% of their education industry clients enter into lump sum contracts, while 34% enter into percentage of construction contracts.

A/E errors and omissions are managed in a number of different ways across the peer group as noted below:

ANALYSIS OF PEER GROUP AND INDUSTRY POLICY OVER MANAGING A/E ERRORS AND OMISSIONS		
School Districts And Industry	Hold Harmless Allowance Per Contract & Manner Used To Obtain Reimbursement Of Costs For A/E Errors & Omissions	E&O Considered In A/E Evaluation
M-DCPS	Has a 1.5% limit. A/E held responsible for 100% of costs of error above limit and 15% of costs of omission above limit.	Yes
District No. 1	Has a 10% limit, and seeks reimbursement for costs above limit.	Yes
District No. 2	Has no limit. Does not pay design costs but construction costs. Holds A/E responsible.	Yes
District No. 3	Has no limit. A/E pays for costs of error. District pays for omission only if it would have been in the original bid, else, A/E assumes costs.	Yes
District No. 4	No Response.	NR
District No. 5	Has no set percentage. If E&O require extra costs, turns to insurance.	Yes
District No. 6	No Response.	NR
District No. 7	No Response.	NR
District No. 8	Has no limit. Negotiates penalty for omissions. Seeks 100% costs of errors.	Yes
District No. 9	Has no limit. Issues to A/E deductive change order for amount above direct costs.	Yes
District No. 10	No Response.	NR
District No. 11	District pays for omission and A/E charged dollar-for-dollar for extra cost of error.	No, if paid
District No. 12	Has no limit. A/E pays by change order for costs above what district would have paid.	Yes
District No. 13	Has no limit. A/E pays contractor any premium costs due to his/her E&O.	Yes
District No. 14	Has a limit of 2% of construction cost. Seeks reimbursement for costs above that limit insurance company.	No
District No. 15	Has no limit. E&O cost below premium is absorbed by district; costs above premium is absorbed by A/E.	Yes
District No. 16	No Response.	NR
District No. 17	No Response.	NR

NR = No response.

As indicated above, almost all districts in the peer group hold A/Es financially accountable for errors and omissions. Some in the group allow zero tolerance, while others allow some degree of safe harbor. Miami-Dade County Public School's policy appears to be reasonable as compared to those of the peer group. Thus, vigorous and strict enforcement of this policy would not go contrary to any conventions.

We requested selected financial information from a sample of nine design firms under contract with the District. We received responses to our request from five firms. However, we must note that we did not receive all of the requested information from each of these five respondents.

Our objective was to determine, through our review and analysis of the information received, whether the general concerns expressed by some firms about elements of the fees negotiated have merit and are supported by the facts. For example, a common

complaint that a number of firms have made in the past is that the District's 2.45 multiplier rate is too low. We received information from just three firms that could be used to calculate a multiplier rate. The rates calculated were 2.42, 2.61, and 2.71, respectively. Based on this limited information, we are unable to opine on the reasonableness of Miami-Dade County Public School's 2.45 multiplier rate. We believe that it is important that the multiplier is fair and reasonably compensates firms for their overhead costs. Therefore, we recommend that the multiplier be studied more closely in the near future.

Another common complaint that a number of firms have is that the maximum rates allowed for principals and other employees are too low. A comparison of the rates allowed for principals (which range between \$100 per hour and \$125 per hour) to the industry-average principal rate of \$148 per hour, does indicate that the rates allowed by M-DCPS may in fact be low. This analysis also highlighted some inconsistency with the hourly principal-allowed rate negotiated, in that some were at \$100, some at \$115, and some at \$125. Unfortunately, because of the limited information we received from the firms, we were unable to perform an analysis of the firms' employee rates. Therefore, we cannot advocate a position on whether labor rates need to be adjusted. However, we recommend that the District also study this issue in greater detail.

CONCLUSION/RECOMMENDATION

We acknowledge A/E Selection, Negotiations, and Design Management's achievements of maintaining average A/E fees within the average ranges of M-DCPS' peer group and industry and commend them for this.

1.1 We recommend that the direct labor multiplier and direct labor rates be studied more closely in the near future.

Responsible Department: A/E Selection, Negotiations, and Design Management

Management Response:

A/E Selection would welcome an in-depth study of the direct labor multiplier and the direct labor rates, and would also welcome the opportunity to assist the Office of Management and Compliance Audits to acquire the required records from A/E firms needed to analyze these rates. Presently, we are utilizing the multiplier of 2.45 recommended by Office of Management and Compliance Audits several years ago.

URGENCY OF CORRECTIVE ACTION

- Critical
- Important
- Desirable

IMPLEMENTATION SCHEDULE

- Immediately (Short Term)
- By June 30, 2005
- Contingent upon Funding

2. SELECTION AND NEGOTIATION PROCESS NEEDS TO BE IMPROVED PARTICULARLY IN THE AREA OF DOCUMENTATION

In conducting our review, we selected a random sample of 22 selection and negotiation files involving design services. However, we were not able to perform a full review of the selection and negotiation efforts because the files were incomplete and failed to fully and adequately document the processes. Accordingly, in some cases, we could not satisfy ourselves that the processes are performed correctly and consistently.

Procedures on how to select and negotiate with professional consultants are set out in the A/E, A/EPC (Architectural/Engineering Project Consultant) and DCP (Design Criteria Professional) procedures manuals. The procedures outlined in the manuals, and as executed, conform to the Consultants' Competitive Negotiation Act – F.S. 287.055, applicable School Board Rules, and those used by selected peer groups.

When selection and negotiations take place, the committees (selection and negotiation) must document the process followed, the persons attending and the results of such efforts. Additionally, as a common business practice and pursuant to Florida Statutes 119.01(1) and 286.011(2) public records shall be maintained and open for public inspection. When we reviewed the selection process, 4 out of the 22 files we requested were not provided to us for audit because management was not able to locate the files.

The selection process is a qualification-base process and is detailed in a series of well-prepared procedures manuals. A/E Selections, Negotiations, and Design Management's staff score each applicant by applying points to each specific objective factors such as:

- Location of the firm's existing office
- Age of the firm
- The firm's related experience
- Previous performance
- Capability/quality, and
- References

These evaluative factors are similar to those used by other school districts, universities, municipalities, and agencies of the federal government.⁴ The points system used and the application of the system is for the most part objective and unbiased. There is, however, some room for improvement here, specifically as it relates to the weighting of certain factors and consistency in scoring reference information. The methods used to assign points to each applicant for verified professional references were inconsistent.

The weight and amount of points assigned to certain factors in the evaluation sheets used in selecting design firms appear to be lopsided. For example, the location of the

⁴ Federal Acquisition Regulations, Subpart 36.6 Architect-Engineer Services and Subpart 36.3 Two-Phase Design-Build Selection Procedures.

firm's office to M-DCPS and the years the firm has been incorporated can account for as many as 40 points out of a total of 105 points. On the other hand, a firm's previous experience, with a similar type of project and with M-DCPS (considering performance evaluations, architectural E&O and delays, and engineering E&O and delays) can account for a combined total of up to 50 points out of 105 points.

For some selection processes, firms were awarded points for furnishing references, which were verified, while in other cases points for this were not assigned. For selection processes where firms were awarded points for their references, points were determined in some cases by using an average of the three scores assigned to each factor (i.e., "Good", "Fair", and "Poor"), while in other cases they were determined using the sum of points assigned to each factor. Additionally, in some cases, points were assigned to a fourth factor (i.e., "Would you do business with this firm again?") listed in the reference verification form, and the assignment of points in this area was not applied the same way from case to case. Regardless, the method selected for each case was applied consistently for that particular selection.

Applicants are ranked in descending order based upon the score received from the first phase for short-listing purposes. The Department will invite the top ranked applicants, (at least five more than the number of projects in each category, or a lesser number if deemed appropriate), to participate in interviews before the A/E Service Selection Committee, which is the second phase of the selection process.

Depending on the type of services sought, the A/E Service Selection Committee is comprised of varying numbers (five, seven, or eight) of qualified District staff. Members of the Committee generally had a background in the architectural, engineering, or construction industries; as well as "owners" occupying facilities for which they had oversight of construction projects completed at those facilities (e.g., ACCESS Center Directors and Principals).

We found that members serving on the individual Committees were rotated. We believe this to be a very effective best practice. However, of the 18 files available for audit, 15 did not properly identify the office that each selection committee member was representing.

We found that each committee member independently evaluates each interviewed applicant based on his or her respective interview content, and relative to each other. The highest and lowest scores for each firm are dropped and the remaining scores are averaged to derive at the final score. This routine serves to smooth out the results and diminishes the risk of bias and tampering. We believe this to be a very effective best practice. The Department will request permission from the School Board to enter into negotiations with the top-ranked firm or firms, depending on the need as established by the A/E Service Selection Committee. Although we noted that two firms received a greater number of commissions (six and nine, respectively) than the others (two to three on average) during the period under audit, we did not find any evidence of bias or favoritism in the selection process.

Upon selection of the most qualified firm or firms, the A/E Negotiating Committee is tasked with the responsibility of negotiating the terms and value of the professional services contract. Negotiations consist of submission of an initial proposed fee; counter offers, and agreement, if possible, upon a fee within the maximum established. The A/E Negotiating Committee consists of a representative of the Department, the A/E Contract Negotiator, a designee of the Superintendent and a representative of the Office of Management and Compliance Audits (non-voting observer). The committee negotiates with the highest ranked firm for the highest priority project in each category first and, if negotiations are successful, that firm is recommended for commissioning to the School Board.

Negotiations for succeeding projects are conducted in order of priority for the category and order of ranking for the A/E. Should any negotiation prove unsuccessful, that firm will be moved to the bottom of the ranking list and will have the opportunity to negotiate for a different project in turn.

The following documentation is required as part of the negotiation records:

- (1) A statement to the effect that the project budget is finalized.
- (2) Documented calculation of the fee.
- (3) Representations made by the A/E, including the following:
 - a) Estimated cost of insurance
 - b) Wage rates used in personnel estimates.
 - c) Estimated hours for the project.
 - d) Estimated cost of engineering, other consultants, and other miscellaneous costs.

In fourteen cases, negotiation files were not presented to us for audit. Management indicated that they were not able to locate these files. Of the eight negotiation files we reviewed, we found that five were incomplete. Some files did not contain a minimum and maximum fee limit or a schedule detailing the A/E firms' estimated efforts in terms of staff hours and rates. In the absence of these vital records we could not determine how the A/E Negotiating Committees performed their duties and satisfied themselves that the proposed fees were reasonable. Notwithstanding these observations, we do have some direct knowledge that in some of the more recent negotiations, improvement in the process has occurred.

Finally, we found that the process for the most part conforms to Florida Government In-The-Sunshine Act – F.S. 286, in that the selection and negotiations committee meetings are properly noticed and are open to the public. However, meeting minutes were not always maintained.

RECOMMENDATIONS

- 2.1 Selection and negotiations records must be maintained in accordance with Florida Statutes, filed appropriately, and reviewed for completeness and consistency.

Responsible Department: Facilities Operations, Maintenance, and Planning

Management Response:

A/E Selection concurs with the recommendation and will develop and implement as part of the negotiation procedures a "Negotiation Checklist" to ensure that all documents required by either State law and/or Board rule are included.

URGENCY OF CORRECTIVE ACTION

- Critical
- Important
- Desirable

IMPLEMENTATION SCHEDULE

- Immediately (Short Term)
- By November 15, 2004
- Contingent upon Funding

- 2.2 There should be evidence that design firms have submitted a detailed schedule of staff to be assigned to the project along with their billing rates and anticipated hours of involvement, which has been reviewed, prior to the commencement of negotiations.

Responsible Department: Facilities Operations, Maintenance, and Planning

Management Response:

To ensure continued compliance, A/E Selection staff will include this requirement in the checklist referenced in 2.1 above.

URGENCY OF CORRECTIVE ACTION

- Critical
- Important
- Desirable

IMPLEMENTATION SCHEDULE

- Immediately (Short Term)
- By November 15, 2004
- Contingent upon Funding

- 2.3 Staff performing the selection and negotiating functions should be provided uniform training that would result in consistency in scoring and negotiation practices.

Responsible Department: **A/E Selection, Negotiations, and Design Management**

Management Response:

A/E Selection will schedule in-house review and training sessions in October 2004 for all staff members to ensure that there is a consistent and appropriate approach to the selection and negotiation process.

URGENCY OF CORRECTIVE ACTION

- Critical
- Important
- Desirable

IMPLEMENTATION SCHEDULE

- Immediately (Short Term)
- By October 30, 2004
- Contingent upon Funding

- 2.4 Re-evaluate the points and weight assigned to each scoring factors, and assign weight in a more meaningful and consistent manner.

Responsible Department: **Facilities Operations, Maintenance, and Planning**

Management Response:

A/E Selection concurs with this finding and will prepare the required amendments to current Board approved procedures. As part of that process, we will solicit input from the various departments that are impacted by these services (e.g., Office of Capital Improvements, Maintenance Department, Facilities Compliance Office, Contract Compliance, Business Development & Assistance, etc.) as well as industry groups. In accordance with the Departments' Strategic Plan, Location Goal #1, Objective #4, our intent is to change the certification/qualification selection process and the criteria for scoring to place major emphasis on previous performance and reduce points for "Location" and "Years Established".

URGENCY OF CORRECTIVE ACTION

- Critical
- Important
- Desirable

IMPLEMENTATION SCHEDULE

- Immediately (Short Term)
- By May 30, 2005
- Contingent upon Funding

3. SYSTEMIC PROBLEMS RELATING TO ERRORS AND OMISSIONS RATES REPORT NEEDS TO BE CORRECTED

Maintaining accurate information on A/E firms' rate of errors and omissions (E&O) on past jobs is critical to the selection process. During the initial evaluation and scoring phase of the A/E selection process, when firms are short-listed, as many as 20 points are assigned to competing A/Es based on their E&O and delay rates on previous M-DCPS projects. The lower a firm's rates of E&O and delays, the greater the points assigned to that firm.

The data used to create the Errors and Omissions Report are taken from the District's change order database. We tested, on a sample basis, the data and output of that database and found them to be accurate. However, we noted some mistakes and inconsistencies with the information presented in the A/E Errors and Omissions Reports. Some categories of errors and omissions were excluded from the calculated rate. Thus, firms that have errors and omissions in those excluded categories appear to have a lower E&O rate in the report than that actually experienced. For example, omissions valued at \$12,352 and \$12,008, made by two different engineers on two different projects were not included in the details of the report used in determining A/E E&O. These represented 21% and 28% of total engineering omissions, respectively.

The problem appears to be systemic. Prior to commencing our audit A/E Selection, Negotiations, and Design Management's staff first identified a similar problem with an earlier version of the report. That earlier report and system had been corrected, and was subsequently replaced with a new reporting system. However, we discovered that similar mistakes and inconsistencies were once again in the new system and reports. After bringing this to management's attention, some tests were conducted and modifications were made to the system, which management now asserts is functioning properly.

RECOMMENDATIONS

- 3.1 Management should perform a comprehensive test of the new A/E Errors and Omissions database to ensure that the reports generate accurate information.**

Responsible Department: Facilities Operations, Maintenance, and Planning; and Information Technology Services

Management Response:

Selection of architect/engineers (A/E) was placed on-hold in January 2004 when inaccuracies with the errors and omissions report were detected by the A/E Selection office. The department requested assistance from the Department of ITS in a major effort to pinpoint the causes for the inaccuracies and to take

corrective measures. This effort also included other departments. ITS and Capital Improvement Projects have now tested and certified the report, which was released in August 2004. All A/E selection processes have resumed.

URGENCY OF CORRECTIVE ACTION

- Critical
- Important
- Desirable

IMPLEMENTATION SCHEDULE

- Immediately (Short Term)
- By
- Contingent upon Funding
- Not Applicable

3.2 Review the results of recent selection processes and verify the accuracy of the E&O and delay rates used in scoring the competing firms.

Responsible Department: A/E Selection, Negotiations, and Design Management

Management Response:

As noted in 3.1 above the A/E errors and omissions report was corrected, validated and released. Subsequently, we recalculated the scores for the initial screening and have moved forward with the short-listing and selection process for A/Es.

URGENCY OF CORRECTIVE ACTION

- Critical
- Important
- Desirable

IMPLEMENTATION SCHEDULE

- Immediately (Short Term)
- By
- Contingent upon Funding
- Not Applicable

4. RE-EVALUATE HOW THE DISTRICT NEGOTIATES FOR OTHER THAN PERSONAL SERVICE COSTS

We reviewed A/E contracts and related invoices to determine the reasonableness of other than personal service costs and determined that the School District can do a better job in negotiating for professional liability insurance and reproduction costs. Combined and in aggregate these costs can add significantly to the cost of design contracts. The costs were inconsistent from contract to contract and also appeared to be higher than what should be paid.

Professional Liability Insurance

Negotiated terms for the professional liability insurance requirements varied widely from contract to contract. Some of the District's A/E contracts require the design firm to maintain a given limit (namely, \$250,000 and \$1,000,000) under a general practice policy for the duration of the project, at no cost to the District. Generally, licensed professional design firms are required to carry professional liability insurance among other types. The firms' professional liability insurance provides protection against errors and omissions (E&O) of the A/E. Clients of the A/E, who are injured through the A/E's E&O, may seek remedy from the A/E's insurer. If the policy through which remedy is sought is a general practice policy, then all injured clients who have filed claims would have to compete, on a first-come-first-serve basis for available funds.

Other M-DCPS contracts for professional design services require the design professional to maintain a project-specific policy at a stated maximum limit, with the cost of that policy reimbursed by the District. The advantage of a project specific policy is that the District is the policy's primary beneficiary, free of competition from the A/E's other clients. However, project specific insurance results in additional cost. It should be noted that, a 2004 national survey of A/E fees and pricing indicated that only 5% of firms were successful in billing their client for liability insurance as a direct reimbursable expense.

For this type of indemnification, we found that the maximum amounts of premium to be reimbursed for project-specific policies of the same maximum limit varied widely as shown below:

SCHEDULE OF PROJECT-SPECIFIC INSURANCE INFORMATION					
	PROJECT-SPECIFIC INSURANCE LIMITS			TYPE OF WORK	ESTIMATED CONSTRUCTION COSTS
	\$500,000	\$1,000,000	\$5,000,000		
MAXIMUM PREMIUM REIMBURSEMENTS	\$7,500			Cancelled	* \$2,380,000
	\$10,300			Cancelled	* \$700,477
	\$10,500			Re-roofing	\$1,244,500
	\$12,000			New PLC	\$2,200,000
	\$13,000			New PLC	\$2,600,500
	\$18,000			New PLC	\$2,776,923
		\$10,000		New PLC	\$3,006,530
		\$16,000		New Addition	\$5,341,885
		\$25,000		New School	**\$13,018,070
		\$30,000		New School	\$8,390,615
		\$32,000		New School	\$10,000,000
		\$95,335		New School	\$36,716,000
			\$325,000	New School	\$38,607,898

* Project was not awarded for construction, but cancelled. Insurance premium was paid.

** There were two other projects with estimated construction costs of \$6,937,280 and \$6,862,549, respectively at this level.

The design firms generally purchase project-specific policies with terms ranging from 1½ to 5 years. Most of the projects in our sample for which project-specific insurance was required had three year policies. However, the time between the commissioning of the design professional and the commencement of construction has routinely lasted more than two years; and with projects routinely taking between 4 to 6 years for completion, the full and beneficial effect of the coverage purchased may not be realized before the policy runs out. In fact, in two of the projects we reviewed, the District had to pay additional premiums of \$1,772 and \$16,500 to extend the policy upon their expiration. As part of basic services, the design professional is obligated to correct any errors and omissions identified during the design phase reviews. Errors and omissions that would result in a cost to the District normally will not be discovered until the construction phase of the project.

We noted that the District recently received a professional opinion from an insurance consultant stating that the District should continue requiring E&O insurance for design-build contractors (not A/E design) rather than relying on payment and performance bonds. Nevertheless, considering the limited coverage amounts, the policy deductible (usually \$15,000 or \$25,000), and the fact that most firms carry at least a \$1 million dollar E&O policy, the cost and benefit of this type of insurance needs to be re-evaluated.

Reproduction Costs

In May 2001, we issued a report on Construction Contract Administration wherein we recommended to Facilities Planning and Construction that they develop a separate bid or RFP for construction printing services. However, currently they include these costs in the A/Es' contracts.

The District negotiates reproduction costs for construction documents as either a set not-to-exceed amount or a direct reimbursement. At the A/E's option, printing can be done either in-house or through a commercial printer. The range of contract allowance for printing reimbursement for the 22 projects we tested in detail was between \$-0- and \$52,800, with the median being \$11,000.

During the course of reviewing A/E invoices, we noted that amounts paid for the A/E firms' in-house reproduction of required contract documents were significantly higher than the amount that both professional printers and M-DCPS own Graphics Department quoted us for the same document. For example:

- One design firm charged M-DCPS for the reproduction of a Traffic Study report written almost entirely on standard bond 8.5" x 11" paper at a unit cost of \$69.75. M-DCPS graphics department said they could reproduce the same report for \$7.68 each.
- The same design firm invoiced M-DCPS for in-house printing of specification books on standard bond 8.5" x 11" paper at a cost of 75¢ per page. The price of photocopies from a local printing vendor used by the same firm was 6¢ per page. Reproduction cost paid to this firm through the audit period for the related project was roughly \$14,000.
- Another design firm invoiced M-DCPS at 21¢ per page for in-house photocopies on standard bond 8.5"x11" paper. Reproduction cost paid to this firm through the audit period for the related project was roughly \$24,000.
- One design firm invoiced M-DCPS for the costs of foam board presentation prints at \$80.40 each. The average price quoted to us from seven professional printers for the same service was \$39.57 each (two quotes were less than \$25.00 each).

RECOMMENDATIONS

4.1 Further evaluate the cost and benefit of requiring project-specific professional liability insurance.

Responsible Department: Department of Risk and Benefits Management
– (Lead); Facilities Operations, Maintenance,
and Planning – (Liaison)

Management Response:

Professional liability requirements are established by the Office of Risk and Benefits Management (Risk Management). As noted in item 1, the Department of A/E Selection requested Risk Management's review of such a requirement for A/E and DCP services in October of 2003. After their review, Risk Management agreed with our suggestion that a project specific policy is not necessary for DCP services, as long as the DCP maintains adequate coverage under their general practice policy (refer to attached Threshold Matrix). The change in the professional liability criteria for DCP services has achieved major cost savings to the District over the last year.

Risk Management did not agree with making any major changes related to A/E Services at the time. Since then, the Department of A/E Selection has requested another review of this matter and an answer is forthcoming.

URGENCY OF CORRECTIVE ACTION

- Critical
- Important
- Desirable

IMPLEMENTATION SCHEDULE

- Immediately (Short Term)
- By December 2004
- Contingent upon Funding

4.2 The maximum amount of insurance premium that the design professional will be reimbursed should be consistent and based on the set limit.

Responsible Department: A/E Selection, Negotiations, and Design Management

Management Response:

With respect to the maximum amount of premium to be reimbursed for professional liability coverage, A/E Selection knows of no instance where the District reimbursed an A/E firm for the premium on their general practice policy. Moreover, the district's legal advertisements for A/E services stipulate that such coverage will be required, at a minimum, from the selected firm, at their cost.

Insofar as project specific coverage is concerned, the premiums reflect changes in the insurance industry, overall project complexity, duration and cost, and the claims history of the firms. The Department of A/E Selection has requested another review of this matter by the Office of Risk Management.

URGENCY OF CORRECTIVE ACTION

- Critical
- Important
- Desirable

IMPLEMENTATION SCHEDULE

- Immediately (Short Term)
- By December 2004
- Contingent upon Funding

4.3 In line with recommendation 4.1 above, the District should not negotiate to reimburse insurance premiums to design firm through project-specific policies where the coverage is already in force under the firm’s practice policy.

Responsible Department: Facilities Operations, Maintenance, and Planning

Management Response:

There is no cost to the District for the professional’s general liability practice policy, however it does not fully cover the District for all risk associated with a specific project. Risk Management continues to highly recommend project specific coverage for projects over \$5 million. The Department of A/E Selection has asked for a re-evaluation as noted above.

URGENCY OF CORRECTIVE ACTION

- Critical
- Important
- Desirable

IMPLEMENTATION SCHEDULE

- Immediately (Short Term)
- By
- Contingent upon Funding

4.4 Negotiate with design professionals for reproduction costs only on a direct cost reimbursements basis, and establish limits for unit prices for services performed in-house by A/Es.

Responsible Department: A/E Selection, Negotiations, and Design Management

Management Response:

As noted in item 1, for the last year, our negotiated printing costs on A/E projects limits reimbursement for printing on a “direct cost” basis (i.e., cost times 1). Nonetheless, since these “direct costs” may vary depending on whether such services are provided “in-house” or by a printing company, A/E Selection concurs with the recommendation and will explore it with the district’s Office of Procurement.

URGENCY OF CORRECTIVE ACTION

- Critical
- Important
- Desirable

IMPLEMENTATION SCHEDULE

- Immediately (Short Term)
- By November 30, 2004
- Contingent upon Funding

5. PROJECT SCHEDULES NEED TO BE USED

Contracts often do not include project schedules, which obligate A/Es to perform their work on a given timeline. Where schedules were included in the contracts, we found apparent delays in submittals.

Section 5.02 and 5.04.05 of M-DCPS Facilities Planning, Design & Construction Procedures manual indicates that Project Managers are to maintain project schedules within the original targeted goals, and to reflect changes to these when they are adjusted. In addition, it is vitally important that A/E submittals be made on the dates indicated in the contract.

During our review, we requested documentation for 22 contracts. Seven did not have a project schedule, referred to in the contract as "Exhibit A", which is a necessary part of the contract for design services. We were told these schedules are frequently revised by the project manager but are not forwarded to A/E Selection, Negotiations, and Design Management so that they can be included in the contract.

For the contracts where schedules were included, we compared submittals and billing dates to the timetables stipulated in the schedules and found that while fees for services were paid upon completion of deliverables, all except one project were delayed. In fact, the time between the A/E's commissioning and the project being awarded for construction routinely last two or more years. In our sample of 22 projects, there are at least three projects that were assigned to A/Es in either 2001 or 2002 that are still in design.

In our opinion, Project Managers could more effectively manage their projects if project schedules are included in all of the contracts so that they can hold A/Es accountable for submissions. In addition, they need to use the schedules more effectively and ensure A/Es provide their services timely. Late submissions may result in delay in the commencement of construction.

RECOMMENDATION

5.1 Include current project schedule in every design contract.

Responsible Department: A/E Selection, Negotiations, and Design Management; Facilities Operations, Maintenance and Planning

Management Response:

A project schedule (also known as Exhibit "A") is part of the design professional's responsibilities and is included in the negotiation process, Board commissioning and contract. Effective December 2003, the Board approved new timelines for design/build delivery of elementary, middle and senior high schools (from commissioning to construction). This will have the effect of ensuring projects are monitored closely once the DCP firm is commissioned and through completion.

The new timelines, which are also part of the Superintendent's performance objectives are: 20 months for elementary, 28 months for middles and 36 months for senior high schools (refer to attached December 2003 Board Item Rev'd Repl SP-1).

URGENCY OF CORRECTIVE ACTION

- Critical
- Important
- Desirable

IMPLEMENTATION SCHEDULE

- Immediately (Short Term)
- By
- Contingent upon Funding

5.2 Require adherence to project schedule milestones and establish procedures to ensure that Project Managers rigorously enforce them.

Responsible Department: Facilities Operations, Maintenance, and Planning

Management Response:

A project schedule (also known as Exhibit "A") is part of the design professional's responsibilities and is included in the negotiation process, Board commissioning and contract. Effective December 2003, the Board approved new timelines for design/build delivery of elementary, middle and senior high schools (from commissioning to construction). This will have the effect of ensuring projects are monitored closely once the DCP firm is commissioned and through completion. The new timelines, which are also part of the Superintendent's performance objectives are: 20 months for elementary, 28 months for middles and 36 months for senior high schools (refer to attached December 2003 Board Item Rev'd Repl SP-1).

URGENCY OF CORRECTIVE ACTION

- Critical
- Important
- Desirable

IMPLEMENTATION SCHEDULE

- Immediately (Short Term)
- By
- Contingent upon Funding

6. EXECUTE CONTRACTS IN A TIMELY MANNER AND INCLUDE PENALTIES FOR NON-COMPLIANCE

The District uses a series of contracts specifically to procure professional design services. The rights, duties, and obligations of each party to those contracts are very similar from contract to contract. In reviewing those contracts, we found that, as a whole, they appear to limit the District from obvious associated risks. For example, the contracts separately identify the components (tasks) of basic services and additional services. They include remedies for default. They include a fee or payment schedule, which is based on deliverables, where appropriate.

Notwithstanding, the above, we found many contracts that were never executed and for those that were properly executed, work was allowed to start before the contracts were signed. The contracts are required to be signed by the Assistant Superintendent of Facilities Operations, Maintenance and Planning; the School Board Attorney; the president of the design firm; and a witness after the School Board has approved the terms reached through negotiations.

For 12 of the 26 contracts in our sample, work was being performed without a formal executed contract. The contracts were not signed by either the design firm or the appropriate M-DCPS staff. (At the exit conference, management indicated to us that they had become aware of this matter and had recently executed these contracts.) For the 14 signed contracts, the time elapsed between the School Board commissioning date and the date the contracts were signed by all parties ranged between 22 days and 687 days. For three of these contracts, the time elapsed between the School Board commissioning date and the date the contracts were signed by all parties was less than 30 days, nevertheless we consider this a serious control deficiency.

In addition, we found that the contracts did not consistently specify penalties for:

- a. Delays in the schedule that are caused by the A/E during the design phase.
- b. Failure to submit complete site visitation report.
- c. Failure to certify pay requisitions.
- d. Failure to fulfill closeout and warranty phase responsibilities within established contractual timelines.

Some procedures and references made in the M-DCPS A/E SC-1 (A/E Special Conditions) have been discontinued or superseded. The A/E SC-1, which is a part of the contract, provides very detailed instructions to the A/E to assist him/her in executing his/her contract requirements. We believe that this is a very good document in substance.

The Department has been reviewing these contracts for a number of months. It has also sought the assistance of the staff attorneys who handle construction-related legal matters. The Department's staff and the compliance attorneys indicated to us that outside legal counsel was reviewing the boiler-plate contracts. The outside counsel

recently communicated to the District their observations and possible revisions to A/E PC Agreements for A/Es that commissioned by the School Board in early 2004.

RECOMMENDATION

- 6.1 Execute all contracts with professional design firms in a timely manner. Contracts should be routed to the appropriate individuals for signature and date, and returned to A/E Selection, Negotiations, and Design Management for filing.**

Responsible Department: A/E Selection, Negotiations, and Design Management and Facilities Operations, Maintenance and Planning

Management Response:

Over the last eight months, A/E Selection has reduced the backlog of un-executed contracts from 82 to 7. The execution of the remaining seven, which is anticipated for October 2004, is dependent on finalization of A/EPC contract shell. As part of A/E Selection's new Process Improvement Plan, beginning in June 2004, all new contracts are fully-developed prior to negotiations and are executed within 45 days of commissioning.

URGENCY OF CORRECTIVE ACTION

- Critical
- Important
- Desirable

IMPLEMENTATION SCHEDULE

- Immediately (Short Term)
- By
- Contingent upon Funding

- 6.2 Complete the review of all contracts for professional design services with the objective of enhancing them where necessary and including appropriate penalties for specific types of nonperformance.**

Responsible Department: Contract Compliance – (Lead); A/E Selection, Negotiations, and Design Management – (Liaison)

Management Response:

A/E Selection concurs with the recommendations and will request a review of all contract shells with respect to recommended changes.

URGENCY OF CORRECTIVE ACTION

- Critical
- Important
- Desirable

IMPLEMENTATION SCHEDULE

- Immediately (Short Term)
- By June 2005
- Contingent upon Funding

7. PROCESS VENDOR PAYMENTS TIMELY & PROPERLY

Amounts paid under the contracts we reviewed were in agreement with the amounts stated in the contracts, except for four cases where the contracted maximum amount to be reimbursed to the A/E for project-specific insurance was exceeded by approximately \$1,200, \$1,770, \$2,070 and \$16,500, respectively. Of greater concern, about 12% of the A/E's invoices we examined were paid late. We also found that some invoices weren't processed properly. M-DCPS policy and Florida Statutes require that payments be made within 45 days of receipts of goods and services. The Florida Prompt Payment Act requires that local government entities pay their vendors within 45 days after the date on which an invoice for non-construction services was received.

Two groups within Facilities Operations, Maintenance, and Planning perform the function of approving and paying invoices for architectural and engineering services. Invoices are first received and approved for payment by the project managers (PM), who forward them to Contract Administration, which processes them for payment. The Invoices are then sent to Accounts Payable, which pays them. A/E Selection, Negotiations, and Design Management is not involved in the invoice payment process except for additional services invoiced at amounts in excess of \$25,000.

We examined a total of 154 invoices spread among multiple A/E firms and types of services. Most A/Es invoices were paid on time. However, in 19 cases late payments ranged between 1 and 611 days past the due date. A little more than one-half of the invoices were only between 1 and 30 days late but some invoices were paid very late. The following table shows an aging of the 19 invoices in question.

Aging of Nineteen Late Payments				
Days Late	1-30 Days	31-60 Days	61-90 Days	Over 90 Days
Number of invoices	10	2	1	6
Percent	53%	10%	5%	32%

In general, some invoices had incorrect project numbers and a few were not signed to acknowledge receipts of services, an obvious departure from good internal controls. However, the reason for the delay does not appear to have been due to a systemic issue, but rather due to a lack of due diligence in execution on the part of the administrators authorized to approve the invoices for payment prior to forwarding them to the accounts payable department.

Apart from the late payments, we also noted that amounts paid for additional services are often not adequately detailed and appear to be unreasonable, based on the level of effort expended by the design firms. The invoices submitted for payment are lump sum amounts and provide little to no documentation of the time spent. For example:

- The total amount of additional services paid on one project through February 2004 was approximately \$100,500. Yet, the total hours reported to us as incurred for additional services on that project through February 2004 were 36 hours by one architect/designer with a billing rate of less than \$79.00 per hour.
- The total amount of additional services paid on another project through February 2004 was approximately \$9,000 (exclusive of amounts paid to the firms consulting engineer). Yet, the total hours reported to us as incurred for additional services on that project through February 2004 were approximately 4 hours by one project manager/CADD with a billing rate of less than \$20.00 per hour.

RECOMMENDATIONS

7.1 Project Managers should review invoices to ensure that project information is accurate and they should sign all invoices processed for payment to acknowledge receipt of services. Conversely, invoices with inaccurate information or not signed by the Project Manager should not be processed by Accounts Payable.

Responsible Department: Facilities Operations, Maintenance, and Planning

Management Response:

As noted in the report, A/E Selection is not directly responsible for the processing or payment of A/E invoices. Nonetheless, our office met with the staff of the Office of Capital Improvement Projects (CIP), Capital Budget and Contract Management on September 27, 2004, to review this matter. The Office of CIP will conduct training sessions with Supervisors and Project Managers to address procedures for timely and proper vendor payments, and additional services.

URGENCY OF CORRECTIVE ACTION

- Critical
- Important
- Desirable

IMPLEMENTATION SCHEDULE

- Immediately (Short Term)
- By November 30, 2004
- Contingent upon Funding

7.2 Project Managers should promptly review, approve and forward A/E invoices, upon receipt to Contract Administration. In turn, management should adequately supervise Project Managers.

Responsible Department: Facilities Operations, Maintenance, and Planning

Management Response:

Same as in 7.1.

URGENCY OF CORRECTIVE ACTION

- Critical
- Important
- Desirable

IMPLEMENTATION SCHEDULE

- Immediately (Short Term)
- By November 30, 2004
- Contingent upon Funding

7.3 Fees for additional services should be based on required effort and used as the basis for lump sum amounts.

Responsible Department: Facilities Operations, Maintenance, and Planning

Management Response:

Same as in 7.1.

URGENCY OF CORRECTIVE ACTION

- Critical
- Important
- Desirable

IMPLEMENTATION SCHEDULE

- Immediately (Short Term)
- By November 30, 2004
- Contingent upon Funding

7.4 As with all invoices, detailed supporting documents should be obtained and reviewed when processing payments for additional services.

Responsible Department: Facilities Operations, Maintenance, and Planning

Management Response:

Same as in 7.1.

URGENCY OF CORRECTIVE ACTION

- Critical
- Important
- Desirable

IMPLEMENTATION SCHEDULE

- Immediately (Short Term)
- By November 30, 2004
- Contingent upon Funding

7.5 We recommend that the District periodically perform audits of design professional firms' contracts-related information as permitted by the contracts' right-to-audit provision.

Responsible Department: Facilities Operations, Maintenance, and Planning

Management Response:

A/E Selection concurs with this recommendation and is willing to work with the Office of Management and Compliance Audits to acquire required records needed to audit design professionals. This information, once received, will be provided to the Office of Management and Compliance Audits for review.

URGENCY OF CORRECTIVE ACTION

- Critical
- Important
- Desirable

IMPLEMENTATION SCHEDULE

- Immediately (Short Term)
- By December 2004
- Contingent upon Funding

8. IMPROVE PLANNING AND MAINTAIN AN INVENTORY OF UNUSED AND PROTOTYPE DESIGNS

In five cases, projects we selected for review were either cancelled or had their delivery method substantially changed at some stage of the project after substantial design efforts had commenced. In two of these cases, projects were awarded to a Design Criteria Professional (DCP) in October 2000 to develop design criteria packages. The fees awarded to the DCP under these contract(s) were as follows:

TABLE OF NEGOTIATED FEES		
Service Category	PLC "B-1"	PLC "D-1"
Basic Services	\$ 78,500	\$ 74,500
Traffic Engineering	6,000	6,000
Site Visits	14,000	14,000
Insurance Reimbursement	<u>16,000</u>	<u>16,000</u>
TOTAL	<u>\$ 114,500</u>	<u>\$ 110,500</u>

The DCP was paid \$35,966 and \$39,966 for PLC "B-1" and PLC "D-1", respectively. The administration decided to solicit bids for PLC "D-1" first. However, all bids received were rejected on March 2001 because they significantly exceeded the construction budget and estimate. Construction budget and construction estimate were \$2.2 million and the lowest bid was \$2.8 million or 29.5% over the budget. At this point, the administration made changes to the scope and decided to change the delivery method for both projects from design-build to conventional design and construction. The projects were assigned to the A/E that previously served as the DCP. The A/E was asked to re-use a prototype design from October 1995. This original prototype was completed August 1996. The effect of this is that the design criteria packages for which the District spent a total of \$75,962 were not used.

Re-use fees negotiated for PLC "B-1" and PLC "D-1", respectively, were as follow:

TABLE OF NEGOTIATED RE-USE FEES		
Service Category	PLC "B-1"	PLC "D-1"
Basic Services	\$ 80,150	*\$ 195,650
Site Visits	14,850	14,850
Insurance Reimbursement	12,000	18,000
Reproduction Reimbursement	<u>16,760</u>	<u>18,000</u>
TOTAL	<u>\$ 123,760</u>	<u>\$ 246,500</u>

* - Includes \$56,000 to update the original prototype.

PLC "D-1" was awarded in May 2004 with a construction budget of \$3.4 million and a construction estimate of \$2.9 million. The lowest bid was \$3.1 million or 7% over the construction estimate. PLC "B-1" Phase III drawings have been approved, but the project was cancelled. To the credit of a board member, who recognized that the then present design would not meet the current needs of the community, he requested a change from a PLC to a multi-story building to handle the school's need for increased capacity. The effect of such a change would result in further redesign and the district not being able to use the already approved plans for which the District had already paid \$42,300. In addition, a total of \$30,072 was paid to the A/E for additional services.

In one other case, a project to construct a primary learning center was cancelled after substantial design had commenced. The administration decided that this project was no longer needed in this area. At the time of making this decision, the A/E had already completed Phase III drawings, with approval pending. We have been made aware that the administration has no plans to use these drawings elsewhere. A comparison of design fees negotiated versus what were paid up to the date of cancellation is as follows:

Service Category	PLC "Y-1"	
	Negotiated Fees	Payments Made
Basic Services	\$ 146,801	\$ 100,970
Traffic Engineering	10,470	10,470
Site Visits	14,750	-
Insurance Reimbursement	7,500	7,500
Reproduction Reimbursement*	<u>16,760</u>	<u>14,025</u>
Total	<u>\$ 196,281</u>	<u>\$ 132,965</u>

*The Agreement allowed for reimbursement of reproduction costs up to \$6,620 through Phase III drawings. However, as noted above, a total of \$14,025 was paid even though the project was cancelled without Phase III drawing being approved.

Prior to September 2002, the District did not have a formal Advance Planning Department responsible for developing a comprehensive analysis of the Districts' facilities needs and the methods for satisfying those needs. Such a department is now in place.

In the remaining two cases, the design efforts were terminated with no specific plans to use the work product of those efforts.

CONCLUSION

We take note of the fact that a formal planning department may not have been in existence for the entire duration of the above-mentioned projects. However, from the above cited incidences, it becomes resolutely clear that more farsighted and proactive planning will avert reoccurrence of similar incidences.

9. WORK ORDER DETAIL SHOULD AGREE WITH SCHOOL BOARD AGENDA ITEMS

The fees outlined in the contracts were in agreement with the amounts approved by the School Board. However, we found 6 cases where contract and work order terms and amounts were not consistently disclosed between the School Board agenda items and the contract or the work order. While the values of the specific line items that were listed in the various documents were in agreement, in some cases, certain figures were omitted. For example, in one case the School Board agenda item indicated that an A/E would be paid \$7,500 to conduct a Traffic Study. However, the work order that captured the fees approved by the Board did not include the cost of that study. In another case, the School Board agenda item indicated that an A/E would be reimbursed up to \$10,000 for professional liability insurance; however, the work order that captured the fees approved by the Board did not include that cost. At times, only the lump sum amounts are listed, while in other cases, itemized figures are listed.

A/E Selection, Negotiations, and Design Management prepares professional design services-related School Board agenda items and contracts. Contract Management prepares the associated work orders. To assist the School Board, contract administrators, and the project managers, who approve payments for these services, complete and consistent information must be presented in the documents used to manage the contracts. Management and the appropriate staff need to be fully knowledgeable about the contract terms so that they can make sound decisions and manage the contracts effectively.

RECOMMENDATION

- 9.1 **We recommend that procedures be developed to ensure that information presented in School Board Agenda Items, work orders and contracts are in agreement.**

Responsible Department: Facilities Operations, Maintenance and Planning

Management Response:

A/E Selection concurs that it is of utmost importance to ensure that each work order processed by the District accurately incorporates the terms and conditions negotiated with the firms and subsequently approved by the Board. Hence, our office has already conferred with the staff of Capital Budget and Contract Management (September 27, 2004) to jointly develop guidelines/procedures to be followed for the issuance of each work order.

URGENCY OF CORRECTIVE ACTION

- Critical
- Important
- Desirable

IMPLEMENTATION SCHEDULE

- Immediately (Short Term)
- By November 30, 2004
- Contingent upon Funding

Contributors to this report:

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APPENDIX – MANAGEMENT RESPONSES

MEMORANDUM

RD/2004-05/#148
October 5, 2004
Revised October 6, 2004
305-995-1401

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

FROM: Ms. Rose Diamond, Chief Facilities Officer
Construction, Maintenance and Facilities

SUBJECT: **ADMINISTRATIVE RESPONSE TO AUDIT REPORT - IMPROVEMENTS NEEDED IN THE AWARD & ADMINISTRATION OF ARCHITECTURAL & ENGINEERING CONTRACTS, JULY 2004 (DATED AUGUST 13, 2004, RECEIVED AUGUST 19, 2004 AND REVISED VERSION RECEIVED SEPTEMBER 28, 2004).**

The following is in response to the revised draft audit report "Findings and Recommendations", received on September 28, 2004.

In addition, please note that during the audit period of July 1, 2001 to February 29, 2004, the School Board commissioned 88 professionals (refer to attached Commissioning Calculations), which is 34 more than stated in the audit report. Of these commissioning 28 were for A/E and DCP services (not including term consultants) with a related estimated construction cost of approximately \$240 million, which is \$46 million more than stated in the audit report. Also, we can not decipher your method in calculating the number of commissionings, fee percentages and related construction value. The basic fee structure for each of the professional services is calculated in a different manner and therefore can not be compared to each other. For example, negotiations for A/E basic services are based on specific task and effort, whereas, AEPC and SPC services are pre-negotiated based on a fee schedule calculated on percentage of construction. Fees for A/E basic services (July 1, 01 - Feb 29, 04) averaged 6.1% of estimated construction values and fees for DCP basic services for the same period averaged 3.48%.

Administrative Response

1. RESULTS OF BENCHMARKING SURVEY OF A/E CONTRACTING BEST PRACTICE

Project specific professional services fees are negotiated based on tasks to be performed and the effort required to accomplish the tasks. Over the past two years several cost-savings initiatives have resulted in lower fees. Examples are:

Auditor's Comments

Our draft report was issued on August 13, 2004. The referenced revisions were not substantive.

The audit scope was limited to design-type contracts. The numbers cited here include some contracting activity not included in the scope of our audit.

We found that these functions were not performed consistently.

APPENDIX – MANAGEMENT RESPONSES

Auditor's Comments

a) reduced insurance limits for DCPs from project-specific type coverage to practice-type coverage; b) FF&E Layout fees are now part of basic services; and c) lump sum printing fee has been replaced with a direct reimbursable cost (i.e., cost times 1).

- 1.1 A/E Selection would welcome an in-depth study of the direct labor multiplier and the direct labor rates, and would also welcome the opportunity to assist the Office of Management and Compliance Audits to acquire the required records from A/E firms needed to analyze these rates. Presently, we are utilizing the multiplier of 2.45 recommended by Office of Management and Compliance Audits several years ago.

URGENCY OF CORRECTIVE ACTION

- Critical
 Important
 Desirable

IMPLEMENTATION SCHEDULE

- Immediately (Short Term)
 By **June 30, 2005**
 Contingent upon Funding

2. **SELECTION AND NEGOTIATIONS PROCESS NEEDS TO BE IMPROVED PARTICULARLY IN THE AREA OF DOCUMENTATION**

- 2.1 A/E Selection concurs with the recommendation and will develop and implement as part of the negotiation procedures a "Negotiation Checklist" to ensure that all documents required by either State law and/or Board rule are included.

URGENCY OF CORRECTIVE ACTION

- Critical
 Important
 Desirable

IMPLEMENTATION SCHEDULE

- Immediately (Short Term)
 By **November 15, 2004**
 Contingent upon Funding

- 2.2 To ensure continued compliance, A/E Selection staff will include this requirement in the checklist referenced in 2.1 above.

URGENCY OF CORRECTIVE ACTION

- Critical
 Important
 Desirable

IMPLEMENTATION SCHEDULE

- Immediately (Short Term)
 By **November 15, 2004**
 Contingent upon Funding

- 2.3 A/E Selection will schedule in-house review and training sessions in October 2004 for all staff members to ensure that there is a consistent and appropriate approach to the selection and negotiation process.

URGENCY OF CORRECTIVE ACTION

- Critical
 Important
 Desirable

IMPLEMENTATION SCHEDULE

- Immediately (Short Term)
 By **October 30, 2004**
 Contingent upon Funding

APPENDIX – MANAGEMENT RESPONSES

Auditor's Comments

- 2.4 A/E Selection concurs with this finding and will prepare the required amendments to current Board approved procedures. As part of that process, we will solicit input from the various departments that are impacted by these services (e.g., Office of Capital Improvements, Maintenance Department, Facilities Compliance Office, Contract Compliance, Business Development & Assistance, etc.) as well as industry groups. In accordance with the Departments' Strategic Plan, Location Goal #1, Objective #4, our intent is to change the certification/qualification selection process and the criteria for scoring to place major emphasis on previous performance and reduce points for "Location" and "Years Established".

URGENCY OF CORRECTIVE ACTION

- Critical
 Important
 Desirable

IMPLEMENTATION SCHEDULE

- Immediately (Short Term)
 By May 30, 2005
 Contingent upon Funding

3. **SYSTEMIC PROBLEMS RELATING TO ERRORS AND OMISSION RATE REPORTS NEED TO BE CORRECTED**

- 3.1 Selection of architect/engineers (A/E) was placed on-hold in January 2004 when inaccuracies with the errors and omissions report were detected by the A/E Selection office. The department requested assistance from the Department of ITS in a major effort to pinpoint the causes for the inaccuracies and to take corrective measures. This effort also included other departments. ITS and Capital Improvement Projects have now tested and certified the report, which was released in August 2004. All A/E selection processes have resumed.

URGENCY OF CORRECTIVE ACTION

- Critical
 Important
 Desirable

IMPLEMENTATION SCHEDULE

- Immediately (Short Term)
 By _____
 Contingent upon Funding

NOT APPLICABLE

- 3.2 As noted in 3.1 above the A/E errors and omissions report was corrected, validated and released. Subsequently, we recalculated the scores for the initial screening and have moved forward with the short-listing and selection process for A/Es.

URGENCY OF CORRECTIVE ACTION

- Critical
 Important
 Desirable

IMPLEMENTATION SCHEDULE

- Immediately (Short Term)
 By _____
 Contingent upon Funding

NOT APPLICABLE

APPENDIX – MANAGEMENT RESPONSES

Auditor's Comments

4. RE-EVALUATE HOW THE DISTRICT NEGOTIATES FOR OTHER THAN PERSONNEL SERVICE COSTS

4.1 Professional liability requirements are established by the Office of Risk and Benefits Management (Risk Management). As noted in item 1, the Department of A/E Selection requested Risk Management's review of such a requirement for A/E and DCP services in October of 2003. After their review, Risk Management agreed with our suggestion that a project specific policy is not necessary for DCP services, as long as the DCP maintains adequate coverage under their general practice policy (refer to attached Threshold Matrix). The change in the professional liability criteria for DCP services has achieved major cost savings to the District over the last year.

Risk Management did not agree with making any major changes related to A/E Services at the time. Since then, the Department of A/E Selection has requested another review of this matter and an answer is forthcoming.

URGENCY OF CORRECTIVE ACTION

- Critical
- Important
- Desirable

IMPLEMENTATION SCHEDULE

- Immediately (Short Term)
- By December 2004
- Contingent upon Funding

4.2 With respect to the maximum amount of premium to be reimbursed for professional liability coverage, A/E Selection knows of no instance where the District reimbursed an A/E firm for the premium on their general practice policy. Moreover, the district's legal advertisements for A/E services stipulate that such coverage will be required, at a minimum, from the selected firm, at their cost.

Insofar as project specific coverage is concerned, the premiums reflect changes in the insurance industry, overall project complexity, duration and cost, and the claims history of the firms. The Department of A/E Selection has requested another review of this matter by the Office of Risk Management.

URGENCY OF CORRECTIVE ACTION

- Critical
- Important
- Desirable

IMPLEMENTATION SCHEDULE

- Immediately (Short Term)
- By December 2004
- Contingent upon Funding

4.3 There is no cost to the District for the professional's general liability practice policy, however it does not fully cover the District for all risk associated with a specific project. Risk Management continues to highly recommend project specific coverage for projects over \$5 million. The Department of A/E Selection has asked for a re-evaluation as noted above.

4.4 As noted in item 1, for the last year, our negotiated printing costs on A/E projects limits reimbursement for printing on a "direct cost" basis (i.e., cost times 1). Nonetheless, since these "direct costs" may vary depending on whether

We found that some contracts awarded during the past year deviated from the practice.

APPENDIX – MANAGEMENT RESPONSES

Auditor's Comments

such services are provided "in-house" or by a printing company, A/E Selection concurs with the recommendation and will explore it with the district's Office of Procurement.

URGENCY OF CORRECTIVE ACTION

- Critical
- Important
- Desirable

IMPLEMENTATION SCHEDULE

- Immediately (Short Term)
- By November 30, 2004
- Contingent upon Funding

5. **PROJECT SCHEDULES NEED TO BE USED**

5.1 to 5.2

A project schedule (also known as Exhibit "A") is part of the design professional's responsibilities and is included in the negotiation process, Board commissioning and contract. Effective December 2003, the Board approved new timelines for design/build delivery of elementary, middle and senior high schools (from commissioning to construction). This will have the effect of ensuring projects are monitored closely once the DCP firm is commissioned and through completion. The new timelines, which are also part of the Superintendent's performance objectives are: 20 months for elementary, 28 months for middles and 36 months for seniors high schools (refer to attached December 2003 Board Item Rev'd Repl SP-1).

URGENCY OF CORRECTIVE ACTION

- Critical
- Important
- Desirable

IMPLEMENTATION SCHEDULE

- Immediately (Short Term)
- By _____
- Contingent upon Funding

SEE ATTACHMENTS

6. **EXECUTE CONTRACTS IN A TIMELY MANNER AND INCLUDE PENALTIES FOR NON-COMPLIANCE**

6.1 Over the last eight months, A/E Selection has reduced the backlog of un-executed contracts from 82 to 7. The execution of the remaining seven, which is anticipated for October 2004, is dependent on finalization of A/EPC contract shell. As part of A/E Selection's new Process Improvement Plan, beginning in June 2004, all new contracts are fully-developed prior to negotiations and are executed within 45 days of commissionings.

URGENCY OF CORRECTIVE ACTION

- Critical
- Important
- Desirable

IMPLEMENTATION SCHEDULE

- Immediately (Short Term)
- By _____
- Contingent upon Funding

As noted, seven contracts given to us did not contain a project schedule. In our opinion, they should always be maintained regardless of the project's timelines.

APPENDIX – MANAGEMENT RESPONSES

Auditor's Comments

- 6.2 A/E Selection concurs with the recommendations and will request a review of all contract shells with respect to recommended changes.

URGENCY OF CORRECTIVE ACTION

- Critical
 Important
 Desirable

IMPLEMENTATION SCHEDULE

- Immediately (Short Term)
 By June 2005
 Contingent upon Funding

7. **PROCESS VENDOR PAYMENTS TIMELY & PROPERLY**

7.1 to 7.4

As noted in the report, A/E Selection is not directly responsible for the processing or payment of A/E invoices. Nonetheless, our office met with the staff of the Office of Capital Improvement Projects (CIP), Capital Budget and Contract Management on September 27, 2004, to review this matter. The Office of CIP will conduct training sessions with Supervisors and Project Managers to address procedures for timely and proper vendor payments, and additional services.

URGENCY OF CORRECTIVE ACTION

- Critical
 Important
 Desirable

IMPLEMENTATION SCHEDULE

- Immediately (Short Term)
 By November 30, 2004
 Contingent upon Funding

- 7.5 A/E Selection concurs with this recommendation and is willing to work with the Office of Management and Compliance Audits to acquire required records needed to audit design professionals. This information, once received, will be provided to the Office of Management and Compliance Audits for review.

URGENCY OF CORRECTIVE ACTION

- Critical
 Important
 Desirable

IMPLEMENTATION SCHEDULE

- Immediately (Short Term)
 By December 2004
 Contingent upon Funding

9. **WORK ORDER DETAIL SHOULD AGREE WITH SCHOOL BOARD AGENDA ITEMS**

- 9.1 A/E Selection concurs that it is of utmost importance to ensure that each work order processed by the District accurately incorporates the terms and conditions negotiated with the firms and subsequently approved by the Board. Hence, our office has already conferred with the staff of Capital Budget and Contract Management (September 27, 2004) to jointly develop guidelines/procedures to be followed for the issuance of each work order.

APPENDIX – MANAGEMENT RESPONSES

Auditor's Comments

URGENCY OF CORRECTIVE ACTION

- Critical
- Important
- Desirable

IMPLEMENTATION SCHEDULE

- Immediately (Short Term)
- By November 30, 2004
- Contingent upon Funding

If you have any questions, please contact me at (305) 995-1401.

RD:NAD:rg

Attachment

copy: Ana Rijo-Conde
Scott Clark
Victor Alonso
Larry White
Nazira Abdo-Decoster
Michael Fox
Audit File (2004)
Log File: 1858nad-MEM

APPENDIX – MANAGEMENT RESPONSES

Auditor's Comments

PROFESSIONAL SERVICES - COMMISSIONING CALCULATIONS

8/23/2004

July 01 - Feb 04

CONSTRUCTION VALUE								
A	B	C	D	E	F	G	H	I
13 AEs	15 DCPs	7 CM at-Risk	Term Consultants	# Fire Safety	# 5yr Survey	# Programming	Ratifications	# Design-Builders
2,777,900	3,006,530	4,642,000	FY 01-02 = 19	DCPs = 6	AEs = 3	AEs = 2	48	DBs = 17
2,380,000	5,341,855	20,000,000	FY 02-03 = 23					
2,776,923	10,000,000	23,000,000	FY 03-04 = 0					
2,200,000	10,000,000	12,941,125						
2,600,500	700,477	36,716,000						
36,716,000	6,937,280	35,000,000						
2,105,800	6,862,549	4,426,272						
2,563,330	32,000,000	136,725,397						
4,426,272 *	5,155,884	average fee 1.04%						
1,500,000	8,350,615							
830,000	8,359,971							
38,607,898	6,524,300							
13,018,070 *	4,764,620							
112,502,693	3,363,375							
average fee 6.1%	15,794,872							
	127,202,328							
	average fee 3.48%							

NOTES:

D = AEPCs, SPCs, Land Surveyors, Geotech, HVAC T&Bs, Est. Sch, JOC, Asb & Claims

* Conversion from DCP to AE (McMillan Mid & South Miami Sr)

Total commissionings (columns A - G) = 88

Total Board Items for action (columns A - H) = 115

A + B = 239,705,021 (with 28 firms)

A + B + C = 376,430,418

COPY (8-27-04):
Ana Rijo-Conde
Allen Vann
Trevor Williams
Alberto Destrade

APPENDIX – MANAGEMENT RESPONSES

Auditor's Comments

DRAFT

A/E (& Other Design Professional) Professional Liability
 Coverage Type & Limits
 Threshold Matrix

Threshold	Recommended A/E Professional Liability Coverage Type & Limits
A/E Contract applies to project with: Less than \$2,000,000 Total Estimated Project Costs	\$ 1 million Practice type coverage
A/E Contract applies to project with: \$2,000,000 or greater but less than \$5,000,000 Total Estimated Project Costs	\$ 2 million Practice type coverage
A/E Contract applies to project with: \$5,000,000 or greater but less than \$25,000,000 Total Estimated Project Costs	\$ 2 million Project Specific type coverage
A/E Contract applies to project with: \$25,000,000 or greater Total Estimated Project Costs	\$ 5 million Project Specific type coverage
DCP Contract applies to project with: Less than \$5,000,000 Total Estimated Project Costs	\$ 1 million Practice type coverage
DCP Contract applies to project with: \$5,000,000 or greater Total Estimated Project Costs	\$ 2 million Practice type coverage

REVISED October 16, 2003

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APPENDIX – MANAGEMENT RESPONSES

Auditor's Comments

Office of Superintendent of Schools
Special Board Meeting of December 19, 2003

December 19, 2003

Merrett R. Stierheim, Superintendent of Schools

SUBJECT: UPDATE ON RELEASE OF P.E.C.O. FUNDS

Introduction:

At its meeting of December 10, 2003 the School Board discussed a letter prepared and submitted by the Chair of the Miami-Dade Land Acquisition and Facilities Maintenance Operations Advisory Board, which outlined points for the School Board's consideration (Attachment A). Following considerable discussion, a motion was made by School Board Member Mr. Agustin J. Barrera to recommend the following five items, which motion was subsequently approved by the School Board:

1. That staff formulate a plan of action to accelerate implementation of the FMI Assessment, specifically as it pertains to workforce reduction;
2. That the District continue to comply with State Statutes as it pertains to cost per student station caps, irrespective of funding source;
3. That staff review project delivery timelines and identify streamlining opportunities;
4. That staff provide detail on current maintenance costs, and how and by when the dollar per square foot reduction can be achieved; and
5. That staff provide an update on the implementation status of the Advisory Board's recommendations.

Additional Information

Following the December 10, 2003 meeting and in keeping with School Board action, staff formulated a plan of action which addresses the first four points (see below). A response to #5 will be provided to the Board not later than the January 2004 meeting.

Response to #1:

- Reduce abated charges to capital program by equivalent of 10 positions between February 2004 and June 2004. Estimated annual cost reduction by June 2004 of approximately \$575,000.

Note: FMI Assessment recommended a reduction in abated charges by equivalent of 10 people per year over a three-year period.

- By February 2004, begin desk audit of remaining abated positions to determine actual costs as part of year 2 and year 3 reductions proposed in FMI Assessment (services provided to be billed to Construction Department @ actual time cost).

REVISED REPLACEMENT

Page 1 of 4

SP-1

APPENDIX – MANAGEMENT RESPONSES

Auditor's Comments

Estimated annual cost reduction beyond June 2004 to be determined based on desk audit.

- By February 2004, begin time accounting for Construction Department personnel to allocate costs for direct, indirect, and overhead tasks being performed;
- By February 2004, eliminate 20 open authorized positions in the Construction Department for an estimated annual cost reduction of approximately \$970,000.
- By February 2004, eliminate an additional 7 positions for an estimated cost reduction of approximately \$467,000.
- By June 2004, eliminate an additional 8 positions in the Construction Department for an estimated cost reduction of approximately \$371,000.
- By September 2004, eliminate 2 additional positions for an estimated annual cost reduction of approximately \$130,000.

Estimated workforce reduction costs:

By February 2004	\$ 1,437,000 (Approximate)
Cumulative through June 2004	\$ 2,383,000 (Approximate)
Cumulative through September 2004	\$ 2,513,000 (Approximate)

Response to #2:

The District will continue to meet cost per student station caps set by state statutes for all Florida school districts. The District will also track costs per square foot and attempt to reduce costs while maintaining standards.

Response to #3:

REVISED The District will review current timelines based on design/build delivery method, from design commissioning to construction.

- Elementary Schools 18 to 20 months (from current average of approximately 30 months)
- Middle schools 26 to 28 months (from current average of approximately 36 months)
- Senior High Schools 34 to 36 months (from current average of approximately 42 months)

ADDED The above preliminary timelines are proposed. Staff will provide definitive recommendations no later than February 2004.

APPENDIX – MANAGEMENT RESPONSES

Auditor's Comments

Response to #4:

This response includes discussion of three related topics:

1. The definition of and cost history for maintenance.
2. The definition of for cost history for operations.
3. The results of a comparative study of privatization of the custodial functions in 35 schools.

Since fiscal year 2000-2001, maintenance costs for the normal repair and upkeep of the district's facilities have been reduced from \$2.90 per sq. ft. to \$2.13 per sq. ft. by the end of the fiscal year 2002-2003. This represents a 77 cent per sq. ft. reduction in cost and in absolute terms equals an improvement of more than \$23 M. These reductions in cost were achieved in the following areas:

- a. Actual payroll reductions of 113 people representing approximately \$7M;
- b. Overtime costs by \$3M;
- c. Material and service reductions of \$10M, inclusive of expenses charged to other school district organizations for services provided by the maintenance department.

In addition, we have identified opportunities to further improve maintenance costs by \$3-5M by optimizing the related procurement and logistics functions. The impact of streamlining procurement and logistics will allow the existing workforce to complete an additional \$8-15M of work annually.

Operations costs as reported to the State under the accounting description of function 7900 include the following categories of expenditures. Specifically: Custodial Operations, Security (including Police), Utilities, Rentals, Property Insurance, and Miscellaneous.

In the three-year period between fiscal year 2000-01 and 2002-03, the aggregate cost of function 7900 has increased by approximately \$14.49 M or on a cost per sq. ft. basis from \$5.06 to \$5.27. This entire function must be analyzed, however, to isolate the related and REVISE controllable activities. The district has experienced dramatic increases in the following categories:

- Property Insurance \$ 12.0 M
- Utilities \$ 3.5 M REVISED
- Security \$ 2.7 M

Excluding the above items the District's real costs for the controllable categories has decreased by approximately \$.14 per sq. ft. The majority of this reduction is the result of REVIS tighter controls on hiring and overtime.

APPENDIX – MANAGEMENT RESPONSES

Auditor's Comments

- RECOMMENDATION:** That The School Board of Miami-Dade County, Florida:
1. receive this report;
 2. approve the above outlined Plan of Action;
 3. transmit the Plan of Action to the Miami-Dade Land Acquisition and Facilities Maintenance Operations Advisory Board for consideration; and
 4. request that the Miami-Dade Land Acquisition and Facilities Maintenance Operations Advisory Board hold a meeting to consider the School Board's Plan of Action as soon as possible but no later than January 9, 2004.

Page 4 of 4

APPENDIX – MANAGEMENT RESPONSES

Auditor's Comments

ATTACHMENT A

TO: Dr. Michael M. Krop, Chairperson, Miami-Dade County School Board
FROM: Edward W. Easton, Chairperson, Miami-Dade Land Advisory Acquisition and Facilities Maintenance Operations Advisory Board
DATE: December 12, 2003
RE: Recent Events

Listed below are the recommendations made by me at the School Board meeting on December 10, 2003. Immediately following I've added for comparison School Board recommendations, from as yet unofficial minutes, we are still worlds apart. We need to keep talking to get this resolved as soon as possible.

Recommendations

By Chairperson Easton

1. That the School Board vote and implement prior to February 1st to immediately reduce the total payroll for construction noted in the OPPAGA recommendations of 2001 and more specifically outlined in the F.M.I. report of 2003.

By the School Board

1. That the School Board provides prior to January 14, a report on how to accelerate the implementation of the FMI Report to reduce overhead.

By Chairperson Easton

2. That the School Board vote to build schools in the future at a cost that will not exceed an average of \$125 per square foot not including off site costs and unusual soil conditions setting that as a firm requirement.

By the School Board

2. That the District comply in its own judgement with State Statutes for cost per student station regardless of funding source.

By Chairperson Easton

3. That once the School Board determines that a school will be built on a specific site that within 6-months from that date all planning, design, bidding and awarding will be completed and within an average 18-month time frame the school will be ready for occupancy.

By the School Board

3. MDCPS would provide the timeline of what we spend today on projects (elementary, middle, and high school), with a recommendation of how we can expedite the process and present to the Advisory Board for review.

APPENDIX – MANAGEMENT RESPONSES

Auditor's Comments

By Chairperson Easton

4. That the School Board immediately implement the maintenance cost requirements they voted upon and formally approved on May 15, 2002. The School Board will prepare a cost breakdown comparing Maintenance done prior to 2002 versus costs since 2002 and if significant costs reductions have not been achieved then they will direct - Unico to take whatever measures are necessary to achieve the objective of the resolution of May 15, 2002.

By the School Board

4. MDCPS provide detail and backup for where we are today on the cost of maintenance and how we could get to the dollar and by when.
5. Provide a Matrix on Advisory Board recommendations

I am looking to you to have the Administration understand that this needs to be resolved for the benefit of the children of Dade County. There is no basis for any further delay.

Cc: Advisory Board Members
School Board Members
Merrett Stierheim, Superintendent

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.

Revised 5/9/03