

# 14

## Cost Control Systems

*While the District has adequate cost control systems in the areas of internal auditing, financial auditing, asset management, inventory management, risk management, financial management, purchasing and payment processing, certain improvements would enhance operating effectiveness and efficiency.*

### *Conclusion*

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The Miami-Dade County School District has generally established adequate cost control systems. However, we have identified 8 of the 31 best practices which are not effectively implemented and/or certain enhancements which could be made to the cost control systems to improve effectiveness.

During the course of this review, Berkshire Advisors, Inc. identified a number of District accomplishments relating to cost control systems, some of which are included in Exhibit 14-1 below.

#### *Exhibit 14-1*

### **The District Has Had Notable Accomplishments Relating to Cost Control Systems in the Last Three Years**

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- A fax server system was implemented that improves the effectiveness of the procurement of goods and services.
- The District is in the process of implementing a web-based bid automation system for bid preparation, posting, evaluation, approval, dissemination, and award.
- The District is currently reviewing the installation of an automated treasury workstation system that will allow integration of data collection and processing of tasks.
- The District has implemented a purchasing card program.
- The District's Comprehensive Annual Financial Report received awards for excellence in financial reporting from the Government Finance Officers Association and the Association of School Board Officials; and the District's budget document received the Distinguished Budget Award from the Government Finance Officers Association for quality of presentation.

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Source: Miami-Dade County School District.

### *Overview of Chapter Findings*

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Berkshire Advisors, Inc. reviewed the District's cost control systems using the Best Financial Management Practices and associated performance indicators developed by the Office of Program Policy Analysis and Government Accountability (OPPAGA) and adopted by the State Commission of Education. Berkshire Advisors, Inc., employed a number of methodologies to develop chapter conclusions and action plans. For instance, we conducted on-site visits and interviews with staff at various sites and locations, obtained and reviewed documentation of their activities, and surveyed other Districts. We also received input from parents and other citizens during public forums

## *Cost Control Systems*

held in various parts of the District and while visiting school sites. These inquiries and observations were also supported by detailed examination and analysis of various District records and supporting documentation.

An overview of chapter findings is presented below.

### **Internal Auditing**

1. The District has established an effective internal audit function. (Page 14-12)

### **Financial Auditing**

2. The District receives an annual external audit. (Page 14-15)
3. The District uses audit findings to improve operations. (Page 14-16)
4. The District obtains and reviews required financial information for school internal accounts, direct support organizations (DSOs), and charter schools. (Page 14-16)

### **Asset Management**

5. The District does an effective job of segregating responsibility for the custody of capital assets from the responsibility for recording capital assets. (Page 14-22)
6. The District has established and implemented procedures that provide for the effective control of asset acquisitions. (Page 14-24)
7. Although the District maintains records that can be used to develop project costs and other project related data, the process for doing so is cumbersome and compromises the accuracy and timeliness of reporting. (Page 14-25)
8. With one exception, the District ensures adequate accountability for capitalized assets. (Page 14-27)
9. The District has established policies and procedures to safeguard most assets from unauthorized use, theft, and physical damage. (Page 14-29)

### **Inventory Management**

10. Duties and responsibilities relating to inventory management are appropriately segregated. (Page 14-32)
11. The District has established and implemented effective procedures for ensuring the effective control of inventory requisitions. (Page 14-34)
12. The District has established adequate controls to provide for inventory accountability and to safeguard inventory. (Page 14-35)
13. While the District has taken some steps to manage inventory costs, opportunities to further reduce costs should be evaluated. (Page 14-35)

### **Risk Management**

14. While in most respects the District has a comprehensive approach to managing risks, it does not have an approved disaster recovery plan. (Page 14-39)
15. While not fully documented, the District has in place effective policies and procedures for purchasing and reviewing insurance coverage. (Page 14-42)

### **Financial Management**

16. While District managers verbally communicate their commitment to strong internal controls, this commitment is not consistently documented in the established procedures. (Page 14-48)
17. The District's accounting system facilitates collecting, processing, maintaining, and reporting financial transactions. (Page 14-50)
18. The District's performance in meeting deadlines for submitting financial reports to the State is adequate. (Page 14-52)

19. While the process for developing and monitoring budgets is generally sound, in some areas existing systems and procedures do not support efforts to evaluate performance against budget, or to prevent budget overspending. (Page 14-53)
20. The District has provided adequate controls to ensure accountability for cash resources. (Page 14-58)
21. The investment plan specifies the approved type of investments and performance criteria that maximizes return and mitigates risk. (Page 14-59)
22. The established controls for recording, collecting, adjusting, and reporting receivables are effective. (Page 14-61)
23. Controls have been established to provide adequate accountability for the payment of salaries and benefits. (Page 14-62)
24. The District analyzes, evaluates, monitors, and reports debt-financing options. (Page 14-64)
25. Grant activities are effectively monitored and reported. (Page 14-65)

## **Purchasing**

26. The District adequately segregates purchasing responsibilities from the requisitioning, authorizing, and receiving functions. (Page 14-67)
27. Adequate controls have been established for authorizing purchase requisitions. (Page 14-68)
28. Purchasing practices and procedures are sound. (Pages 14-69)
29. Controls have been established to ensure that goods are received and meet quality standards. (Page 14-71)

## **Payment Processing**

30. Disbursements are properly authorized, documented, and recorded. (Page 14-72)
31. The District's approach to processing invoices and payables while generally sound is labor intensive. (Page 14-73)

# ***Fiscal Impact of Recommendations*** \_\_\_\_\_

The recommendations to improve cost control systems can be implemented with existing resources.

## ***Background*** \_\_\_\_\_

Section 230.03(2), *F.S.*, requires the board to operate, control, and supervise all free public schools in the District. Section 230.23(3), *F.S.*, provides that the responsibility for the administration of the District is vested with the Superintendent as the secretary and executive officer of the board. Laws, rules, regulations, and grantor restrictions applicable to the District's activities define, among other matters, the purposes for which resources may be used and the manner in which authorized uses shall be accomplished and documented. To ensure the efficient and effective operation of the District in accordance with good business practices and with applicable legal and contractual requirements, effective cost control systems must be established and maintained.

The Superintendent is responsible for establishing and maintaining effective cost control systems. The objectives of efficient and effective cost control systems are to:

- Provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition;
- Make certain that transactions are executed in accordance with the board's authorization;
- Ensure that transactions are recorded properly to promote reliable financial data;

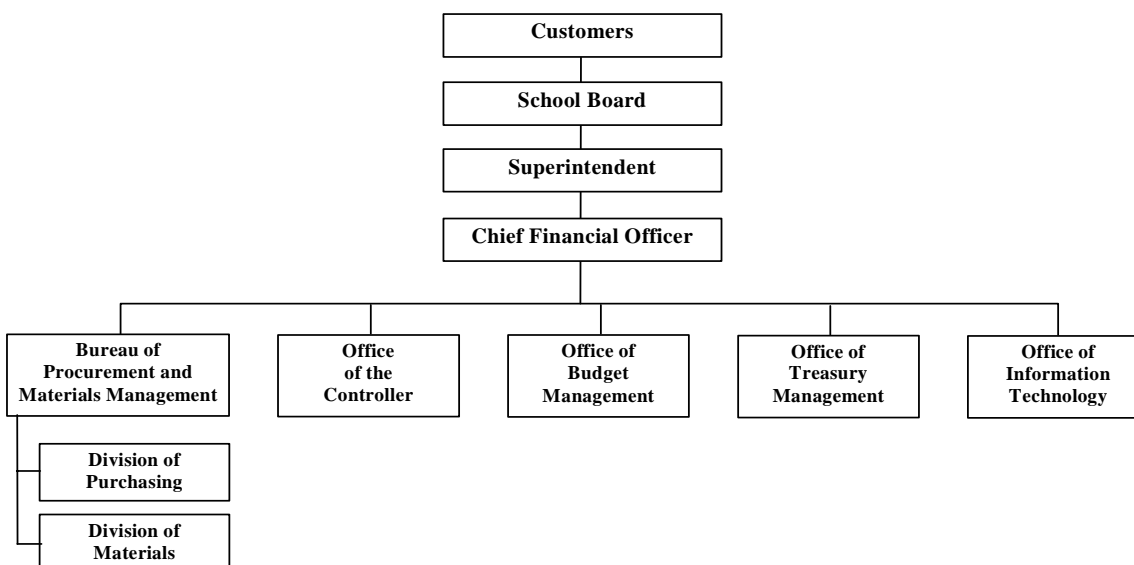
## Cost Control Systems

- Provide assurance that restricted assets are managed in compliance with applicable laws, regulations, and contracts; and
- Ensure that operating policies and procedures promote cost-effective and efficient methods of operation within the constraints established by applicable laws and regulations.

**Organizational structure of the finance function.** At the Miami-Dade County School District, many of the responsibilities for ensuring efficient and effective cost control systems rests with the financial function, which is headed up by the Chief Financial Officer (CFO). Exhibit 14-2 presents the organizational structure of the finance function at Miami-Dade County School District.

### Exhibit 14-2

## The Chief Financial Officer Manages Accounting and Finance Functions <sup>1</sup>



Source: Miami-Dade County School District.

**Staffing within finance and accounting functions.** The organizational structure of finance and accounting functions in school Districts, as well as the responsibilities assigned to the function, vary considerably from one District to another. Because of the variation in structure, it is difficult to make specific conclusions when comparisons of staff size between school Districts are made as to staffing efficiencies and economies. However, a broad general conclusion can be made from a careful review.

Miami-Dade County School District (MDCSD) is the largest school District in the State based on student enrollment. MDCSD management considers Broward, Duval, Hillsborough, Orange and Palm Beach County School Districts as peer districts. These are the next five largest school Districts in the State and vary in size, ranging from approximately 125,000 to 257,000 UFTE (unweighted full-time equivalent) students as of January 2002.

We surveyed these Districts as to the number of staff that performed general accounting responsibilities, including those employees that performed budgeting, accounts payable, payroll, food service, grants, facilities, and risk management accounting duties. A wide variety of positions, titles, and descriptions were identified as performing accounting responsibilities; however, the focus was on the function performed by staff rather than the title of the

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<sup>1</sup> In February 2002, the District implemented changes to the organizational structure. The Office of Risk and Benefits Management was added to the functions that have oversight by the Chief Financial Officer.

position held. The five peer districts, which responded to our survey, had from 80 to 122 employees performing accounting responsibilities as of January 2002. MDCSD has 176 staff members performing accounting responsibilities and 367,978.97 UFTE students as of January 2002. Using a ratio of the number of accounting staff to the UFTE as the measure, MDCSD ranked in the middle of the five peer districts. MDCSD had fewer accounting staff as a ratio to UFTE than three other Districts. This generalized comparison supports the conclusion that the number of MDCSD's finance and accounting staff fall within a reasonable range, based on the size of the school District when compared to its peers.

**Overview of District financial results.** As reflected on Exhibit 14-3, during the fiscal year ended 2000-01, the most recent fiscal year for which data is available, total revenues and other funding sources were approximately \$3.35 billion and expenditures and other uses were approximately \$3.16 billion. These totals reflect the general fund, special revenues fund, debt service fund, capital projects fund, and fiduciary funds activities. These amounts include both restricted and unrestricted sources and uses of resources. Over the three-year period ended 2000-01, the total revenues and other sources and the total expenditures decreased approximately 8%.

The decrease is largely the result of the change in other sources and uses of funds, which relate to the receipt of bond proceeds (source) and partial defeasance of general obligation bonds and certificates of participation (uses). Since other sources generally do not represent recurring revenue streams, we also compared revenues without other sources. When compared this way, revenues increased for the three-year period by 2.38% and expenditures increased by 10.53%.

**Exhibit 14-3**

**Total Revenue and Other Sources and Expenditures and Other Uses  
Decreased by Approximately 8% Over the Past Three Years (in thousands)**

	Fiscal Year		Increase/(Decrease)	
	2000-01	1998-99	Dollars	Percent
Revenue:				
Federal	\$ 268,150	\$ 34,692	\$ 33,458	14.26%
State	1,523,175	1,560,222	(37,047)	-2.37%
Local	1,055,143	985,292	69,851	7.09%
Other Sources (Financing)	499,702	873,230	(373,528)	-42.78%
<b>Total Revenue and Other Sources</b>	<b>3,346,170</b>	<b>3,653,436</b>	<b>(307,266)</b>	<b>-8.41%</b>
Expenditures:				
Current Expenditures	2,481,970	2,244,417	237,553	10.58%
Capital Outlay	362,538	245,862	116,676	47.46%
Debt Services	144,337	213,895	(69,558)	-32.52%
Other Uses (Financing)	172,233	721,722	(549,489)	-76.14%
<b>Total Expenditures and Other Uses</b>	<b>3,161,078</b>	<b>3,425,896</b>	<b>(264,818)</b>	<b>-7.73%</b>
<b>Excess of Revenues Over Expenditures</b>	<b>\$ 185,092</b>	<b>\$ 227,540</b>	<b>\$ (42,448)</b>	<b>-18.66%</b>

Source: Comprehensive Annual Financial Report.

**Revenues.** The District receives revenues from the State, federal and local sources. For the 2000-01 fiscal year, State revenues were 53.5% of total District revenues, local revenues were 37% of total revenues, and federal sources were 9.5% of total revenues.

State revenues are summarized on Exhibit 14-4. Revenues from State sources for current operations are primarily from the:

- Florida Education Finance Program (FEFP), administered by the Florida Department of Education.
- The State also provides financial assistance to administer certain categorical education programs. State Board of Education Rules require that revenue earmarked for certain programs be expended only for the program for which the money is provided. The major categorical education program funding sources include instructional

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materials and transportation. The Florida Department of Education requires that categorical education program revenues be accounted for in the general fund.

- Workforce development proceeds are provided to the District to specifically fund adult and other vocational education services offered by the District.
- Lottery revenues are earmarked to finance educational enhancement and school advisory council activities.
- The State allocates gross receipt taxes, generally known as Public Education Capital Outlay (PECO) revenues, to the District, as well as provides other funds that are recorded as capital projects, special revenues, and debt service revenues.

### Exhibit 14-4

#### State Funding Decreased 2.37% Over the Past Three Years (in thousands)

State Revenue Source	Fiscal Year		Increase (Decrease)	
	2000-01	1998-99	Dollars	Percent
Florida Education Program	\$1,159,067	\$1,016,247	\$ 142,820	14.05%
Workforce Development	107,122	109,552	(2,430)	-2.22%
Categorical Educational Programs	116,080	137,670	(21,590)	-15.68%
Gross Receipts Tax ( PECO)	38,167	32,751	5,416	16.53%
Lottery Funds	30,699	29,776	923	3.10%
Other	72,040	234,226	(162,186)	-79.33%
<b>Total</b>	<b>\$1,523,175</b>	<b>\$1,560,222</b>	<b>\$ (37,047)</b>	<b>-2.37%</b>

Source: Comprehensive Annual Financial Report.

Local revenues are primarily generated from ad valorem (property) taxes. Exhibit 14-5 shows the taxes levied for the 2000-01 fiscal year increased 6.55% compared to the 1998-99 fiscal year. The increase in taxes levied corresponds to the increase in local revenue of 7.09% over the three-year period noted on Exhibit 14-3.

The non-voted millage levies are provided by law and Appropriations Act provisions. The required local effort is tied to State FEFP funding and represents the amount school Districts must levy in order to receive FEFP funding. Also, school Districts are authorized, by law, to levy up to 2 mills for local capital improvements. Exhibit 14-5 also reflects that the total millage rate decreased from 10.16 mills to 9.617 mills over the three-year period.

**Exhibit 14-5****Ad Valorem (Property) Taxes Levied Increased 6.55%  
Over the Past Three Years (in thousands)**

Description	2000-01		1998-99		Increase (Decrease)	
	Millage	Taxes Levied	Millage	Taxes Levied	Dollars	Percent
<b>General Fund: (Non-Voted School Tax)</b>						
Required Local Effort	5.998	\$586,781	6.452	\$560,743	26,038	4.64%
Basic Discretionary Local Effort	0.510	49,893	0.510	44,324	5,569	12.56%
Supplemental Discretionary Local Effort	0.194	18,979	0.220	19,120	(141)	-0.74%
<b>Capital Projects Funds: (Non-Voted School Tax)</b>						
Local Capital Improvements	2.000	195,659	2.000	173,820	21,839	12.56%
<b>Debt Service Funds: (Voted School Tax)</b>						
General Obligation Bonds	0.915	89,514	0.978	84,998	4,516	5.31%
<b>Total</b>	<b>9.617</b>	<b>\$940,826</b>	<b>10.160</b>	<b>\$883,005</b>	<b>\$57,821</b>	<b>6.55%</b>

Source: Comprehensive Annual Financial Report.

The District receives federal funds for the food service program for serving breakfast and lunch at the schools. Federal funding is also provided for activities for various programs such as Title I. An increase of 14.26% occurred in the federal revenues for the three-year period as noted on Exhibit 14-3.

**Expenditures.** For the fiscal year ended 2000-01, current expenditures for District operations were 83% of the total expenditures, capital outlays relating to school construction and renovations projects comprised 12% of the total expenditures, and debt service (interest and principal) payments were 5% of the total expenditures. Of the total current expenditures, 98% are from the general fund. A closer review of general fund activities follows.

**Review of General Fund Activities.** The general fund reflects the general operations of the District. The resources accounted for in this fund are primarily for carrying out the educational programs offered by the District. During the 2000-01 fiscal year, the District reported revenues and other sources of \$2.259 billion, and expenditures and other uses of approximately \$2.254 billion. During the three-year period ended 2000-01, the District's general fund spending increased by 10.29%, which is higher than the 8.5% change in general fund revenues. Exhibit 14-6 and 14-7 summarize the changes over the three-year period.

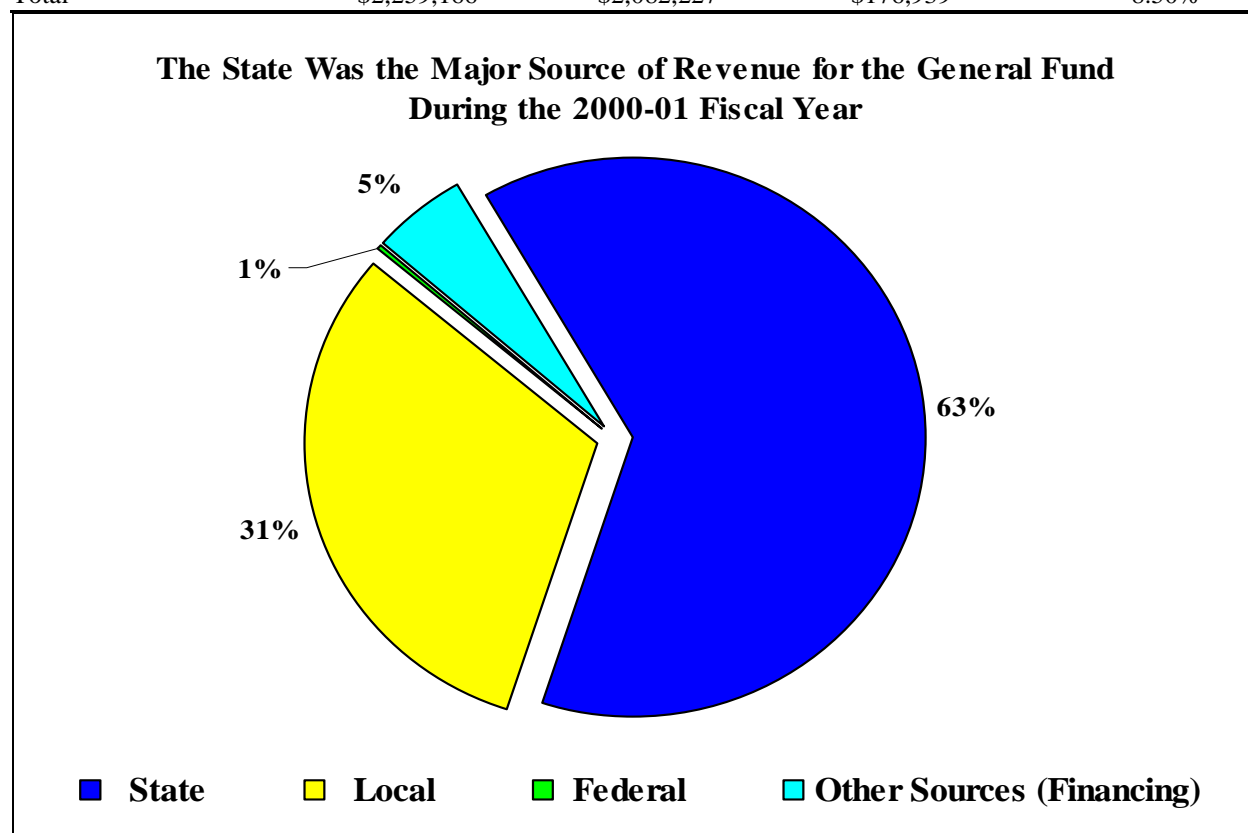
**General Fund Revenues.** From review of Exhibit 14-6, the State provided 63% of the funding for the District, local taxes and other sources provided 36% of the funding for general fund activities, and federal sources funded 1% of revenues for 2000-01. This same funding relation existed for the three-year period ended 1999-00. In comparison, the statewide average for State funding for all Districts was 61% over the three-year period ended 1999-00. The peer districts averaged 58.6% for State funding, with a range from 40% to 70% over the period. In addition, the statewide average of all Districts for local taxes and other sources is 38%, and the average for the peer districts is 40.8%.<sup>2</sup>

<sup>2</sup> The source of the information for the statewide average, the average for peer districts, and MDCSD data (unless otherwise indicated) is the Profiles of Florida School Districts Financial Data Statistical Report published by the Florida Department of Education. The most current year available for analysis is 1999-00.

**Exhibit 14-6**

**Total General Fund Revenue Increased 8.25%  
Over the Past Three Years (in thousands)**

Revenue Description	Fiscal Year		Increase (Decrease)	
	2000-01	1998-99	Dollars	Percent
Revenue:				
State	\$1,433,108	\$1,303,105	\$130,003	9.98%
Local	697,818	663,820	33,998	5.12%
Federal	12,127	12,761	(634)	-4.97%
Other Sources (Financing)	116,113	102,541	13,572	13.24%
<b>Total</b>	<b>\$2,259,166</b>	<b>\$2,082,227</b>	<b>\$176,939</b>	<b>8.50%</b>



Source: Comprehensive Annual Financial Report.

**General Fund Expenditures.** Exhibit 14-7 provides the general fund expenditures for the 2000-01 fiscal year compared to the expenditures for the 1999-00 fiscal year. The increase in expenditures is directly related to the increase in salaries for instruction, instructional support, and school administration as a result of enrollment growth, new school openings, and cost-of-living-increases. Capital outlay increases are mainly the result of the costs of new school construction and renovation projects, and expanding technology into the classroom and District operations.



**Exhibit 14-7****General Fund Expenditures and Other Uses Increased 10.29%  
Over the Past Three Years (in thousands)**

Expenditures	Fiscal Year		Increase (Decrease)	
	2000-01	1998-99	Dollars	Percent
<b>Current:</b>				
Instructional Services	\$1,371,852	\$1,253,043	\$ 118,809	9.48%
Pupil Instructional Services	118,378	108,239	10,139	9.37%
Instructional Media Services	44,050	40,603	3,447	8.49%
Instruction and Curriculum Development Services	23,399	19,648	3,751	19.09%
Instructional Staff Training Services	11,061	9,269	1,792	19.33%
School Board	5,105	4,341	764	17.60%
General Administration	7,709	6,998	711	10.16%
School Administration	142,464	132,336	10,128	7.65%
Facilities Acquisition & Construction	975	7,523	(6,548)	-87.04%
Fiscal Services	14,931	14,482	449	3.10%
Central Services	63,024	58,120	4,904	8.44%
Pupil Transportation Services	78,567	68,458	10,109	14.77%
Operation of Plant	193,387	173,496	19,891	11.46%
Maintenance of Plant	108,492	92,556	15,936	17.22%
Community Services	28,661	25,931	2,730	10.53%
<b>Total Current Expenditures</b>	<b>2,212,055</b>	<b>2,015,043</b>	<b>197,012</b>	<b>9.77%</b>
<b>Capital Outlay:</b>				
Facilities Acquisition & Construction	41,983	26,012	15,971	61.40%
Debt Services:				
Principal	497	1,011	(514)	-50.84%
Interest & fees	145	133	12	9.02%
<b>Total Expenditures</b>	<b>2,254,680</b>	<b>2,042,199</b>	<b>212,481</b>	<b>10.40%</b>
Other Uses (Financing)	199	2,367	(2,168)	-91.59%
<b>Total Expenditures and Other Uses</b>	<b>\$2,254,879</b>	<b>\$2,044,566</b>	<b>\$210,313</b>	<b>10.29%</b>

Source: Annual Financial Report and Comprehensive Annual Financial Report.

Instruction and instructional services comprised 69% of the general fund's current expenditures for the 2000-01 fiscal year. Along with the instruction and instructional support reported in the special revenue fund, this function also comprised 69% of the total District current expenditures for the 2000-01 fiscal year. A review of the three-year period ended 1999-00, indicated that the statewide average for all Districts for this expenditure class, as well as the average for MDCSD and its peer districts, was also approximately 69%.

The categories of general administration, school board expenses, fiscal services, and central services comprised approximately 4% of the total general fund and total District expenditures for the 2000-01 fiscal year. The statewide average for all Districts, the average for MDCSD and its peer districts for the three-year period ended 1999-00, were approximately 4%.

For the 2000-01 fiscal year, salaries and fringe benefits were approximately 88% of the current expenditures for the general fund, and combined with the salaries and fringe benefits in the special revenue fund, these expenditures totaled \$2,117,592,000. This represents 85% of the total current expenditures of \$2,481,970,000. For the three-year period ended 1999-00, salaries and fringe benefits also averaged 85% for the District. This average was three to four percentage points higher than the statewide average and the average for peer districts for the same period.

**Review of Financial Position.** The financial position of the District is its net assets, or fund balance. All things being equal, an increase in net assets is an improvement in financial position. Likewise, a decrease in net assets is a decline in financial position. A common measure of financial position is the ratio of fund balance to operating activity. Much of the District’s fund balance is restricted by legal requirements, or other commitments that make much of the fund balance unavailable for use for unexpected needs that may arise. Therefore, for purposes of this analysis, the unreserved fund balance of the general fund is used. The unreserved fund balance of the general fund and the ratio of unreserved fund balance to total expenditures for the three-year period ended 2000-01 are presented in Exhibit 14-8. For the four peer districts that responded to our survey, unreserved general fund balance as a percent of total general fund expenditures and other uses ranged from 1.8% to 7.5% for an average of 4.4% for the fiscal years 1999-00 and 1998-99. The District’s unreserved fund balance for those years compares favorably with the average of its peer districts. The statewide average of all Districts for unreserved general fund balance was not available.

**Exhibit 14-8**

**General Fund Unreserved Fund Balance Over the Past Three Years  
(in thousands)**

	2001-00	1999-00	1998-99
Beginning Unreserved Fund Balance	\$ 93,015	\$ 89,197	\$ 55,578
Net Increase(Decrease)	(6,334)	3,818	33,619
Ending Unreserved Fund Balance	\$ 86,681	\$ 93,015	\$ 89,197
Total Expenditures & Other Uses (General Fund)	\$2,254,680	\$2,100,465	\$2,044,566
<b>Ratio of Unreserved Fund Balance to Total Expenditures</b>	<b>3.84%</b>	<b>4.43%</b>	<b>4.36%</b>

Source: Comprehensive Annual Financial Report.

**Best Practices**

To develop a better understanding of the District’s efforts to control expenditures and to understand its financial operating processes, we evaluated the District’s practices in the following eight cost control systems areas:

- Internal auditing,
- Financial auditing,
- Asset management,
- Risk management,
- Inventory management,
- Financial management,
- Purchasing, and
- Payment processing.

**Internal Auditing**

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**Background**

Internal auditing, as defined by the *Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors (Standards), is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. The primary purpose of the internal auditing process, as defined by these standards, is to help an organization accomplish its objectives by bringing a systematic, disciplined

approach to evaluating and improving the effectiveness of risk management, control, and governance activities. The Standards state that an effective internal audit function should assist an organization by (a) identifying and evaluating the significant exposures to risk, and (b) maintaining, evaluating, and promoting continuous improvement to the effectiveness and efficiency of controls as they relate to the reliability and integrity of financial and operational information, the effectiveness and efficiency of operations, the safeguarding of assets, and compliance with laws, regulations, and contracts. The Standards also state that the internal audit function should contribute to the organization's governance process by evaluating and improving the process through which values and goals are established and communicated, the accomplishment of goals is monitored, accountability is ensured, and values are preserved. The Institute of Internal Auditors also requires that the internal audit activity be formally defined in a charter, be consistent with the Standards, and approved by the board.

The authority for the internal auditing function in the Miami-Dade County School District is provided in Florida Statutes (Section 230.23(10) (1)). This statute permits school Districts to employ internal auditors to perform ongoing financial verification of the financial records of a school District and requires that internal auditors hired pursuant to this law must report directly to the board or its designee. The Office of Management and Compliance Audits (OMCA) performs the internal audit function for the District pursuant to Board Rule 6Gx13-2C-1.14. This Board Rule states the purpose, objectives and responsibilities, authority, professional standards, personnel, the scope of auditing activities, and the communication of results for the internal audit function of the District. The Board Rule substantively conforms to the Standards identified by the Institute of Internal Auditors.

The District has assigned responsibilities to ensure compliance with various legal requirements defined by the State Board of Education and by Florida Statutes to the internal audit function. These requirements include the following:

- State Board of Education Rule 6A-1.087, F.A.C., requires school Districts to provide for annual audits of school internal funds.
- Chapter 274 of the Florida Statutes, and Chapter 10.400 of the Rules of the Auditor General, require an annual inventory of tangible personal property be completed.
- State Board of Education Rule 6A-1.0013, F.A.C. and Section 237.40, Florida Statutes, require audits of direct support organizations by independent certified public accountants.
- Florida Statutes (Section 11.45(3)(1)1) require that annual audits of the District be performed by independent certified public accountants and that a triennial audit be performed by the Auditor General – these audits are coordinated by the internal audit unit.
- Florida Statutes (Section 228.056(8)(g), and Section 11.45(3)(a)2) also require that annual financial audits of charter schools be completed - the Office of Management and Compliance Audits receives and monitors the results of these audits (which are performed by independent certified public accountants).

An audit committee has been established to ensure that the overall audit coverage of the internal audit function is sufficient and appropriate to protect the citizens and to ensure that an adequate system of internal control has been implemented and is followed. The term of service, membership, scope of activities, and duties for this committee are established by the Board Rule. This advisory body is comprised of seven voting members, six citizen volunteers appointed on a rotating basis by the board chair, and one board member who is also appointed by the board chair. In addition, two non-voting District staff members – the chief auditor and the chief financial officer – are appointed to the audit committee by the superintendent.

# 1 The District has established an effective internal audit function.

## The District has established an exemplary internal audit function that executes a comprehensive audit plan

If an internal audit function is to effectively fulfill its mission of helping an organization evaluate its exposure to risk, ensure the reliability and integrity of financial and operational information, safeguard assets, and ensure compliance with laws, regulations, and contracts, a number of key elements must be in place:

- The function must be organized to facilitate the performance of these duties
- Internal audit staff must have appropriate skills and experience
- Adequate resources must be devoted to the function
- Appropriate priorities must be established
- Audit staff must be granted appropriate authority
- Audit staff must be independent and objective
- Work must be appropriately planned and managed
- Reports and materials prepared by the unit must be useful to the persons responsible for implementing change

Each of these important elements is currently in place in the District's Office of Management and Compliance Audits.

**Organization.** The Office of Management and Compliance Audits (OMCA) has been structured to facilitate performing the internal audit function. The office is divided into six units, each of which is responsible for an important audit activity.

- Electronic Data Processing Audits – audits computer systems and provides support in the development and review of new systems.
- Capital Construction Compliance Audits – audits all construction related activities.
- Compliance and Investigative Audits – provides forensic auditing capabilities and assists the State Attorney's Office, Miami-Dade County School District Police, and the Office of Professional Standards in investigations that relate to fraud, waste, and abuse.
- School Internal Audits – performs audits of school internal funds.
- Property Audits – conducts the physical inventory of tangible personal property.
- Quality Control and Review Audits – provides internal quality control and review of reports prior to their issuance.

Organizing the office in this way both ensures an adequate focus on key audit activities, and also helps create needed expertise among the staff assigned to the unit.

**Staff skills and experience.** The quality of work performed by an internal audit unit will depend in large part on the quality and experience of staff who are assigned to the unit. Staff assigned to the Office of Management and Accountability have the requisite knowledge, skills, and other competencies needed to perform these duties. The office is headed by a chief auditor and an assistant chief auditor, both of whom are certified public accountants. In addition, of the total 38 positions assigned to the office, 27 positions (71 percent) are held by professional staff that have at least a college degree. Of the 27 professional positions, thirteen are certified public accountants (three of whom are also certified fraud examiners and one of whom is a certified internal auditor), and two are certified information systems auditors.

**Resources.** OMCA has adequate resources to effectively fulfill its internal audit responsibilities. Exhibit 14-9 summarizes how the office’s existing staff is deployed by organizational unit.

**Exhibit 14-9**

**Summary of OMCA Staffing Allocations**

Unit	Professional		Total Staff
	Staff	Other Staff	
Administration	2		2
Electronic Data Processing Audits	3		3
Capital Construction Compliance Audits	4		4
Compliance and Investigative Audits	7		7
School Internal Audits	10		10
Property Audits		8	8
Audit Quality Control and Review	1		1
Clerical		3	3
<b>Total</b>	<b>27</b>	<b>11</b>	<b>38</b>

Source: Office of Management and Compliance Audits.

At these staffing levels, the office is able to complete a comprehensive audit plan. Our review of the OMCA report of the activities accomplished for the 2000-01 fiscal year showed that a comprehensive range of activities was planned and the audit plan for the year was substantially implemented. (In only two areas did OMCA fail to implement the entire plan. For the 2000-01 fiscal year, OMCA completed 90 percent of the annual audits of school internal accounts and performed physical counts at 96 percent of work locations.) Exhibit 14-10 provides a summary of the activities performed by OMCA for fiscal year 2000-01.

**Exhibit 14-10**

**Summary of Internal Auditing Activities for the 2000-01 Fiscal Year**

Activity	Actual Staff Days Used for Activity
1 Audits of school internal funds and payrolls at 297 of 331 schools; including review of Pell Grant, procurement credit card purchases, community school programs, free & reduced price meal program at selected schools	2,292
2 Inventory of tangible personal property at 497 of 517 work locations	1,660
3 Issued Internal Audit Report	
Review of accounts payable function	170
Review of Construction Contract Administration	376
Review of payroll procedures at selected offices	27
Review and investigation of select construction projects	119
Audit of inventories for Department of Food & Nutrition, Department of Transportation, Maintenance Materials Management, Stores and Mail Distribution, Textbooks and Communications Management	226
4 Conducted 80 audits and investigations related to fraud, waste, and abuse in areas such as personnel, internal funds, payrolls, procurements, vendor payments, including interacting with the State Attorney's Office, MDCSD Police, and the Office of Professional Standards	560
5 Audit of television and radio stations	57
6 Audits of direct support organizations	53
7 Data Processing Audit Division	

## Cost Control Systems

Activity	Actual Staff Days Used for Activity
a. Participated in new system development for procurement credit card reconciliation software; automation enhancements in food services; debit card payments to prepay for meals; treasury management software, employee time and attendance system; procurement fax services system; automation of the bid process	83
b. Support of internal audit staff and automation of internal funds	163
c. Update on E-rate program	42
8 Membership on various committees	61
9 Training seminars	148
10 Other activities, school internal funds support, review of CAFR and liaisons with external auditors, etc.	181
<b>Total</b>	<b>6,218</b>

Source: Office of Management and Compliance Audits.

**Priority setting.** In an effective internal audit operation, the internal audit work performed must reflect the organization's priority needs. OMCA currently considers a number of factors when setting priorities for the unit's work:

- The results of an overall assessment of the risks associated with an area or activity that is made based on the chief auditor and unit staff's knowledge and understanding of District operations and input from the audit committee and District staff.
- Annual audit requirements established by State law, the State Board of Education, or School Board rules.
- The period of time since the last review of the area or activity.

The results of this analysis are used to develop an annual audit work plan that is reviewed and approved by the board. At year-end, OMCA details the audits and other activities accomplished during the year and compares the results with the audit plan. The results of this self-assessment are also then used to develop priorities for the coming year, and to establish an audit plan reflecting those priorities.

**Authority.** Unless internal audit staff has broad authority to access needed records and to objectively evaluate operations and procedures, they will not be able to effectively perform their duties. School Board Rule 6cx13 – 2c-1.14, grants OMCA this authority. This rule specifies that OMCA has the authority to access all records and areas within the school system and that unit staff shall be free to select the areas to be evaluated and to undertake objective evaluations.

**Independence.** If an internal audit function is to be effective, it must be completely independent. To ensure this independence, each auditor on an engagement must indicate his or her independence of attitude by their signature on the audit program.<sup>3</sup>

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<sup>3</sup> In addition to the review conducted as part of this study, OMCA has had three peer reviews of its operations by external CPA firms. Peer review is a periodic process during which the internal audit organization's policies and procedures are assessed to ascertain compliance with government auditing standards issued by the Comptroller General of the United States. Institute of Internal Auditor standards require that such quality assurance reviews be conducted at least once every five years by a qualified, independent reviewer or review team from outside of the organization. OMCA is in the forefront of Florida school District internal audit functions in regards to undergoing peer review and has undergone these reviews on a triennial basis. The use of work programs, independence of staff on engagements, and the adequacy of the internal quality control systems are included as part of the scope of the peer review. The results of the peer reviews of OMCA indicated that OMCA's system of internal control was suitably designed and working effectively, and those audits were conducted in conformance with applicable standards.

We observed, during the course of our engagement, that OMCA operated with the independence needed to effectively fulfill its mission. However, prior to December 2001, OMCA reported to a deputy superintendent.<sup>4</sup> The chief auditor indicates that although he was evaluated by the deputy superintendent, this reporting relationship did not compromise the independence of the unit nor affected its ability to effectively fulfill its responsibilities. In December 2001, Board Rule 6Gx-13-2C-1.14 was amended and now requires OMCA to report administratively to the board through the audit committee, as the board's designee as well as operationally to the superintendent.<sup>5</sup>

This change is not only good management practice; it brings the District in compliance with the law. Section 230.23(10) (1) of the Florida Statutes provides that the internal audit function should report directly to the board or its designee. (In this case, the designee is and should be the audit committee, which the board has established to oversee audit activities.)

**Work planning.** To ensure that the unit's work is carried out in an efficient and effective manner, this work must be effectively planned and managed. To meet this need, OMCA develops work programs for each engagement and then uses these work programs to manage the engagement.<sup>6</sup>

**Useful reports.** Obviously, if the work of an internal audit unit is to be beneficial to an organization, the reports must be persuasive and provide clear recommendations for improvement. A review of reports completed by OMCA indicates that they are clear, concise, and persuasive. The reports detail the scope of work performed, audit findings, and recommendations that are useful in assessing internal controls and improving operations. The reports also include a response to the report from the appropriate District managers, along with the corrective action that is planned by the managers.

## Financial Auditing

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### Background

To ensure compliance with governing auditing standards, annual external audits are performed of the District's financial operations. In addition, audits are also performed of internal school funds, direct service organizations, and charter schools.

## 2

### The District receives an annual external audit.

#### The District obtains an external audit in accordance with government auditing standards

Florida Statutes (Section 11.45) require that an annual financial and compliance audit of the District be performed in accordance with generally accepted auditing standards and government auditing standards. In compliance with this mandate, the District obtains external audits from an international independent certified public accounting firm each year.

For the fiscal years ended June 30, 1998, through 2001, the District received unqualified opinions from the external auditors on the financial statements stating that the financial statements present fairly the financial position and the

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<sup>4</sup>Board Rule 6Gx13-2c-1.14 stated that the internal audit function should report operationally to the superintendent, and in the organizational structure, this responsibility had been delegated to a deputy superintendent.

<sup>5</sup>As of February 2002, OMCA now reports operationally to the Chief of Staff.

<sup>6</sup> See footnote 3.

results of operations in conformity with generally accepted accounting principles used in the United States. In addition, the external auditor rendered opinions on the District's internal control over financial reporting and compliance with certain provisions of laws, regulations, contracts and grants as required by OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. The OMB Circular A-133 audit reports stated that the audits were also conducted in accordance with the provisions of Chapter 10.800, Rules of the Auditor General, which govern the conduct of local governmental entity audits performed in the State of Florida.

The District presents a Comprehensive Annual Financial Report (CAFR) which includes an introductory section that provides discussion on various programs, activities and functions of the District; the auditor's opinion on the financial statements; the audited financial statements, and selected statistical information. The CAFR, presented by the District, has received the Certificate of Excellence in Financial Reporting issued by the Association of School Business Officials for each of the past seventeen years and the Certificate of Achievement for Excellence in Financial Reporting issued by the Government Finance Officers Association for each of the past sixteen years. These prestigious awards are from nationally known programs, each of which has certified public accountants and/or other technical professionals critique the CAFR for program standards and generally accepted accounting principles, and are presented to recognize and encourage excellence in financial reporting. Only two other Florida Districts received either of the awards for their CAFR for the 1999-00 fiscal year, the most current period with available information.

### **3 The District uses audit findings to improve operations.**

#### **The District provides for timely follow-up of findings identified in the external audit**

As required by State laws, the certified public accountant is required to provide the District with findings that were identified as part of the audit process. The District is required to provide a written explanation concerning the findings, including corrective actions to be taken to prevent recurrence of the findings. The status of the corrective action is documented in the audit reports for the next fiscal year. For example, schedules are included in the external audit reports for the fiscal years ending June 30, 1998, through June 30, 2001, that discuss the status of the corrective action taken by the District based on the prior year's audit report. Based on our review of these reports, the District uses the findings presented in the external audit reports to improve its accounting and financial management practices.

### **4 The District obtains and reviews required financial information for school internal accounts, direct support organizations (DSO's), and charter schools.**

#### **The District has implemented effective processes to manage school internal accounts; however, it does not have sufficient resources to ensure that all school internal funds are audited annually**

This discussion of the District's approach to accounting, auditing, and managing school internal funds is divided into three sections. The first section presents general information about school internal funds, the second section describes how these funds are managed and accounted for at the school and District levels, and the last section discusses the District's approach to auditing the funds.



**General information.** In addition to funds received at the District level, individual schools also have receipts or revenues of a variety of types including the following:

- Receipts for planned operations of student clubs and activities.
- Sale of student activity tickets.
- Admissions to school or class plays, parties, or dances.
- Deposits and collections for the purchase of class pictures.
- Contributions made by the public, civic, or parent/teacher organizations.

These monies, which are collected within the school and deposited in the school’s accounts, are commonly referred to as school internal funds. Although school internal funds are not material when compared to the District’s overall financial operations, a substantial amount of money flows through the District’s internal school funds. Exhibit 14-11 provides a summary of the financial activity over the last three fiscal years.

**Exhibit 14-11**

**Three Year Financial Summary of School Internal Funds**

<b>Internal Fund Activity</b>	<b>2000-01</b>	<b>1999-00</b>	<b>1998-99</b>
Fund Balance, July 1	\$15,216,638	\$13,674,920	\$14,123,949
Internal Fund Receipts (including transfers)	73,314,273	70,211,330	62,691,909
Internal Fund Disbursements (including transfers)	(71,383,012)	(68,669,613)	(63,140,938)
<b>Fund Balance, June 30</b>	<b>\$17,147,899</b>	<b>\$15,216,637</b>	<b>\$13,674,920</b>

Source: Comprehensive Annual Financial Report and Annual Financial Report.

Currently, each school has a checking account and most have savings and/or investment accounts, as temporarily idle funds are required by law to be invested. A centralized banking system is being considered for school internal funds, which would establish one bank account for all school internal funds. The proposed centralized banking system would account and track activity for each school, provide an automated bank reconciliation, allocate interest earned on the pooled funds to each school on a prorated basis, and allow schools to perform financial transactions on-line. The District will be issuing a request for proposal for an outside entity to provide these services.

**Managing and accounting for internal school funds.** Both school level and District level staff share responsibility for managing and accounting for internal school funds. At the school level, a secretary/treasurer typically serves as the bookkeeper for the funds and has responsibility for properly recording all money and assuring timely deposits, preparing checks for authorized disbursements with appropriate supporting documentation, preparing monthly bank reconciliations and submitting the correspondence to internal fund accounting. System generated financial reports and their bank statements are used to prepare the bank reconciliations. The school principal, however, is ultimately responsible for the funds. Principle responsibilities include authorizing internal fund purchases, signing checks, and reviewing the financial accounting reports prepared by the bookkeeper. Specific policies and procedures related to the receipt and disbursements from internal school funds are established by Board Rules and are outlined in an accounting manual.

At the District level, school internal fund activity is reviewed by the internal fund accounting section of the controller’s office. This section, which is comprised of a supervisor, six business managers, a secretary, and two hourly employees, is responsible for training bookkeepers and principals, responds to accounting questions from bookkeepers or principals, monitors compliance with policies and procedures outlined in the accounting manual; and, on a monthly basis, reviews and monitors the bank reconciliations and the financial reports for school internal accounts. Section staff perform monthly group training seminars for principals and bookkeepers and also perform on-site training or reviews at schools when necessary. In addition, Office of Management and Compliance Audits (OMCA) staff assists the Internal Fund Accounting Unit, as needed, in answering questions and providing training to the bookkeepers and principals.

## *Cost Control Systems*

Numerous individuals handle moneys that are deposited in the school internal funds. These individuals, such as parent volunteers, teachers, etc. collect the moneys at fund raising events and there can be significant variation in understanding of how to properly handle the moneys. As such, there is higher risk that internal fund moneys can be both unintentionally and intentionally misused.

This risk is also increased because in many instances there is also, due to the small number of staff, an unavoidable lack of segregation of duties at the school level. The collection, receipt preparation, deposit of funds and posting and reconciliation of financial records are all typically performed by a single bookkeeper/treasurer. While the principal's supervision of the bookkeeper/treasurer enhances internal control, the level of internal control actually in place can vary significantly from school to school. As a result, training of principals and treasurers for managing and accounting for internal school funds, the monitoring and reviews performed by the internal fund accounting function and OMCA, and performing an annual audit of these funds becomes especially important.

**Training program for principals and treasurers.** In 1997, the deputy superintendent of school operations, OCMA and the controller's office initiated the Money Matters Support Program (MMSP) to assist principals with fiscal management that has proven successful in training principals and treasurers in the internal funds accounting process and reducing the number of audit findings. Voluntary participation by principals and treasurers is encouraged, however; participation in the MMSP is mandatory for new principals and principals of schools cited with audit exceptions. The program provides workshops for principals and school treasurers who are taught by OMCA, internal fund accounting business managers, and/or budget analysts. The program also provides for experienced principals and treasurers to serve as mentors to participants, and includes visits of model schools and other activities as well as a quarterly newsletter designed to provide support and relevant information to school-based staff regarding internal fund related issues and fiscal matters.

**Audit of school internal funds.** OMCA is charged with performing annual audits of each school's internal funds. (Performing such annual audits is required by State Board of Education Rule 6A-1.087, F.A.C.) Reports on the audits of school internal accounts, which include responses from the school and corrective action plans, are presented by OMCA to the Audit Committee which, in turn, presents them to the board.

For the fiscal years ended June 30, 2001, and 2000, the District did not meet the State Board of Education requirement that school internal funds be audited annually. During the 2000-01 fiscal year, OMCA completed and/or had in progress 297 school audits from a population of 331 schools (89.7 percent). During the 1999-00 fiscal year, OMCA performed slightly fewer audits. Audits were completed and/or in-progress for 273 out of the District's 330 schools (82.7 percent). OMCA's audit plan for fiscal year 2001-02 indicates that the unit will complete audits of all schools over a fourteen-month period rather than over the twelve-month period required by law and consistent with effective practices.

There are two primary reasons why OMCA has not met mandates to complete annual audits of internal funds at all schools. First, staff attrition in prior years and an inability to quickly fill vacant positions because of the competitive job market, reduced OMCA's resources. During this period, the audit committee moved the audits of internal fund accounts to a two-year cycle so that audits of other critical District operations could be completed. In addition, while at school sites, OMCA staff does much more than audit internal school funds; they may also review payroll records, food service, community school and after school care program records and procedures, and credit card program expenditures. While performing all these reviews while at a school site is cost-effective, doing so also reduces the resources available to perform required audits of internal school funds. It should be noted that OMCA is aware of these issues and has increased staff which, as noted, has resulted in an increase in the number of annual audits of school internal funds.

## **Annual audits of direct support organizations are performed each year**

A direct support organization is a not-for-profit organization approved by the board, organized and operated exclusively to receive, hold, invest, and administer property, and to make expenditures to or for the benefit of public kindergarten through twelfth grade education, and adult, vocational, and community education programs. As Exhibit 14-12 shows that three direct support organizations provided support to the Miami-Dade County School District and its programs during the last three fiscal years.

Consistent with State law (Section 237.40, Florida Statutes) and State Board of Education Rules (Rule 6a-1.0013) the District requires each of these organizations to submit to an annual audit of its financial accounts. This requirement is specified in the agreement between the District and the direct support organization. These audits are currently performed by the Office of Management and Compliance Audits.

**Exhibit 14-12**

**Three Year Financial Summary of Direct Support Organizations**

<b>Direct Support Organization</b>	<b>2000-01</b>	<b>1999-00</b>	<b>1998-99</b>
<b>Magnet Educational Choice Association, Inc.</b>			
Assets	\$ 263,106	\$ 121,557	\$ 176,733
Liabilities	550	119,260	\$ 174,220
Fund Balance	262,556	2,297	2,513
Total Liabilities & Fund Balance	\$ 263,106	\$ 121,557	\$ 176,733
Revenues	\$ 468,117	\$ 422,983	\$ 326,142
Expenses	327,118	303,939	322,885
Net Increase (Decrease)	140,999	119,044	3,257
Beginning Fund Balance	121,557	2,513	668
Transfers and Reclassifications	---	---	(1,412)
Ending Fund Balance	\$ 262,556	\$ 121,557	\$ 2,513
<b>Miami-Dade Coalition for Community Education, Inc.</b>			
Assets	\$ 126,486	\$ 74,645	\$ 56,605
Liabilities	97,506	49,835	4,174
Fund Balance	28,980	24,810	52,431
Total Liabilities & Fund Balance	\$ 126,486	\$ 74,645	\$ 56,605
Revenues	\$ 61,815	\$ 62,930	\$ 85,526
Expenses	57,645	52,998	60,679
Net Increase (Decrease)	\$ 4,170	\$ 9,932	\$ 24,847
Beginning Fund Balance (Note 1)	24,810	14,878	27,584
Ending Fund Balance	\$ 28,980	\$ 24,810	\$ 52,431
<b>Dade Schools Athletic Foundation, Inc.</b>			
Assets	\$ 37,773	\$ 28,947	\$ 38,446
Liabilities	\$	\$ 1,621	\$ 15,648
Fund Balance	37,773	27,326	22,798
Total Liabilities & Fund Balance	\$ 37,773	\$ 28,947	\$ 38,446
Revenues	\$ 103,256	\$ 114,266	\$109,030
Expenses	92,809	109,738	137,362
Net Increase (Decrease)	\$ 10,447	\$ 4,528	\$ (28,332)
Beginning Fund Balance	27,326	22,798	51,130
Ending Fund Balance	\$ 37,773	\$ 27,326	\$ 22,798

**Note 1:** 1999-00 restatement required by GASB Statement #33

Source: Audited Financial Statements.

**Annual audits of charter schools are performed each year**

Consistent with State law (Section 228.056(8)(g) and Section 11.45(3)(a)2, Florida Statutes, the District requires annual audits of charter schools. The Office of Management and Compliance Audits (OMCA) receives and monitors quarterly financial reports and the annual audited financial statements from the charter schools. OMCA reviews this information both to ensure that appropriate controls and accounting procedures are in place, and also to

## Cost Control Systems

assess whether the charter school is financially solvent. The reports and audit findings are then presented formally to the superintendent and the board on an annual basis.

Exhibit 14-13 provides a financial summary of the charter schools' activities for the last two years. Exhibit 14-14 lists the charter schools operating in the fiscal year ended 2001, and summarizes the audited total revenues and expenditures and the amount of funds received from the District (based on FTE membership and categorical allocations, less the 5 percent administrative overhead fee withheld by the District) for each charter school for that year ended.

### Exhibit 14-13

#### Two Year Financial Summary of Charter Schools (in thousands)

Charter Schools Activity	2000-01	1999-00
Assets	\$ 15,014	\$ 6,522
Liabilities	\$ 5,799	\$ 3,126
Investments in General Fixed Assets	6,166	1,877
Fund Equity	3,049	1,519
Total Liabilities, Investments in General Fixed Assets, and Fund Equity	\$ 15,014	\$ 6,522
Revenues	\$ 20,971	\$ 10,764
Expenditures	(21,320)	(10,422)
Net Increase (Decrease)	(349)	342
Other Financing Sources	1,878	1,189
Beginning Fund Equity	1,518	(13)
Ending Fund Equity	\$ 3,048	\$ 1,518

Source: Comprehensive Annual Financial Report, Charter School Audited Financial Statements, and Office of Budget and Management. Differences are due to rounding.

### Exhibit 14-14

#### Charter Schools Operating Results for Fiscal Year 2000-01 (in thousands)

Charter School	Revenues	Expenditures	Pass-Through Funds (1)
ASPIRA Youth Leadership Charter School - North	\$ 1,073	\$ 741	\$ 706
ASPIRA Youth Leadership Charter School - South	761	816	688
Coral Reef Montessori Academy Charter School	1,211	862	646
Florida International Academy	890	963	654
Liberty City	1,429	1,420	1,061
MS/Barry University Connected Learning Center	1,505	1,196	918
Pinecrest Preparatory Academy	24	24	
Rosa Parks Community School	689	562	394
Ryder Elementary Charter School	2,713	2,444	1,809
Spiral Tech Elementary Charter School	726	829	607
The Doral Academy	3,873	5,385	3,040
Techworld (2)			
The Mater Center School	3,900	4,635	3,185
Youth Co-op Charter School	2,177	1,443	1,354
<b>Total</b>	<b>\$20,971</b>	<b>\$21,320</b>	<b>\$15,062</b>

**Note (1):** Pass-through amounts represent District funding of charter schools pursuant to law, which is based on FTE membership.

**Note (2):** Techworld closed in January 2001.

Source: Comprehensive Annual Financial Report, Charter School Audited Financial Statements and Office of Budget and Management. Differences are due to rounding.

## Recommendation

- We recommend that the District comply with the requirements related to annual audits of the school internal funds.

Action Plan 14-1 provides the steps needed to implement this recommendation.

### Action Plan 14-1

<b>Perform Annual Audits of All School Internal Funds and on a Timely Basis</b>	
Strategy	Accomplish annual audits of all school internal funds as required by State statutes and rules.
Action Needed	<p>Step 1: Ascertain the number of hours required to complete school internal funds on an annual basis.</p> <p>Step 2: Develop audit plan that devotes the required audit resources to accomplish audits on an annual basis.</p> <p>Step 3: Present audit plan to an audit committee for approval.</p> <p>Step 4: Execute approved audit plan.</p>
Who is Responsible	Chief auditor
Time Frame	June 30, 2003
Fiscal Impact	This recommendation can be implemented with existing resources.

Source: Berkshire Advisors, Inc.

## Asset Management

### Background

Effective management of and accounting for fixed assets<sup>7</sup> is extremely important in a District as large as the Miami-Dade County School District because the value of the fixed assets owned by the District is enormous. As Exhibit 14-15 shows, the District's general fixed asset group is not only quite large (exceeding \$3.2 billion in fiscal year 2000-01), but is also growing. The value of each asset group increased significantly between fiscal years 2001 and 1999 with an overall increase in asset value during this period of 13.6 percent.

### Exhibit 14-15

#### Three Year Summary of Fixed Assets (in thousands)

Category	2000-01	1999-00	1998-99
Land	\$ 156,080	\$ 140,380	\$ 125,005
Building and Improvements	2,159,063	2,066,629	1,978,702
Furniture / Fixture / Equipment	319,885	295,167	277,686
Motor Vehicle	109,534	102,393	94,550
Construction In-Progress	542,996	458,495	417,345
<b>Total</b>	<b>\$3,287,558</b>	<b>\$3,063,064</b>	<b>\$2,893,288</b>

Source: Comprehensive Annual Financial Report.

<sup>7</sup> Section 274.02, Florida Statutes and Chapter 10.400 of the Rules of the Auditor General require that property of a "non-consumable nature" with a value of \$750 or more and a normal expected life of "one year or more" be capitalized and recorded as a fixed asset in the accounting system.

Fixed assets are used in business operations over a relatively long period of time and are not expected to be sold and converted into cash or consumed during the operating period as are inventories and supplies. In addition, to the extent feasible, each fixed asset item is tagged as being the property of the Miami-Dade County School District. Tagging items helps to ensure they are appropriately identified as District owned and recorded assets, and also serves as a deterrent to theft and use of fixed assets for personal use.

## **5 The District does an effective job of segregating responsibility for the custody of capital assets from the responsibility for recording capital assets.**

### **Responsibilities for initiating, evaluating, and approving capital asset transactions are segregated from responsibilities for project accounting, property records, general ledger, and custodial functions**

Responsibility for initiating, evaluating, and approving capital asset transactions should be segregated from the responsibility for project accounting, maintaining property records, recording transactions in the general ledger, and performing custodial functions (such as maintaining physical custody and tagging of assets). If a single person (or organizational unit) were responsible for each of these activities, the risk of malfeasance would increase because no checks would be in place to prevent an individual from, for example, approving the purchase and payment for a capital asset despite the fact the asset was never received.

The District currently does an effective job of ensuring that the responsibility for initiating, evaluating, and approving capital asset transactions are segregated from the responsibility for project accounting, property records, general ledger, and custodial functions. Responsibility for each of these activities is assigned to a distinct organizational unit.

**Initiating the purchase of capital assets.** Purchases of capital assets are initiated by principals, department heads, or the managers of other departments or offices within the District. These managers and administrators prepare purchase requisitions requesting that a capital item be acquired.

**Approving the purchase of capital assets.** Purchase order requests, initiated at the school or department level, must be properly approved by an authorized administrator or their designee. For capital expenditures associated with buildings and major capital improvements, administrators in the Office of Facilities Planning and Construction are required to evaluate expenditures to ensure they are consistent with the District's five-year capital plan.<sup>8</sup>

**Maintaining property records and recording purchase transactions.** The Division of General Accounting's Property Control section is responsible for maintaining all property records and for recording the purchase of capital equipment. The section is also responsible for the accuracy of the detailed property records in the property management system and for ensuring these records are updated in a timely manner.

**Performing custodial functions.** The Bureau of Procurement and Materials Management's Office of Stores and Mail Distribution is responsible for tagging all capital items with a barcode to ensure proper tracking and effective monitoring in the property management system. In addition, the staff is also responsible for transferring and retiring property, including the disposal of surplus property. School principals and department administrators, or their designees, serve as custodians for capital items and are responsible for safeguarding these assets.

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<sup>8</sup> The District's five-year capital plan, and any amendments to this plan, must be approved by the school board. In addition, the plan is reviewed to ensure it is consistent with Florida Department of Education guidelines.

**Completing physical inventories.** The Office of Management and Compliance Audits (OMCA) annually conducts a count of the District's capital assets and compares the information with department records. OMCA also conducts analyses of property reported lost or stolen.

**General ledger accounting.** The Office of General Accounting's Operational Accounting Unit prepares all journal entries associated with recording capital assets in the general ledger.

**Project accounting.** Project accounting is performed by the Office of Facilities Planning and Construction. This office accounts for both the internal and external costs associated with capital construction and improvement projects. At year end, an accountant from the Office of General Accounting reviews and reconciles project accounting information provided by the Office of Facilities Planning and Construction and, as necessary, prepares appropriate adjustments to the general accounting records.

## **The District performs annual inventory of all property**

Rules mandated by the Auditor General require that school Districts annually conduct an independent inventory of property. As discussed, the District's Office of Management and Compliance Audits (OMCA) has been charged with completing these annual physical inventory counts. For the fiscal year ended June 30, 2001, OMCA property audit staff expended 1,660 days to complete the physical inventory counts. The property audit staff consists of one supervisor and seven property auditors whose primary purpose is to inventory personal property of the school system and perform test counts of the inventories maintained by the Departments of Transportation, Maintenance, Food and Nutrition, and Stores and Mail Distribution. Based on a review of June 30, 2001, financial information and discussions with District staff, the District expended \$369,415 for salary and related fringe benefit costs associated with the seven property auditor positions.

The District does a credible job of meeting the Auditor General requirement that all physical inventories be counted. During fiscal year 2000-2001, OMCA performed physical inventory counts at 497 work locations and inventoried approximately \$400 million in District property. Physical inventories were not taken at 20 locations which have \$16 million of property recorded due to various reasons such as consideration of the disruption of the operating schedule of the location. It is estimated that 176,000 items were to be inventoried for the 2000-2001 fiscal year.

When viewed from the perspective of the percentage of the total work performed, the District's performance is certainly not deficient – inventories were conducted at 96 percent of the District's 517 work locations, and property accounting for 96 percent of the total value of recorded inventory was counted. The audit results indicated that 0.2 percent of total audited property costs were unaccounted for. When it comes to inventorying tangible personal property, it is extremely important that all District property be accounted for. Tangible personal property is susceptible to theft and misuse. One important way to discourage misuse and theft is to monitor and maintain appropriate accountability for these assets.

In an effort to decrease costs and increase efficiency and accuracy, many organizations retain professional inventory specialists. At reasonable prices, these firms perform tasks such as physical inventory counts, inventory assignment, bar code scanning, price audits, asset inventories, and capture data by UPC/SKU. As well as being convenient, outsourcing of the inventory count function can potentially increase the accuracy, timeliness, and reliability of inventory count data. Experienced professionals utilize state of the art technology to count, process, and deliver inventory results in a timely and efficient manner while maintaining data integrity via secured transmissions. Discussions with inventory count service providers revealed a reasonable price structure and national experience in performing services for school Districts. The average cost of performing inventory count services was quoted at \$2 per unit counted. Based on the number of items counted in the fiscal year 2000-01 inventory count, Berkshire Advisors, Inc. estimated the cost of outsourcing the inventory counts performed by OMCA at \$352,194 per year. Even though the estimated cost of outsourcing the inventory count function is marginally lower than the estimated salary and fringe benefits incurred by OMCA, additional factors such as travel, supplies, and other overhead costs as well as feasibility, scheduling, reporting, investigation, and reconciling issues must be considered in order to determine the appropriateness of outsourcing the inventory count function for the District.

## **6 The District has established and implemented procedures that provide for the effective control of asset acquisitions.**

### **All key elements needed to ensure the effective control of asset acquisitions are in place in the Miami-Dade County School District**

A number of elements must be in place to ensure effective control of asset acquisitions:

- Authority for initiating capital asset transactions must be appropriately defined.
- An effective process for acquiring, receiving, and paying for items must be established.
- Budgets must be prepared to guide overall asset acquisition decisions.
- Procedures must be in place for appropriately accounting for purchased items.

In the Miami-Dade County School District, each of these key elements is in place and working effectively.

**Authorizing capital asset transactions.** The District has clearly identified the individuals authorized to initiate capital asset transactions, and their authorization levels have been clearly defined. Under board policy, the superintendent or his/her designee(s) are authorized to approve or reject purchase requisitions for supplies, equipment, and services not to exceed \$10,000. Under the prior superintendent, all administrators or department heads were authorized to approve expenditures of up to \$10,000. Other positions are allowed to initiate transactions, but the transactions are not processed until appropriate approval has been received.

Authority for approving capital transactions have been seamlessly integrated into the District's accounting system. Through the use of security access codes, authorized personnel can initiate transactions, including purchase requisitions, purchase orders, and approval of expenditures. Once a purchase requisition has been properly authorized at a work location, it is electronically routed for approval based on dollar thresholds. The Procurement Management System converts the requisition to a purchase order only after final approval has been received.

**Acquiring, receiving, and paying for items.** The District has also established effective procedures for acquiring, receiving, and paying for items. In the current system, an individual work location is responsible for receiving items and checking the order to ensure the requested items have been provided. Authorized individuals at the work location then confirm receipt (this is usually done on-line), and the Accounts Payable Department processes the vendor payment. As the last stage in this process, the Treasury Management Department distributes authorized payments. Segregating responsibility for acquiring, receiving, and paying for items in this way – individuals from at least three distinct organizational units involved in each transaction – helps to ensure the integrity of the process.

**Budgeting.** The District has also established an effective capital budgeting process. To ensure that a range of perspectives is reflected when developing capital budgets, a number of departments are involved in the process including Facilities Planning and Construction, School Operations, and Financial Affairs. (However, responsibility for establishing initial equipment budgets, informing appropriate personnel of budgets for new facilities, and establishing timetables to ensure that the appropriate furniture, fixtures, and equipment are received in a timely manner rests solely with the Facilities Planning and Construction Department.) In addition, before the capital budget is ultimately submitted to the board for approval, it is reviewed by deputy level superintendents and several construction committees. If, after the capital budget is approved modifications must be made, budget resolutions must be prepared and approved by the board.

**Accounting and control.** All budgets, including capital and grant budgets are maintained, in total, in the general ledger. In addition, expenditures are controlled by a requisition control system which has been designed to prevent encumbrances (purchases for which payments have not been generated) and/or expenditures from being processed if



sufficient funding is not available or the item has not been budgeted. The accounting system serves as a check to prevent the acquisition of items for which there is insufficient funding or which have not been budgeted.

## **7 Although the District maintains records that can be used to develop project costs and other project related data, the process for doing so is cumbersome and compromises the accuracy and timeliness of reporting.**

### **The current process for developing reports summarizing project costs and other relevant data is extremely cumbersome and time consuming**

The District's systems for accounting for and reporting project costs and other project-related costs are not adequate to meet the needs of a District as large and complex as the Miami-Dade County School District. The process currently used to develop project-related summaries is cumbersome, labor intensive, and includes practices which increase the likelihood that inaccurate information will be reported. In addition, because it takes so long to assemble project related information, this information is not consistently included as part of District financial reports. For example, the current system is not capable of segregating completed costs vs. in-progress costs for locations with multiple projects. This resulted in the reporting of in-progress costs for three locations as part of completed projects in the District's June 30, 2001, financial statements.

The problems associated with the current process can be divided into three broad categories: project accounting; reconciliations, and year-end financial reporting. A discussion of each of these problem areas follows.

**Project accounting.** The core problem the District faces in accounting for project related activities stems from the fact that the primary tool that is currently used to accumulate costs in the District is its general ledger, yet the existing general ledger does not facilitate the analysis of information on a project basis. At present, the general ledger the District uses is designed to accumulate costs according to a specific chart of account structure. This structure identifies where the expenditures will be charged and includes information and accumulates costs according to fund, object, location, program and function. However, the existing accounting system does not include sufficient account code information to accumulate costs on a project by project basis. Rather, all account code information for a given location is summarized in a single line on the general ledger. Consequently, if more than one project is being undertaken at a single location, it is a very laborious process to determine how costs should be allocated among these projects. For example, if two construction projects are being completed at a given location, each of which require expenditures for architectural fees; the current accounting system will sum these expenditures in a single line item in the general ledger. There is no way, simply by reviewing the general ledger, to determine what portion of these expenditures should be allocated to each project.

The Department of Facilities Planning and Construction, which is responsible for maintaining construction project accounting records, has taken steps to overcome the limitations of the current general ledger accounting system in accounting for project costs at locations where more than one project is undertaken. Specifically, the department has developed a stand-alone database to accumulate construction project costs. Project related information such as vendor name, purchase order number, amount, and description are downloaded from the general ledger into the database (an Excel spreadsheet). This spreadsheet, which can be sorted by numerous data fields, is then used to accumulate costs on a life-to-date basis for individual projects.

A significant amount of time-consuming data manipulation is required before the information downloaded from the general ledger into this database can be used to track costs on a project by project basis<sup>9</sup>. Indeed, before the downloaded information can be used to track project costs, Facilities Planning and Construction Department staff

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<sup>9</sup> Facilities Planning and Construction is currently evaluating the purchase of new automated project tracking software which will address the problem of accumulating and tracking project costs.

## Cost Control Systems

must manually assign the appropriate project number and other information (for example project description and status) to each downloaded transaction. In determining what modifications to make to the database, department staff rely both on their knowledge of individual projects and on budget control reports. In particular, department staff uses the “Capital Outlay Budget Control Report 7” to help determine how to allocate expenditures among projects (the Capital Outlay Budget Control Report 7, which is generated by the general ledger system, identifies the total amount of commitments and available funds for specific programs). Needless to say, this is an imprecise process and one that is very time consuming. (Department staff report that it can take up to 8 – 16 hours to update the database for only one moderately complicated project).<sup>10</sup>

**Reconciliations.** The process for reconciling the project accounting information in the database to the general ledger is also cumbersome and time consuming. At present, this reconciliation is performed using a “Project Life Reporting System – Carmen B” report. This report, which is generated by the general ledger accounting system, details program, location, object, function, and expenditures. Facilities Planning and Construction staff use this report to ensure that the information recorded in the data base, when sorted at the program level, is the same as the information from the general ledger. Manually comparing the Carmen B report with information from the data base is not only time consuming, but when problems are identified, determining the cause of the problem can be an extremely tedious process (for example determining whether the database includes the same information as is detailed in the accounting system at a specific point in time).

**Year-end financial reporting.** Maintaining project accounting information in a database that is independent of the general ledger accounting system also complicates the accurate reporting of year-end financial information. Currently, at the end of each fiscal year, Facilities Planning and Construction Department staff provides the accounting department with a listing of completed projects by location, and the accounting department staff uses this information to transfer information on completed construction costs to the appropriate general ledger accounts. Accounting personnel also use this listing to determine the work locations at which multiple projects have been undertaken. After locations with multiple projects have been identified, accounting staff ask Facilities Planning and Construction Department staff to provide information regarding the costs, by functional expense, of all completed and in-progress projects. The accounting staff then uses this information to prepare a journal entry to reclassify costs related to completed projects out of construction-in-progress at end of year.

This process has a number of shortcomings. First, there is a potential that accounting staff will make mistakes as they manually enter information provided by the Facilities Planning and Construction Department into their accounting systems. In addition, because accounting staff do not independently verify the accuracy of the information provided by the Facilities Planning and Construction Department, there is currently no independent confirmation that the project information includes all costs and expenditures associated with construction projects. Moreover, information on construction in-progress is not always communicated to the accounting department in a timely manner.

## Recommendation

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- *We recommend that the District implement its plan to purchase project-tracking software to better track and accumulate project costs. The project tracking software, whether developed in-house or purchased from a vendor, must interface with the District’s general ledger system in order to provide reliable and accurate financial information in a timely and efficient manner.*

Action Plan 14-2 provides the steps needed to implement this recommendation.

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<sup>10</sup> It is worth noting that at the same time Facilities Planning and Construction Department staff modifies this database, they also review the downloaded information to ensure that the expenditures are proper and valid capital expenditures, and that they have been properly coded.

**Action Plan 14-2**

<b>Implement the District’s Plan to Purchase Project Tracking Software</b>	
Strategy	Implement the District’s plan to purchase and install project-tracking software that will accumulate life-to-date project costs and detail expenditure and budget information on a functional basis.
Action Needed	Step 1: Identify and define user requirements for project-tracking software. Step 2: Coordinate the feasibility of using software-tracking packages currently utilized by other departments in the District. Step 3: Procure software based on most responsive provider of District needs. Step 4: Install and implement the project tracking software.
Who is Responsible	Chief Facilities Officer – construction, Chief Financial Officer, Chief Technology Officer, and the Controller
Time Frame	June 30, 2002
Fiscal Impact	Currently, the District is conducting a feasibility study on the needs of Capital Construction and Financial Management. Once completed, a cost benefit analysis will be conducted and a determination made as to whether to develop an in-house program that interfaces with the current general ledger system or to retain an outside vendor.

Source: Berkshire Advisors, Inc.

## **8 With one exception, the District ensures adequate accountability for capitalized assets.**

### **The District has established key features for an effective system that ensures the accountability of capitalized assets are in place in the Miami-Dade County School District**

Ensuring adequate accountability for capitalized assets requires a number of key elements including the following:

- Well established definitions for the capitalization of assets
- Clearly assigned responsibility for the custody of assets
- Accurate property records
- Appropriate policies and procedures

Each of these key elements of an effective system for ensuring the accountability of capital assets is currently in place in the Miami-Dade County School District.

**Appropriate definitions of capital assets.** The District’s definition of capital assets, as established by Board Rule Gx13-30-1.05, conforms to the requirements of State law and rules promulgated by the Auditor General. In accordance with Section 274.02, Florida Statutes, and Chapter 10.400 of the Rules of the Auditor General, capital assets in the District is defined as property of the “non-consumable nature, the value of which is \$750 or more, and a normal expected life of one year or more.”

**Custody of capital assets.** Responsibility for the custody of capital assets is well defined in the Miami-Dade County School District. Board policy 6Gx 13-2C-1.04 specifically places accountability for each capitalized asset assigned to a school or department with the school principal or the department’s administrative head. According to

## *Cost Control Systems*

board policy, the principal and /or the administrative heads are responsible and accountable for all property and must ensure that effective controls are in place to effectively safeguard the assets.

**Accurate property records.** The District maintains detailed records of all self-constructed, purchased, donated, or leased assets<sup>11</sup>; and has also established procedures to ensure that these records remain accurate and current. When new acquisitions are received at a central location, information about the item is directly entered into the property record system from the initial purchase order and the Financial Affairs Department's Stores and Mail Distribution unit delivery ticket. For items not delivered to a central location, information on the item is collected using an "Incoming Controlled Equipment" form. All locations are required to complete these forms and transmit them to the Property Control Section. The same procedures are followed regardless of whether items are received from donations, the Division of Federal Surplus Property, or from suppliers of goods purchased with District funds.

**Policies and procedures.** The District has established a number of policies and procedures to ensure accountability for capital assets. For example, the District has established procedures to properly distinguish between capital project fund expenditures and operating budget expenditures. (All capital project fund expenditures are delineated by fund group 0300 while operating budget expenditures are delineated by fund group 0100.) In addition, specific object code numbers have been established for operating budget expenditures that should be capitalized and for capital leases. Procedures have also been established that require the Property Control Section to reconcile, on a quarterly basis, the property records and the general ledger in order to ensure the proper recording of capitalized assets.

### **The District does not perform periodic inventories of documents evidencing property rights**

Documents such as leases and deeds are essential because they provide evidence of property rights. As appropriate, these documents are currently maintained in centralized locations and are readily accessible for review. (Capital lease documents are maintained by the Property Control Section and deeds are kept by the Department of Capital Construction.) In addition, in fiscal year 2002, the District will develop procedures to balance deeds and leases to the general ledger on a quarterly basis. However, a review of procedures, a review of the procedures manual, and discussions with the property accounting coordinator indicated a periodic inventory of these documents is not performed. Performing such inventories is important because without balancing the property records to the general ledger, the District is not able to ensure that all District-owned property has been properly identified and recorded in the accounting records.

## ***Recommendation***

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- *We recommend that the District develop and document the critical processes necessary to properly inventory documents evidencing property rights.*

Action Plan 14-3 provides the steps needed to implement this recommendation

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<sup>11</sup> These records are maintained by the Division of General Accounting's Property Control Section.

**Action Plan 14-3**

<b>Inventory Documents Evidencing Property Rights</b>	
Strategy	Develop and document the critical processes necessary to inventory documents that evidence property rights.
Action Needed	<p>Step 1: Ascertain existing informal procedures for conducting inventories of documents evidencing property rights.</p> <p>Step 2: Ascertain the feasibility and appropriateness of existing procedures and develop and modify critical processes as necessary.</p> <p>Step 3: Assign the responsibility of developing formal procedures to the controller or another senior member of the administrative staff that reports to the controller.</p>
Who is Responsible	Controller and the Office of Management and Compliance Audits
Time Frame	December 31, 2002
Fiscal Impact	This recommendation can be implemented with existing resources.

Source: Berkshire Advisors, Inc.

## 9 The District has established policies and procedures to safeguard most assets from unauthorized use, theft, and physical damage.

### The District has established a number of effective policies and procedures to safeguard capital assets

One of the most effective ways to safeguard an organization’s capital assets is to maintain “constant vigilance” in tracking where those assets are located. If the theft or misuse of capital assets is not detected in a timely manner, chances are that instances of theft or misuse will proliferate. On the other hand, early detection serves as a deterrent to additional theft and misuse. The Miami-Dade County School District has established a number of policies and practices to maintain tight control over the District’s capital assets:

- Detailed property records are reconciled to the general ledger in a timely manner.
- Equipment is properly identified.
- Missing property reports are presented to the board in a timely manner.
- Procedures for the disposal of most District property are in place.

A discussion of each of these features of the District’s approach to safeguarding capital assets follows.

**Detailed property records are reconciled to the general ledger in a timely manner.** The Division of General Accounting’s Property Control Section performs quarterly reconciliations of the property management system to the general ledger. As part of this process, a physical inventory of items listed in the general ledger is performed and any discrepancies between physical inventory counts and the information recorded in the general ledger are accounted for. Performing this reconciliation on a quarterly basis ensures that errors and irregularities will be detected in a timely manner.

**Equipment is properly identified.** In accordance with Chapters 10.400 of Rules of the Auditor General, all District property is clearly and permanently marked with an identification number and the District’s name by the Stores and Mail Distribution unit. The District also affixes a white vinyl barcode decal to all property and, if possible, the property is engraved or marked with permanent ink.

## *Cost Control Systems*

Effective procedures have been established to ensure regulations relating to the marking of equipment are complied with. For items that are delivered through the Stores and Mail Distribution warehouse, the decal is attached to the property before it is released from the warehouse. For items that are shipped directly to a work location, a property tagging clerk from the Stores and Mail Distribution warehouse will be dispatched to the work location after notification of delivery has been received from the work site.

**Missing property reports are presented to the board in a timely manner.** Each quarter, the District prepares non-expendable personal property inventory reports for the board's review and approval. These reports, which provide information on inventory deletions and recoveries, present detail on the number and value of items in a number of categories including: trade-ins/disposals; items listed as missing on Plant Security reports; and shortages identified when conducting physical inventories. In addition, these reports provide the board with summary and detail information, by location, for each asset including acquisition date, serial number, account structure, description, and cost and asset number. Providing this information to the board shines a spotlight on areas where theft or loss of property is high and increases pressure on District staff to redouble their efforts to protect District property.

**Procedures for the disposal of District property are in place.** Procedures for the disposal of most District property are well established. The District's manual on Property Control documents the procedures that should be followed when identifying, collecting, and disposing of surplus or obsolete equipment. A special form - the "Preparation of Outgoing Controlled Equipment" form - is used to document that these procedures have been followed.

In addition, responsibilities for the disposal of property have been well defined. Staff assigned to the Stores and Mail Distribution unit is responsible for collecting and storing all surplus equipment until the board approves its disposition. In turn, the Property Control Section's staff input, on a daily basis, all retirements, sales, or transfers of capital assets into the property management system.

## **Procedures governing the disposition of grant-funded property are in place**

Having well defined procedures for the disposition of grant-funded property is important for a number of reasons. Unlike property that has been purchased solely with District monies, title to property purchased with grant funds may vary depending on the grant. If the District disposes of property that another entity (e.g., the grantor) has title to, legal problems may be created. In addition, grant providers may require the District to verify that assets were used in the manner specified in the grant before they are disposed. Likewise, grant providers may place restrictions on and require prior approval before grant-funded property is sold.

Clearly, there are many complications associated with the disposition of grant-funded property, and well-defined procedures are needed to ensure this property is disposed of appropriately. The District's manual on property control procedures details how the disposition of assets acquired with grant funds should be handled. Specific procedures are addressed, with regard to how to appropriately dispose of grant-funded assets in accordance with applicable laws and regulations, how to ensure the proper classification of disposed equipment, and how to properly reflect the disposition of grant-funded equipment in accounting records. The District has the ability to identify grant-funded assets. Discussions with property control personnel and review of related procedures manuals indicate that equipment purchased with grant funds are currently identified in the property management system by specific fund numbers.

# *Inventory Management*

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## **Background**

The five departments that are currently responsible for inventory management in the Miami-Dade School System manage and account for inventory in a variety of ways.

- **Food and Nutrition.** Food and Nutrition inventories primarily consist of federally-donated commodity food supplies and the remainder of the inventory is District-purchased food and supplies. Canned goods and supplies are stored at the Stores and Mail Distribution warehouse (S&D), and the balance of the inventory is stored at a contracted warehouse. Food is distributed to the schools in a variety of methods including a) bid-purchased items delivered directly to the schools, b) perishable items ordered and delivered as necessary, and c) canned foods, frozen foods, and refrigerated foods delivered to the schools. The Department of Food and Nutrition maintains inventory records for purchased food and commodities. This department is in the process of developing a school based perpetual inventory system to replace the automated perpetual inventory system maintained at a contracted warehouse for recording bulk commodities.
- **Transportation.** The District operates a fleet of over 1,815 buses, and more than 1,990 vehicles such as trucks, cars, and other vehicles. In order to adequately service these vehicles, the District maintains inventories of replacement parts, oil, tires, and fuel. The Department of Transportation uses an on-line inventory/work order system (COMPASS) that encompasses inventory control, cycle counts, purchasing, work order cost control, and maintenance planning and scheduling.
- **Maintenance Materials Management.** The inventory of the Maintenance Material Management Department is comprised of parts, materials, and equipment needed to facilitate routine improvements and maintenance at the District's many buildings, schools and facilities. The inventory is located at various satellite warehouses in order to accommodate the timely and efficient distribution of materials to employees responsible for performing maintenance in the regions. The Department of Maintenance Materials Management also uses the online COMPASS inventory/work order system.
- **Stores and Mail Distribution.** The District's Stores and Mail Distribution unit is responsible for maintaining the inventory for such items as some bulk teacher and custodial supplies, equipment for schools, food service supplies, and a select few office supplies. Additionally, the unit is also responsible for storing large purchases of equipment and supplies needed to furnish newly constructed or renovated schools. These items, however, are not included in inventory. The Financial Affairs Department's Stores and Mail Distribution unit uses an on-line inventory system that uses the weighted average inventory valuation method.
- **Textbook Inventory Services.** Textbook Inventory Services, a unit of Stores and Mail Distribution, coordinates the purchase of textbooks and other educational materials with the schools and the Florida State Book Depository. Because textbooks are ordered in advance of the upcoming school year to satisfy the District's goal of textbooks in hand on the first day of school, the Financial Affairs Department's Textbook Inventory Services unit, a unit of Stores and Mail Distribution, does not maintain perpetual inventory records. The textbooks, which are distributed to the schools, are carried as inventory at fiscal year end for financial statement reporting purposes.

As Exhibit 14-16 indicates, except for Textbook Inventory Services, the value of the inventories maintained by each department has declined in recent years. The increase in the value of textbook inventories in fiscal year 2000-01 over prior years, results from the District taking advantage of new Florida laws that allow for an earlier purchase date for textbooks that will be used in the following year. As a result, more textbooks were on hand at June 30, 2001.

**Exhibit 14-16**

**Three Year Summary of Inventories (in thousands)**

<b>Department</b>	<b>2000-01</b>	<b>1999-00</b>	<b>1998-99</b>
Food and Nutrition	\$ 2,812,409	\$ 3,035,228	\$ 5,346,835
Transportation	962,110	975,986	840,637
Maintenance Material Management	2,971,248	3,008,596	2,755,192
Stores and Mail Distribution	2,875,995	2,931,254	3,784,124
Textbook Inventory Services	13,613,059	4,721,396	2,613,676
<b>Total</b>	<b>\$23,234,821</b>	<b>\$14,672,460</b>	<b>\$15,340,464</b>

Source: Audits of inventories for fiscal years 2001-1999 - Office of Management and Compliance Audits.

## *Cost Control Systems*

Over the years, the District has maintained its central warehouse facilities and worked to better manage its warehousing operations. Its objectives have been to increase efficiency of operations, timeliness of school deliveries and maintenance of adequate inventory levels. To complement this endeavor, the District implemented a pilot Procurement Card Program (P-card) in 1997. In realizing the potential for increased efficiency and cost savings, the District fully phased in and distributed P-cards to over 400 schools and departments by the end of fiscal year 1999-00. As a result, supplies and equipment costing less than \$750 could be purchased directly at the school and department levels; therefore reducing the need and costs of carrying these types of items in inventory. In addition, in an effort to reduce the number of stock items carried in the warehouses, the District targeted certain stock items, including office supplies, for deletion in fiscal year 1995-96. Over 326 stock items were eliminated from the Stores and Mail Distribution inventory upon exhaustion of the existing stock. Currently, the District's Stores and Mail Distribution warehouse maintains less than 1,330 inventory line items in the warehouse. These items include, but are not limited to, five copier supply items, six office supply items, 96 custodial items, and 205 cafeteria type line items. The District indicated that despite the fact that inventory levels have steadily declined during the period, the District has opened 38 new schools and numerous centers in recent years.

Recently, many organizations have been reassessing the need to maintain central warehousing facilities compared to the potential economics of outsourcing warehouse operations to inventory supply companies. Some organizational studies have found that some inventory suppliers can provide services comparable to the central warehouse function at costs equal to or lower than the central warehouse function. The end result, some school Districts have fully eliminated central warehouses and replaced them with inventory supply delivery services for applicable and appropriate items.

## **10 Duties and responsibilities relating to inventory management are appropriately segregated.**

### **Duties and responsibilities for the custody of inventories are adequately segregated from responsibility for the recording of inventories**

To minimize the risk of loss and theft, it is important that duties and responsibilities relating to the management of inventories be appropriately segregated. In particular, responsibilities for requisitioning and approving inventory purchases should be segregated from those for accounting for inventories. In addition, responsibility for perpetual inventory accounting should be segregated from those of inventory custody. Finally, responsibility for conducting periodic physical inventories should be assigned to a person with no custodial or record keeping functions.

In Miami-Dade County School District, care has been taken to appropriately segregate responsibilities in each of the five departments responsible for maintaining inventories. As Exhibit 14-17 shows, responsibility for requisitioning inventory purchases in each department is separate from the responsibility for accounting and custodial functions.



**Exhibit 14-17**

**Segregation of Duties for Inventory Management**

<b>Department</b>	<b>Requisitioning Authority</b>	<b>Accounting Responsibility</b>	<b>Custodial Responsibility</b>
• Food and Nutrition	• School Sites	• Budget Analyst	• Warehouse Coordinator
• Transportation	• Service IV-Material Handler	• Administrative Assistant III	• Special Parts Inventory Specialist
• Maintenance Material Management	• Inventory Control Coordinator	• Supervisor	• Warehouse Coordinator
• Stores and Mail Distribution	• Inventory Control Coordinator	• Supervisor	• Warehouse Coordinator
• Textbook Inventory Services	• School Sites	• Supervisor-Stores & Mail Distribution	• Warehouse Coordinator - Stores and Mail Distribution

Source: Discussions with management and observations.

In addition, in the four departments where perpetual inventory accounting<sup>12</sup> is currently performed (Food and Nutrition, Transportation, Maintenance Material Management and Stores and Mail Distribution), responsibility for perpetual inventory accounting is segregated from those for inventory custody. (In Textbook Inventory Services, a method other than perpetual inventory accounting is used for textbooks at year-end.<sup>13</sup>) In Food and Nutrition, responsibility for perpetual inventory accounting is assigned to a budget analyst, while responsibility for inventory custody is assigned to the warehouse coordinator. Likewise, in Transportation, the administrative assistant II is responsible for perpetual inventory accounting, while the special parts inventory specialist is responsible for inventory custody. In the same way, in Maintenance Materials Management and Stores and Mail Distribution, the supervisor is responsible for perpetual inventory accounting while the warehouse coordinator is responsible for inventory custody.

Finally, in each department, staff that conducts the periodic physical inventory counts has no custodial or record keeping duties. Periodic physical inventory counts are currently performed by material handlers in Transportation, and warehousemen in the Food and Nutrition, Maintenance Materials Management, and Stores and Mail Distribution Departments. In each case, the staff does not have custodial or record keeping duties.

It is worth noting that to further safeguard the integrity of physical inventories throughout the District, the Office of Management and Compliance Audits (OMCA) performs periodic reviews of the cycle counts as well as annually audits the inventories for each of the five departments that maintain inventories. During the audit process, the OMCA staff observes physical inventory counts, verifies valuation prices, test counts inventories, and compares the results of the physical inventory with the amounts indicated in the perpetual records and on the financial statements.

<sup>12</sup> Perpetual inventory accounting is an accounting system of accurate, up-to-date records that detail inventory that constitutes a subsidiary ledger that supports the general ledger.

<sup>13</sup> In Textbook Inventory Services, a physical inventory is taken at the end of the year only, while a perpetual inventory accounting system is used in the other departments throughout the year.

# **11** The District has established and implemented effective procedures for ensuring the effective control of inventory requisitions.

## **Appropriate controls are in place to ensure proper inventory requisitioning**

Two primary factors must be considered when developing appropriate controls relating to the requisitioning of inventoried items. First, care must be taken to ensure that the persons who requisition inventory have the authority to do so. In addition, care must be taken to ensure that inventory records are updated to ensure requisitioned items are removed from inventory. In each of the departments that are currently responsible for maintaining inventories, procedures have been established to ensure these controls are in place.

**Food and Nutrition.** Based on meal plans for the year, needed commodities are requisitioned from the Food and Nutrition warehouse, using an on-line computer system, by the individual school sites. This system incorporates on-line security measures to ensure that only authorized individuals can request and approve the requisitioning of items from inventory. To facilitate this process, a written procedures manual has been developed that users can use to guide them through the requisitioning process.

**Transportation.** Transportation has well defined systems and procedures to ensure the proper requisitioning of inventory. Persons requisitioning items use the COMPASS work order system to do so. This system incorporates on-line security measures to ensure that only authorized individuals can request and approve the requisitioning of items from inventory. Authorized requisitions are then used to generate a pick list at the warehouse. The COMPASS system automatically reconciles the inventory balance to reflect the reduction in the warehouse inventory. To facilitate this process, a written procedures manual has been developed that users can use to guide them through the requisitioning process.

**Maintenance Material Management.** The Maintenance Material Management Department also has well defined systems and procedures to ensure the proper requisitioning of inventory. As with Transportation, Maintenance Material Management also uses the COMPASS work order system to requisition items from inventory. The on-line security measures ensure that only authorized items are removed from inventory. Authorized requisitions are used to generate a material issue ticket (MIT) – a document that is used to generate a pick list at the warehouse. The reconciliation of the inventory balance is performed by the COMPASS system. Maintenance Material Management also has a procedures manual to guide users through the requisitioning process.

**Stores and Mail Distribution.** The on-line inventory system that is used by the Stores and Mail Distribution unit automates the creation of requisitions for requesting goods from inventory. After the user has created the requisition, the system automatically routes it to the appropriate manager for approval. The requisition is then routed to the Stores and Mail Distribution unit and delivery tickets are printed or, if the item is not in stock, it is back ordered. Reductions in inventory balances are then reconciled with inventory balances using on-line transaction journal files. As with Maintenance Material Management, the Stores and Mail Distribution unit has developed written procedures to guide users through the requisitioning process.

**Textbook Inventory Services.** Each school site is responsible for requesting, on-line, the textbooks needed at the school locations using the Textbook Ordering System. Textbook Inventory Services is responsible for compiling the District wide textbook orders, reviewing the requisitions for accuracy, and ensuring availability of funds. Textbook orders are submitted electronically to the Florida School Book Depository.

## **12** The District has established adequate controls to provide for inventory accountability and to safeguard inventory.

### **Secured facilities are used to safeguard inventories**

All District inventory facilities are protected by alarm systems and employees are required to wear identification badges. Visitors, who must be escorted while at a warehouse site, are required to sign into each facility. However, during the site visits at the Food and Nutrition facilities, it was noted that non-food service personnel could access storage areas. Guard service is provided at the warehouses, including twenty-four hour guard service at the central warehouse for Stores and Mail Distribution. In addition, all District inventory facilities, except Transportation, are monitored by television, and/or video camera systems.

### **Existing inventories are compared to detailed inventory records, and significant variances between the physical counts and recorded amounts are identified and investigated**

To ensure that items are not being misused or pilfered, it is important that inventory records be compared with the actual inventory in stock on a regular basis. The Transportation, Maintenance Material Management, and Stores and Distribution inventory facilities currently use a cycle-count method to count selected inventory on a daily basis. (Under a cycle-count method, worksheets are generated that detail the selected stock items to be counted by the warehouse staff. The count team performs initial counts, compares the results to inventory records and investigates significant variances, and updates system records as necessary.) Specific guidelines have been established on how to conduct cyclical counts and these procedures serve as a means of documenting and maintaining accountability and efficiency in performing the cycle-count function.

The items to be counted during each cycle count are either automatically generated by the inventory system or are manually selected by the inventory control coordinator. These items are selected to ensure that all items are counted at least two times a year at the central warehouse and that all items are counted four or more times a year at satellite warehouses. If significant variances exist between the physical counts and the recorded quantities, the items are recounted. If the variances remain, the reasons for the variances are investigated.

The cycle-count process, that is used to ensure the accuracy of inventory records, appears to be reasonably effective. The 2000-01 fiscal year internal inventory audits considered the percentage error rates of the test counts for the five inventory types immaterial. The Bureau of Procurement and Material Management has taken steps to improve the accuracy of inventory records by enhancing the cycle-count process and providing additional training to warehouse staff. The success of these efforts is evidenced by the fact that in fiscal years 1999 and 2000, significantly greater variances between recorded and actual inventories were noted during the annual inventory audit.

## **13** While the District has taken some steps to manage inventory costs, opportunities to further reduce costs should be evaluated.

### **The District has taken steps to manage inventory costs**

The District currently takes three approaches to managing the cost of purchasing and inventory costs. These include establishing a procurement card program, monitoring inventory turnover, and managing purchases to attempt to

## Cost Control Systems

ensure that the District can take advantage of purchasing economies such as leveraging its size in negotiating advantageous bulk purchasing agreements.

**Procurement Card Program.** The District has established a Procurement Card Program (P-card) to allow authorized staff to make purchases which are needed for continued operations without undue delay. Under the current program, each participating work location has the authority to purchase authorized materials and supplies costing less than \$750 per purchase. The primary benefit of the P-card program is that it ensures that needed items can be purchased without delay. The program also allows the District to maintain a smaller stock of items in inventory and to reduce the number of and types of items stored (thereby reducing record keeping and administrative costs).

**Monitoring inventory turnover.** Warehouse staff is assigned responsibility for monitoring inventory to determine whether it is cost-effective to maintain an item in stock, to adjust re-order points to reflect an item's slow turnover, and to identify items that are obsolete and should be removed from stock. The budget analyst is responsible for monitoring inventory turnover at Food and Nutrition on a weekly and monthly basis. Similarly, the District director of transportation receives weekly, monthly, and quarterly usage reports to enable the monitoring of inventory turnover. The inventory control coordinator performs this function at the Stores and Materials Distribution warehouse using monthly, yearly, and three-year material usage reports. Maintenance personnel at the Maintenance Material Management warehouse monitor slow moving and outdated items on a semi-annual basis.

**Taking advantage of purchasing economies.** In large part, the items stored in the Stores and Mail Distribution warehouse are high volume supplies and equipment continuously used by schools and departments. The inventory includes teaching supplies (such as art supplies), equipment (such as student desks and chairs), food service supplies (such as paper goods and food trays), office supplies (such as file folders, laminating film, and storage boxes), duplicating supplies (such as standard paper), custodial cleaning supplies, printed forms, and chemicals. The District believes that due to its size, it can take advantage of significant purchasing economies by purchasing these items in bulk. Exhibit 14-18 charts the District's purchase prices of a select few stock items as a result of buying items in bulk vs. the average price paid using the purchasing card in area stores.

### Exhibit 14-18

#### Analysis of Purchase Prices

Stock Item	Description	Unit of Issue	Bulk Price	Average Price	Variance
920-0851	Legal size manila file folder	100/bx, 3 bx/cs	\$15.80/cs	\$19.60/cs	\$3.80
920-3001	18"W1" core laminating film	2 rolls/box	18.96/bx	25.35/bx	6.39
920-6167	22 ring loose-leaf binder	Each	2.96/ea	9.78/ea	6.82
711-0162	8-1/2 x 11 multi-purpose paper	10 reams/case	17.95/cs	18.32/cs	0.37

Source: Bid lists and vendor quotes

The chart highlights that the bulk prices paid by the District are less than the average prices that would be paid using the purchasing card. Even though the per unit cost of an item may be lower when utilizing the warehousing function, it does not necessarily mean that the overall cost of the warehousing function is more economical than next day delivery inventory models. For instance, the per unit cost of an item is not the only variable that needs to be considered when assessing cost efficiencies under the warehousing concept. The overall cost of the warehousing function must also be evaluated. Costs such as staffing and related costs, equipment, facilities, and District overhead costs, to name a few, must be considered.

#### The District does not gather and analyze the information needed to perform a systematic review of inventory costs

Performing an assessment of what items should be purchased and stored in the District's warehouses and then delivered to users, or for what item alternatives to storing the items in inventory should be considered is by no

means a straightforward task. A number of factors (including, but not limited to the following), should be considered in making the assessment:

- **Purchase costs.** The acquisition costs of items may or may not be less if items are purchased in bulk. It is possible for the District to achieve the same cost savings by negotiating a contract with a vendor to “drop ship” items directly to the schools. However, as previously stated, if the individual “drop ship” item prices are greater than bulk purchase rates, the District must also take into consideration additional costs associated with maintaining the warehousing function such as salaries and related benefits, equipment, overhead, facility costs, and delivery costs to name a few.
- **Storage and delivery charges.** The cost to the District of storing and delivering items to schools and other work locations should be compared to the cost of having items delivered directly to the work location by the vendor. When comparing these costs, however, it is important to consider both the fixed and variable costs associated with the inventory function. In addition, the total additional costs associated with “drop shipping” all items for which drop shipping is being considered, must be evaluated when performing this assessment. A vendor might assess a delivery charge for each individual item ordered or for each order placed even though a number of items or orders may typically be delivered to a school or work site at any one time.
- **Costs associated with having District financial resources tied up in inventory.** The overall economic value of the items stored in inventory must also be considered when evaluating alternatives to warehousing. Clearly, the higher the dollar value of the items stored in inventory, the greater the cost (lost interest or interest paid because financial resources are not available) will be in comparison to next day inventory delivery models.
- **Level of service.** The level of service provided by private delivery companies who deliver items to work locations may be different than the level of service provided by District delivery staff. For example, delivery companies (unless they are paid to do otherwise), typically drop items to the main office (or sometimes inside the front entrance). In such cases, school staff must transport items to the appropriate locations within the school. District delivery staff, by contrast, often transports the items to the desired storage location within the school and if necessary, assist in securing large and/or heavy quantities of items.

The District currently lacks the information needed to perform such a comprehensive analysis. Indeed, to the extent activity costing information is currently used by the District, this information is used just to evaluate inventory levels not to assess alternative storage and delivery approaches. The District does not even compare its inventory levels (and items stored) with that of other Districts. While great care must be taken in assessing the implications of such comparisons, collecting information on the experience of other Districts can also be used to identify potential areas for improvement. Realizing the importance of maximizing potential cost savings and efficiencies, the District has indicated that it intends to study the feasibility of alternative inventory services this fiscal year.

## *Recommendation*

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- We recommend that the District research the feasibility of alternative inventory services.

Action Plan 14-4 provides the steps needed to implement this recommendation.

### *Action Plan 14-4*

#### **Alternative Inventory Services**

Strategy	Analyze the costs and benefits of contracting the storage and distribution of supplies by private companies.
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Action Needed	Step 1: Determine the costs associated with maintaining inventories in-house by review and analysis of activity cost reports and all other variables. Step 2: Ascertain the types of inventory related services available in the industry and the costs associated with the services. Step 3: Determine the costs and benefits associated with utilizing alternative inventory management resources. Step 4: Document the results of the study and present the analysis and the recommendations to the superintendent. Step 5: If more beneficial, the associate superintendent of Bureau of Procurement & Materials Management should pursue contracting the storage and distribution of supplies to private companies.
Who is Responsible	Associate Superintendent of Bureau of Procurement & Materials Management
Time Frame	June 30, 2002
Fiscal Impact	This recommendation can be implemented with existing resources.

Source: Berkshire Advisors, Inc.

## ***Risk Management***

### **Background**

The Office of Risk and Benefits Management is responsible for identifying the exposures and risks present in the District operations and designing and implementing risk management techniques that minimize the funds required from the District for costs associated with theft, vandalism, damage to, and destruction of property, bodily injury and errors and omissions, and personal injury claims. The Office oversees a comprehensive benefits program for employees, retirees, and eligible dependents. This benefits program includes life insurance, medical coverage, IRS Section 125 flexible benefits program, administration of federally mandated COBRA benefits, and administration of various collectively bargained retirement incentive programs for retirees. In addition, the Office is responsible for oversight of third-party administrators that assist with the fringe benefit program for employees and retirees and claims management for all workers' compensation, general liability, automobile liability, errors and omissions claims; review of contractual liability issues and monitoring of compliance with insurance requirements in all 1,500 – 2,000 contracts, and the inclusion of appropriate insurance and indemnification language in all contracts, such as contracts for construction, private buses, charter buses, charter schools, and professional services; coordinates efforts with the Fringe Benefit Council, a group comprised of representatives of each employee union and employee association that provides a forum for collective bargaining in matters related to benefits; coordinates efforts of ad-hoc selection committees which are established to review and make recommendations relating to property/ casualty insurance and professional contracts; and ensures that premium payments and reimbursements are appropriate and that the accounting distribution is proper.

The Office of Risk and Benefits Management currently reports to the Deputy Superintendent for Personnel Management and Services<sup>14</sup> and has a staff of 29 employees consisting of 10 administrators and 19 clerical support staff. Representatives from the third-party administrator for the fringe benefits program and the third-party administrator for workers' compensation and general, automobile and errors and omissions liability claims also work closely with Office staff and are located in District offices.

<sup>14</sup> As of February 2002, the Office of Risk and Benefits Management reports to the Chief Financial Officer.

# 14 While the District has a comprehensive approach to managing risks, it does not have an approved disaster recovery plan.

## The District has a comprehensive risk management program

The Miami-Dade County School District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of property; errors and omissions; injuries to employees, and natural disasters. Florida Statutes require the District to carry insurance for protection of the District against exposure to various risks of losses. According to the statutes, the District is authorized to purchase insurance, to be self-insured, to enter risk management programs, or to use a combination of these approaches to meet its risk management needs

The Office of Risk and Benefits Management, which is charged with the management of the risk function and with ensuring compliance with applicable federal, State, District and contractual requirements for insurance coverage, uses a mix of self-insurance and commercial insurance to cost-effectively manage District risks. Review of the District’s needs is an ongoing process between the Office of Risk and Benefits Management and consultants employed by the Office to provide recommendations on the applicability of coverage, availability of coverage, the market regarding the cost of coverage, and reasonable limits of liability for insurance coverage. The District also includes as one of its risk management techniques the avoidance of risk if a decision is made that the risks associated with an activity are too great. When this occurs, changes are made to the program structure to reduce the risks associated with the program. More detailed information on the District’s self-insurance and commercial insurance coverage is presented below.

**Self-insurance.** The District maintains self-insurance programs for workers’ compensation, general liability, automobile liability, and property. Unlike commercial insurance where the insurance providers assume the risk of loss, the establishment of a self-insurance program does not result in a transfer of risk. All risk retained by the District remains with the District and the District is liable for claims incurred. To manage this risk, the District purchases commercial excess or catastrophic coverage. The District maintains excess coverage for workers’ compensation claims in excess of \$500,000. There is also excess coverage for the general and automobile liability claims of \$500,000 per occurrence/\$3,250,000 annual aggregate, subject to a \$100,000 per person/\$200,000 per occurrence self-insured retention. The self-insurance retention for the Errors and Omissions claims is \$200,000 per wrongful act. The District also maintains \$500,000 excess Errors and Omissions coverage. In addition, liability losses are limited by Section 768.28, Florida Statutes, to \$50,000 per defendant/\$100,000 per occurrence for losses occurring prior to October 1, 1981, and \$100,000 per defendant/\$200,000 per occurrence thereafter. This statutory limit, however, is not applicable for suits brought for federal civil rights actions, or suits that petition the statute.

Exhibit 14-19 summarizes the District’s self-insurance programs. As Exhibit 14-19 shows, the District’s estimated liability for pending claims as of June 30, 2001, approaches \$120 million.<sup>15</sup>

### Exhibit 14-19

#### Summary of Self-Insurance Liability and Insurance Risks at June 30, 2001

Type of Self-Insurance Program	Risk Retention/Deductible	Coverage After Retention/Deductible	Estimated Liability for Pending Claims at June 30, 2001, per Actuarial Valuation (Undiscounted)
Workers' Compensation	\$500,000	\$ 1,000,000 Statutory	\$ 93,178,000

<sup>15</sup> This estimate of pending liabilities was actuarially determined and has not been discounted to reflect when payouts are expected to be made.

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Type of Self-Insurance Program	Risk Retention/Deductible	Coverage After Retention/Deductible	Estimated Liability for Pending Claims at June 30, 2001, per Actuarial Valuation (Undiscounted)
General, Fleet Liability, and Errors and Omissions	\$100,000 Per occurrence \$200,000 Aggregate	\$500,000 Per occurrence \$3,250,000 Aggregate	\$22,749,000 General, Errors & Omissions \$4,145,000 Fleet
Property	\$500,000 or 2% of property value for named hurricanes	\$580,000,000 Layered	--- Not applicable
<b>Total</b>			<b>\$120,072,000</b>

Source: Actuarial Valuation and Office of Risk and Benefits Management.

**Commercial insurance.** A summary of the comprehensive commercial insurance coverage that is in force at June 30, 2001, is summarized on Exhibit 14-20 and the estimated annual premiums associated with the coverage. All coverage is obtained through the competitive bid process or by direct negotiation.

**Exhibit 14-20**

**Schedule of Insurance in Force at June 30, 2001 (Unaudited)**

Coverage Type	Retention/Deductible	Limit of Liability	Annual Premium
General Liability/Automobile Liability and School Board; Errors & Omission Liability Insurance including excess \$500,000 for Errors & Omissions	\$100,00 per occurrence/ 0 aggregate for \$200,00 GL/AL; 0 for Errors & \$200,00 Omissions 0	\$500,000 per \$3,250,000 occurrence/ aggregate	\$490,000 Annual \$857,500 21-month premium
Excess Workers' Compensation	\$500,00 0	\$5,000,000 Statutory	\$273,468 (\$0.0185/\$100 payroll)
Property	\$500,00 deductible or 2% 0 of property value for named hurricanes	\$580,000,000	\$12,544,684
Flood	Varies by school	Varies by school	\$2,500,000 approximate
Boiler & Machinery	\$10,000 except refrigeration units \$25,000 with deductible; \$100,00 deductible for 0 wind	\$10,000,00 0	\$75,000
WLRN/Liability Package-General and Business Personal		\$2,000,000 Aggregate \$1,260,000 Property all risk	\$18,476
WLRN/Property- antenna, transmission lines, and dishes		\$5,210,000 (3% wind \$5,000 deductible minimum)	\$234,524
Non-owned Aircraft Liability-bodily injury		\$1,000,000 each person / \$5,000,000 per occurrence	\$7,100



Coverage Type	Retention/Deductible	Limit of Liability	Annual Premium
/property damage (flight training program)			
Superintendent/Business Auto	\$500	\$300,000 CSL	\$3,140
Police Professional Liability		\$5,000,000 per occurrence /aggregate with \$100,000 each wrongful act, including defense	\$74,000
New World School of the Arts		\$1,000,000 aggregate liability and personal property coverage of \$1,219,400	\$16,223
Facilities Use	\$250	\$500,000 aggregate	\$8,025
Blanket Bond	\$5,000	\$4,500,000	\$49,186
Public Official Position Bond		\$5,000,000	\$63,560
Security Officer Bonds		\$5,000	\$3,000
Board Bonds -Chair		\$12,000	\$100
Board Bonds Vice-Chair		\$12,000	\$100
Superintendent's Bond		\$15,000	\$100
Board Member Bond		\$2,000 each	\$335
Catastrophic Athletic Accident	\$25,000	\$5,000,000 with additional \$500,000 catastrophic cash benefit	\$56,614
Accidental Death & Dismemberment for Security Officers		Scheduled pursuant to Section 112.19, F.S.	\$2,937
Board Employee's Life, Health, and Other IRS section 125 Benefits			\$300 per employee /per pay month
Student Accident			Paid by student
Football Accident			Paid by MDCSD

Source: Miami-Dade Office of Risk and Benefits Management.

### **The District does not have an approved comprehensive disaster recovery plan**

The Office of Risk and Benefits Management recently completed a draft of a natural disaster recovery plan that outlines the process that should be followed in preparing and managing recovery activities in the event of a natural disaster. The focus of this plan is to ensure that the District is able to continue its operations should a natural disaster take place. The proposed plan and manual includes information that is required to enhance claims recovery from property insurers and the Federal Emergency Management Agency, and describes the roles and responsibilities of District personnel related to recovery efforts. This plan is currently being reviewed and is expected to be approved by December 31, 2001.

## Recommendation

- *The District should implement a natural disaster recovery plan to ensure continued operations.*

Action Plan 14-5 provides the steps needed to implement this recommendation.

### Action Plan 14-5

<b>Implement a Natural Disaster Recovery Plan</b>	
Strategy	Implement a comprehensive natural disaster recovery plan.
Action Needed	<p>Step 1: Review of the draft of the comprehensive natural disaster recovery plan developed by the Office of Risk and Benefits Management for completeness.</p> <p>Step 2: Obtain appropriate review of the plan and approval by deputy superintendent, superintendent and the board.</p> <p>Step 3: Disseminate approved plan.</p> <p>Step 4: Provide review or training for the appropriate District personnel.</p>
Who is Responsible	Administrative Director, Office of Risk and Benefits Management
Time Frame	As soon as possible
Fiscal Impact	This recommendation can be implemented with existing resources.

Source: Berkshire Advisors, Inc.

## 15 While not fully documented, the District has effective policies and procedures for purchasing and reviewing insurance coverage.

### Although not fully documented, the District has established comprehensive policies and procedures relating to purchasing and reviewing insurance coverage

The Office of Risk and Benefits Management has developed comprehensive policies and procedures relating to the purchase and review of insurance coverage. These policies and procedures have been established to ensure that the District's insurance/benefit programs comply with Florida Statutes, State Board Rules, Board Rules, federal laws and/or contractual requirements related to union agreements. In addition, the District has established procedures to determine the amount due to insurance vendors or service providers and uses these procedures to ensure that only appropriate amounts are remitted to these vendors. To facilitate this process for group coverage, reports are generated from the payroll/personnel system which are used as the basis for determining the amounts due to insurance providers. These reports provide information on any adjustments required for employees that are terminated and also provide other employee information related to effective dates, hire dates, and leave dates. Appropriate systems are also in place to track and to properly account for the amounts paid.

While risk management policies and procedures appear to be well understood, these procedures are not maintained and documented in one location.<sup>16</sup> A manual documenting risk management policies and procedures would be useful both to train new staff and to enhance the understanding of other employees with regard to the assumptions,

<sup>16</sup> In interviews, Office of Risk and Benefits Management personnel appeared to be very knowledgeable about policies and procedures used in the risk management program as well as the federal, state, District and contractual requirements associated with the insurance coverage.

rationale and methods used in certain decision making processes. Such a manual should contain sections that address all facets of risk management operations, including the evaluation of customer service, third-party administrators, and consultants.

### **Except for third-party employee benefits administration, the District uses competitive bids to acquire group coverage and services**

Board Rule 6Gx13-3F-1.022 establishes procedures for competitive selection through request for proposals for contracts estimated to be in excess of \$6,000 for group insurance coverage. All request for proposals are approved by the board. An ad-hoc insurance committee, appointed by the superintendent and comprised of representatives of each union and various District offices and/ or the Fringe Benefits Council, will review the proposals received and interview proposers. The ad-hoc committee will make a consensus recommendation to the superintendent who then presents his recommendation to the board prior to board action on the award. The recommendation is then presented to the Fringe Benefits Council during collective bargaining negotiations for their approval. The board attorney and the board insurance consultant may also serve as resource persons in the selection process. In addition, the third party employee benefits administrator which provides administrative and support services related to fringe benefits, including enrollment of employees, is also responsible for ensuring that certain, miscellaneous group benefits are competitively bid.

Although Board Rule 6Gx13-3F-1.022 is clear on the process for selection, it does not state that all persons involved in the review of proposers should be free of personal, financial, or professional relationships with proposers. Good public policy would dictate that persons with potential conflicts of interest should not be involved in the selection process and such a policy needs to be formally documented and followed.

Also, the third-party employee benefits administration services have not been competitively bid since 1991. The initial five-year contract has been extended twice, by board approval, through calendar year 2002. Good management practices indicate that the District should competitively bid these services more frequently, such as every four to five years, to ensure cost effectiveness.

An example of the competitive process for group coverage was noted for the group health plan. In June 2000, the board approved the rates for calendar year 2001 for the group health plan providers which were for the fifth year of the five-year health plan contract. The board also approved a recommendation that the District would restructure the benefit program and seek competitive bids for the group health benefits offered to employees, retirees and their eligible dependents for calendar year 2002. In January 2001, the board authorized the release of request for proposals (RFP) for group medical benefits with the board consultant. The consultant performed such tasks as providing assistance to the process such as structuring the RFP, meeting with prospective proposers in a pre-bidders conference, providing technical analysis, meeting with the Fringe Benefit Council, etc. Responses were received from seven group health plan providers, and were reviewed by the ad hoc committee and the Fringe Benefit Council. The superintendent recommended two insurance providers and a third insurance provider was recommended by the Fringe Benefit Council. Consensus was reached to also include the provider recommended by the Fringe Benefit Council to provide consistency of coverage for employees, even though the provider had some recent financial concerns. The major provider for the majority of employees for calendar year 2001, was not included for 2002 because it was unable to provide guaranteed premiums for 2002 on a fully insured program platform.<sup>17</sup>

Overall, employees, retirees, and their dependents have more choices and, in certain dependent coverage categories, significantly lower premiums. The District's annual expenditure per employee increased from \$329 per employee in calendar year 2001 to \$329 (HMO)/\$349 (PPO) per employee in calendar year 2002, an increase of 6 percent per employee that selects the PPO option.

Exhibit 14-21 provides details of the rates for calendar year 2002 for the group health benefits.

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<sup>17</sup> Per memorandum dated August 21, 2001, from the Office of Superintendent of Schools, provided by the Office of Risk and Benefits Management and discussion with Office of Risk and Benefits Management staff.

**Exhibit 14-21**

**Group Health Rates Calendar Year 2002**

**Employees and Retirees Under 65:**

Description	Provider #1		Provider #2	Provider #3
	PPO (Modified)	(HMO)	(HMO)	(HMO)
Single Monthly Rates (Fully Insured)	\$304.58		\$227.55	\$254.43
Dependent Monthly Rates (Fully Insured):				
Children	\$198.50	\$169.82	\$182.03	\$250.50
Spouse		\$199.68	\$204.79	\$281.78
Family	\$796.83	\$438.59	\$432.33	\$457.86

**Retiree Monthly Rates Over Age 65 and/or Medicare Eligible:**

Company	Coverage Type	Rate
Provider #1	PO Medicare Coordination	\$293.56
Provider #2	Gold Plus Plan Medicare Risk Contract	\$0.00
Provider #3	VIP Medicare Risk Contract	\$0/\$112/\$193

**Dependent Monthly Rates Over Age 65 and/or Medicare Eligible:**

Company	Coverage Type	Rate
Provider #1	National Network PPO Medicare Coordination/Child(ren)	\$244.11
	National Network PPO Medicare Coordination/Spouse	\$287.19
	National Network PPO Medicare Coordination/Family	\$631.83
Provider #2	Gold Plus Plan Medicare Risk Contract	\$0.00
Provider #3	VIP Medicare Risk Contract	\$0/\$112/\$193

Source: Office of Risk and Benefits Management.

**The District adequately administers and evaluates its self-insurance program**

Retention of certain risks through self-insurance and use of high deductibles for certain insurance coverage are key components of the District's overall strategy to manage the costs of the risk management program. The District has determined that due to its large size and the magnitude of its operations, the use of self-insurance for first dollar coverage, and then commercial insurance for the excess coverage up to certain limits, is an appropriate, cost effective approach to administering the risk management function. For example, for property, general, fleet liability, errors and omissions, and workers' compensation, the District is self-insured up to certain risk retention/deductible amounts and commercial coverage is used for coverage above these retention/deductible amounts (up to certain limits) to protect the District in the event of a catastrophic loss.

To ensure the right balance between self-insurance and commercial insurance, the Office of Risk and Benefits Management and its consultants review, on an ongoing basis, the risks facing the District, the extent to which reinsurance is needed to ensure the solvency of the self-insurance program, and the extent to which the loss coverage currently provided is appropriate. To support this analysis, an annual actuarial valuation is performed to analyze the District's risks and its potential claims liability.

While the District's overall strategy of using commercial coverage to protect against excess loss is sound, this strategy may be worth reassessing in some areas, such as general/auto liability where the limited sovereign immunity afforded public entities (Section 768.28, Florida Statutes) may protect the District from being liable for catastrophic loss. Some Florida school Districts that are self-insured do not purchase excess coverage for general/auto liability. It should be noted, however, that at present, both the District's consultants and its actuary recommend retaining this excess coverage, which is estimated to cost approximately \$225,000 annually in

premiums. Our survey of four other Districts, as shown on Exhibit 14-22, indicates that the use of excess commercial coverage varies. Two of the four Districts surveyed do not purchase excess coverage, one of the two counties that use commercial coverage (Broward) has structured a program quite similar to MDCSD, and one has significantly more limited commercial coverage. The Districts in our survey that have excess coverage indicate that budget reductions and possible premium increases may force changes. The District should continue to evaluate the risks of catastrophic loss versus the premium costs.

**Exhibit 14-22**

**Two of Four Peer districts Surveyed Rely on Sovereign Immunity**

Type of Claim	Duval County	Hillsborough County	Broward County	Orange County
General Liability	No	No	Yes Excess of \$300,000 Retention up to \$700,000	No Relies on sovereign immunity Self-insured up to excess \$5,000,000 per year
Automobile	No	No	Yes  Same as general liability	Yes Excess coverage \$1,000,000 occurrence/\$5,000,000 per aggregate Relies on sovereign immunity for the gap between \$100,000 and \$1,000,000

Source: Berkshire Advisors, Inc.

**The District uses an administrator and is in compliance with State statutes**

The District employs a bonded firm approved by the State Department of Labor and Employment Security, Division of Workers’ Compensation, to serve as its third-party claims administrator. This firm processes workers’ compensation, general, automobile liability, and property claims and is responsible for initial claim set up and analysis, management and assignment of field investigations, reserving, formalized claim reporting, payment processing, litigation expense management and recovery management. By Board Rule, the third-party administrator is authorized to perform all functions in connection with these claims (including offering and accepting settlements) for claims that do not exceed \$15,000. A claims revolving fund has been established in the District’s name for the administrator to use in settling claims. (For claims in excess of \$15,000, the board Attorney’s Office is responsible for offering and accepting liability settlements and the Office of Risk and Benefits Management is responsible for offering and accepting workers’ compensation settlements.) The administrator provides a report on the Processing of Transactions by Service Organizations as required by the Statement of Auditing Standards ( SAS) No. 70. In addition, the District periodically engages a consulting firm to perform a sample claim review and uses the results of this review to evaluate the administrator’s performance. The most recent claims review performed in 1998 indicated that the performance of the administrator met or exceeded industry standards.

**Recommendations**

- *The District should establish a written procedures manual that documents the procedures used and enhancements needed for risk management operations.*

Action Plan 14-6 provides the steps needed to implement this recommendation.

## Cost Control Systems

- We recommend that the District establish a “no conflict of interest” policy for all participants in the review of prospective providers of group services such as members of the ad hoc committee, Fringe Benefits Council, board consultants, etc., to ensure that an objective selection process is achieved. Participants should not have financial, professional, or personal relationships with proposers of the services that might be construed as a conflict of interest.

Action Plan 14-7 provides the steps needed to implement this recommendation.

- We recommend that the District issue a request for proposal for the third-party employee benefit administration services this year (these services have not been competitively bid since 1991), and we recommend that these services are competitively bid at a minimum of every four or five years to ensure that the District receives the most cost effective services. The selection of the administrator for these services should be performed by an ad hoc committee established pursuant to Board Rule 6Gx13-3F-1.022.

Action Plan 14-8 provides the steps needed to implement this recommendation.

### Action Plan 14-6

<b>Develop a Formal Procedures Manual</b>	
Strategy	Combine policies, procedures, and processes into a single document for reference and training.
Action Needed	<p>Step 1: Identify all major policies, procedures, and processes of the risk management function.</p> <p>Step 2: Review existing documentation and update as needed.</p> <p>Step 3: Develop written documentation for the major policies for which no documentation currently exists.</p> <p>Step 4: Combine all written documentation into a policies and procedures manual for the risk management function.</p>
Who is Responsible	Administrative director, Office of Risk and Benefits Management
Time Frame	As soon as possible
Fiscal Impact	This recommendation can be implemented with existing resources.

Source: Berkshire Advisors, Inc.

### Action Plan 14-7

<b>Establish a No Conflict of Interest Policy for Participants in the Selection Process for Group Providers</b>	
Strategy	Establish a “no conflict of interest” policy for all participants in the review of the proposers to provide group insurance services.
Action Needed	<p>Step 1: Draft a policy that states that participants in the selection of the providers for group insurance coverage should not have financial, professional, or personal relationships with the providers that might be construed as being a conflict of interest.</p> <p>Step 2: Obtain board approval of the policy.</p> <p>Step 3: Establish procedures to ensure that participants review the policy and acknowledge their understanding at the beginning of the selection process</p>
Who is Responsible	Administrative director, Office of Risk and Benefits Management
Time Frame	June 30, 2002
Fiscal Impact	This recommendation can be implemented with existing resources.

Source: Berkshire Advisors, Inc.

**Action Plan 14-8**

<b>Issue a Request for Proposal for the Third Party Employee Benefits Administration Services</b>	
Strategy	Issue a request for proposal for the third party employee benefits administration services, which has not been competitively bid since 1991.
Action Needed	Step 1: Request approval from the board to issue a request for proposal for third party administration services. Step 2: Obtain board approval of the request of proposal. Step 3: Issue request for proposals, ensuring that the RFP is appropriately disseminated.
Who is Responsible	Administrative Director, Office of Risk and Benefits Management
Time Frame	June 30, 2002
Fiscal Impact	This recommendation can be implemented with existing resources.

Source: Berkshire Advisors, Inc.

# Financial Management

## Background

The District uses a customized, automated, and integrated financial and procurement accounting system. This system is comprehensive and includes a full range of financial systems, as indicated in Exhibit 14-23.

**Exhibit 14-23**

## Financial Systems

<b>System</b>	<b>Use</b>
General Ledger	Accounting records, reports, administrative use
Accounts Payable	Invoice tracking, payment inquiry
Budgetary Control	Available funds, inquires, budget modifications
Financial Screens	Information for financial status report of internal funds, enter and maintain school-based budget, inquiries
Project Tracking	Reports by location, function, program, or objects
Requisition/Purchase	Inquiries, requisition and purchase orders, routes for approval including all designated persons, receipt of goods
Financial Controller	Controls, administrative use

Source: Budget Finance Purchasing System Manual.

The system is real-time (that is, data is available to users immediately after it has been entered). Consequently, the system can be used to immediately perform a variety of tasks without the delay associated with processing and distributing paper records. Because the system is an older accounting software package, it requires comprehensive support from the Office of Information Technology for modifications, maintenance and customized reporting. Conversely, current “off the shelf” accounting software packages (which usually entail relational databases and full interface modules), better address issues of flexibility, user friendliness and report generation. The range of tasks that can be performed using the District’s system include the following:

## *Cost Control Systems*

- Tracking purchase requests, creating purchase requisitions, and routing the requisitions to the appropriate individuals for approval and verifying fund availability
- Establishing and maintaining budget allocations
- Generating purchase orders
- Recording the receipt and/or return of goods
- Processing payment transactions to ensure invoices are paid
- Ensuring that purchased materials and services for capital expenditures, repair projects, and lease transactions are properly authorized, approved, and received

The system is also a secure system. Only persons authorized by a work site-authorizing administrator can gain access to system files. Persons with appropriate authorization, however, can access one or (depending on their authorization) all of the system's screens and menus to make inquiries, to perform data entry, or to undertake other financial management functions.

## **16 While District managers verbally communicate their commitment to strong internal controls, this commitment is not consistently documented in the established procedures.**

### **The District should enhance its commitment to strong internal controls**

In interviews with financial and accounting managers throughout the District, a commitment to maintaining a system of strong internal controls was consistently expressed. At present, the District has the infrastructure of well-documented policies and procedures needed to support its verbal commitment to strong internal controls. In the absence of well-established and documented policies and procedures that support internal controls, it is much more difficult for managers to ensure that appropriate controls are consistently implemented throughout the District. Likewise, if individuals take actions that compromise needed controls, it is much easier to take appropriate corrective action if procedures documenting District policies and standards relating to internal control are in place.

At present, the District must update and adequately document the system of internal control it has established. In addition, in two areas – development of an ethics policy and a process for reporting suspected improprieties – needed policies and procedures are currently not in place.

**Documented procedures.** Well-documented procedures are essential to any organization's efforts to communicate and ensure understanding of internal controls. While such procedures are a useful reference resource for all staff, they are especially important as a tool for training new staff. At present, in the Miami-Dade County School District, however, some written procedures manuals that are available to employees (and other stakeholders) are out of date and/or incomplete. (It should be noted that the District is aware of this issue and is in the process of updating several of its procedures manuals as it relates to critical processes).

**Ethics policy.** The Miami-Dade County School District has exhibited a clear commitment to ensuring high ethical standards throughout the District. Indeed, the District is currently soliciting contracted services for the development of an ethics professional development program and ethics training. In addition, an ethics committee is being established that will advise the board on relevant issues. Despite this demonstrated commitment to ethics, the District has not established a formal ethics policy. While board policy (6Gc-13-8A-1.041) documents rules regarding conflict of interest for board members, no similar rule has been established governing conflicts of interest and other ethical issues for department staff.

**Reporting suspected improprieties.** The District has not established procedures for reporting suspected improprieties. While board policy (6Gx113-4A-1.21) states that all employees are under the ultimate duty to report



criminal acts this rule also states, “It should be the responsibility of the Superintendent of Schools to develop and distribute periodically, procedures relating to the reporting of criminal acts, disruptive, and/or inappropriate behavior.” To date, the District has not developed and distributed such procedures.

## Recommendations

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- *We recommend that the District develop and implement an employee ethics policy.*

Action Plan 14-9 provides the steps needed to implement this recommendation

- *We recommend that the District revise and maintain all critical financial management and accounting processes in the procedures manuals.*

Action Plan 14-10 provides the steps needed to implement this recommendation

- *We recommend that the District establish procedures for employees to follow if they suspect improprieties are occurring.*

Action Plan 14-11 provides the steps needed to implement this recommendation

### Action Plan 14-9

<b>Develop An Employee Ethics Policy</b>	
Strategy	Establish an employee ethics policy and clearly communicate to all employees.
Action Needed	Step 1: Develop ethics policy. Step 2: Establish procedures to ensure that employees review the policy and acknowledge their understanding.
Who is Responsible	Department Of Professional Standards and the School Board
Time Frame	June 30, 2002
Fiscal Impact	This recommendation can be implemented with existing resources.

Source: Berkshire Advisors, Inc.

**Action Plan 14-10**

<b>Revise Procedures Manuals</b>	
Strategy	The critical processes for all financial management activities should be identified, reviewed, and updated in the procedures manuals.
Action Needed	Step 1: Determine the existing procedures for critical functions. Step 2: Ascertain the feasibility and appropriateness of the existing procedures, and develop and modify the critical processes, as necessary. Step 3: Assign the responsibility of developing formal procedures to the controller or another senior member of the administrative staff that reports to the controller. Step 4: Submit the revised procedures manuals to the Office of Management and Compliance Audits for review. Step 5: Submit the revised procedures manuals for school board approval. Step 6: Distribute the approved procedures manuals to all users.
Who is Responsible	Chief Financial Officer
Time Frame	December 31, 2002
Fiscal Impact	This recommendation can be implemented with existing resources.

Source: Berkshire Advisors, Inc.

**Action Plan 14-11**

<b>Develop Policy for Reporting Suspected Improprieties</b>	
Strategy	Develop a District policy for reporting suspected improprieties.
Action Needed	Step 1: Preparation of and subsequent submission to school board of proposed policy.
Who is Responsible	Department of Professional Standards and the school board
Time Frame	June 30, 2002
Fiscal Impact	This recommendation can be implemented with existing resources.

Source: Berkshire Advisors, Inc.

# 17 **The District’s accounting system facilitates collecting, processing, maintaining, and reporting financial transactions.**

## **The accounting software package used by the District facilitates the reporting and recording of financial transactions in accordance with prescribed standards.**

The accounting software package used by the District facilitates collecting, processing, maintaining, and reporting financial transactions. The District uses the package’s budgetary controls, accounts payable, purchasing, financial controller, and general ledger modules. The accounting system adequately records and reports financial information in accordance with *Financial and Program Cost Accounting and Reporting for Florida Schools* and facilitates the preparation of financial reports in conformity with applicable accounting principles. The chart of accounts also facilitates ensuring accountability for restricted sources of funds by classifying financial transactions by fund code. Specific revenue funds are used to account for financial resources for school programs such as food services, and to account for State and local grants and federal resources. However, the current system is not designed to adequately track and accumulate costs for project accounting. (See our discussion on project tracking in best practice 7 of cost controls.)

## Delegating the review of journal entries will promote more efficient use of the controller’s resources

While the District is to be commended for ensuring systems are in place to ensure the accuracy of journal entries, senior management’s attention directed to this activity is excessive. A review of District practices and procedures reveals that journal entries are properly prepared, approved, and adequately supported. All journal entries are also supported by proper documentation and explanations and are numbered and logged into the journal entry registry. After preparation, the journal entry is reviewed and approved by the administrator in the originating department and then by both the assistant controller and the controller. While it is important that each journal entry be adequately reviewed and approved by the District’s management, requiring the controller to perform this review diverts her attention from other important management issues (many of which are discussed in this chapter). A review by the assistant controller – herself a senior and experienced manager – should be sufficient to ensure the integrity of the accounting process. Efficiency and productivity would be enhanced if the controller reviewed and approved only high level journal entries (for example, journal entries related to prior period adjustments or new pronouncements) or journal entries of a specific programmatic nature such as investments. She could also randomly select other journal entries for review and approval. The assistant controller’s responsibility would be to review and approve all other journal entries, including re-occurring entries and routine adjustments.

## Recommendation

- *We recommend that the District revise its procedures requiring the controller to approve all journal entries.*

Action Plan 14-12 provides the steps needed to implement this recommendation.

### Action Plan 14-12

<b>Modify Authority For Approving High Level Journal Entries</b>	
Strategy	Revise procedures requiring the controller to approve all journal entries.
Action Needed	Step 1: Determine the type of journal entries that should be reviewed by the controller. Step 2: Revise procedures manuals to reflect the controller’s approval of applicable journal entries. Step 3: Implement and notify personnel of the modifications.
Who is Responsible	Chief Financial Officer
Time Frame	June 30, 2002
Fiscal Impact	This recommendation can be implemented with existing resources.

Source: Berkshire Advisors, Inc.

# **18** The District's performance in meeting deadlines for submitting financial reports to the State is adequate.

## **The District adequately meets State deadlines for financial report submission**

To make informed business decisions, District management needs access to timely financial data. To this end, reports describing the District's operations and financial position should be reviewed by both the District's managers and the school board. As required by State Board of Education Rule 6A-1.008, F.A.C, the school board receives monthly financial reports. These reports include summary statements that compare budgeted expenditures to the current month actual and year-to-date actual expenditures as well as highlight any favorable and unfavorable budget variances. The District is also required to prepare and provide timely financial information to outside sources such as federal and State governments and grantors to ensure compliance with regulatory requirements and grant provisions. Not only is it essential that these reports be accurately prepared and distributed in a timely manner, the reports must also be properly prepared and reviewed by management, including the school board. The monthly reports also disclose all relevant data regarding contracts and grants.

From the perspective of making timely submissions to the State, the District's performance has been good. In fiscal years 2000 and 2001, the District submitted the Superintendent's Annual Financial Statements (AFR), which is due on September 11 of each year, in a timely manner to the Commissioner of Education. However, the Annual Cost Report, which must be submitted to the State Board of Education, did not meet the deadline for submission in the past three fiscal years.<sup>18</sup> Department staff reports that the reason the reports have not been filed on a timely basis is the result of State changes to reporting requirements. These changes require the reprogramming of existing software, dedication of significant resources to implement the changes, and timely testing of the accuracy of the calculations after the program changes have been made.

## **In some cases, the board has not approved reports that are submitted to the State**

In each of the last two fiscal years, the Superintendent's Annual Financial Statements were submitted to the State prior to their being approved by the board. The primary reason these reports were not approved by the board prior to their submission is that a board meeting to review the report was not scheduled prior to the September 11 submission deadline. The District requires fifteen days to complete the process of submitting items through the proper committees before the items can be reviewed and action taken by the school board. District staff do not attempt to reschedule the September board meeting or call a special board meeting for purposes of approving the Superintendent's Annual Financial Report prior to the well known and established September 11 submission deadline. The District believes that any limitations on the available time to complete and review the Annual Financial Report could compromise the accuracy of the reported information. As a result, the Annual Financial Report is submitted to the State by September 11, reviewed and approved by the board in its regularly scheduled September meeting, and revised and resubmitted to the State, if necessary, prior to September 30, as required by the State.

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<sup>18</sup> The District did, however, ask and receive an extension for the submission of this report.

**19** While the process for developing and monitoring budgets is generally sound, in some areas existing systems and procedures do not support efforts to evaluate performance against budget or to prevent budget overspending.

**The District’s budget development process has been structured to ensure compliance with State laws and State Board of Education Rules**

The District’s budget is also its financial plan.<sup>19</sup> It provides an estimate of the resources available to the District, details the programs and activities to be funded, and sets the level at which these programs and activities will be supported. The process for developing this financial plan is governed by numerous legal requirements in the Florida Constitution, the Florida Statutes, and State Board of Education Rules. The law is very specific in defining this process and establishes a timetable for completing each step in the budget adoption process. To ensure all required steps are followed, the Office of Budget Management, which has been charged with the responsibility for developing and implementing the budget process,<sup>20</sup> develops a budget calendar. This calendar details the timeframe for completing each required activity and specifies the required participants. In addition, because the budget process is complicated and requires the coordinated effort of various departments and school personnel, developing this calendar ensures responsibilities and deadlines are clearly understood. All State and local requirements relating to the budget development process are adhered to. Exhibit 14-24 shows the detailed budget calendar for fiscal year 2001-02.

**Exhibit 14-24**

**Calendar of Events in Developing the 2001-02 Budget**

Date	Activity
November 27	Administrative Pupil Population Estimating Conference determines preliminary 2001-02 official K-12 population projections, estimate of total un-weighted FTE, and program FTE estimates, based on actual FTE from October 2000.
December 18	Office of Budget Management (OBM) distributes region/county department budget materials.
January 8	Office of Budget Management (OBM) conducts budget workshop for administrative offices as required.
January 11	Office of Budget Management (OBM) conducts budget workshop for administrative offices as required.
January 16	Office of Budget Management (OBM) conducts budget workshop for administrative offices as required.
January 26	Region/county departments return budget materials to OBM. Budget review sessions will be scheduled by OBM.
January 29	Office of Budget Management (OBM) forwards 2001-02 region-office total and school-level FTE estimates to region offices for review.

<sup>19</sup> The District’s annual budget document has received the Distinguished Budget Award annually for the past thirteen years from the Government Finance Officers Association which is critiqued for specific program criteria such as local significance and value, technical significance, the cost/benefit analysis, efficiency and originality. MDCSD is one of two Districts in Florida to have received the award.

<sup>20</sup> Board Rule 3a.101 directs the superintendent to establish the necessary procedures for the preparation, review, and approval of the annual budget in accordance with applicable state laws and State Board of Education Rules. The superintendent has delegated this responsibility to the Office of Budget Management.

## Cost Control Systems

<b>Date</b>	<b>Activity</b>
TBA	Governor's Recommended Budget is released.
February 14	Board Meeting: Action Item: Board adopts mid-year 2000-01 budget resolutions.
February 16	Region Offices return FTE estimates to Office of Budget Management.
March 6	Regular 2001 legislative sessions begins.
March 9	Office of Budget Management (OBM) completes its review of budget requests for region/county department.
March 12	Early Bird Phase: 2000-01 CASAS formulas and 2001-02 FTE estimates are forwarded to schools for review.
March 14	Board Meeting: Report on Governor's Budget Recommendation and District Fiscal Forecast for 2001-02
April 23	Preliminary Budget Phase: 2001-02 CASAS formulas FTE estimates are forwarded to school for use in budget/personnel, FTE estimates are forwarded to schools for use in budget/personnel conferences; schools scheduled for May 14-May 31. School-Based Budgeting System (SBBS) is operational for use in school budget/personnel conferences for opening of 2001-02 school year.
May 4	Regular 2001 legislative session ends.
May 10	Principals must balance their School-Based Budget in the School-Based Budgeting System (SBBS) by the close of the day.
May 16	Report of Results of 2001 Legislative Session
May 25	Administrative Budget Committee meetings concluded.
June 11	Budget duplicating deadline for 2001-02 Annual Budget Plan
June 13	Board receives 2001-02 Annual Budget Plan for use in Financial Affairs Subcommittee Meeting.
June 20	Financial Affairs Sub-Committee Meeting (Board Meeting): Action Item: Board adopts spring 2001-02 budget resolutions and readopts the 2000-01 budget, as amended, for interim 2001-02 budget.
July 2	Preliminary 2001-02 Tax Roll is received from Property Appraiser.
July 5	Budget duplicating deadline.
July 6	Tentative Budget is recommended to Board by Superintendent.
July 11	Board Meeting: Action Item: Board authorizes Superintendent to advertise tentative budget and millage levy.
July 19	Commissioner certifies Required Local Effort millage rate and amount of State funds.
July 21	Millage and budget advertisements appear in the Miami Herald and Diario Las Americas.
July 23	Board Meeting and First Public Hearing: Action Item: Board adopts tentative 2001-02 millage levy and annual budget as well as 2001-02 School Allocation Plans.
July 26	Millage and budget advertisements appear in the Miami Times.
July 31	Tentative millage rates are submitted to Property Appraiser and Tax Collector. Tentative Budget Phase: Tentative formulas and FTE estimates are forwarded to schools for use in budget/personnel conferences scheduled for August 13-24, 2001.
September 7	Budget materials for final adoption submitted to the School Board.
September 12	Board Meeting and Second Public Hearing: Action Item: Board adopts Five-Year Facilities Work Program, final 2001-02 millage levy and annual budget, approves 2000-01 annual financial report for submission to Department of Education and approves final 2000-01 budget resolutions.
September 13	Additional positions are released or reassigned based upon simulations of staffing systems on September 10 and 17, 2001.
October 5	School-Based Budgeting System (SBBS) is available to regions and schools for review and action based on September 28, 2001, FTE data.

Source: Miami-Dade County School District transmittal dated January 16, 2001.

## The budget development process has also been structured to encourage the participation of key stakeholders

The budget development process has been structured to ensure participation from the board, the public, and from schools.

- **Board participation.** The board is actively involved in each step in the budget process. Board members must approve both a tentative budget and the final budget.
- **Public notification and participation.** Members of the public have ample opportunity to provide input into the budget development process. Public hearings, which must be advertised, are held. In addition, the public is notified through advertisements about proposed capital outlay millage levies.
- **School participation.** School managers and staff are actively involved in the budget process by developing school-based budgets consistent with their school improvement plans. Throughout the budget development cycle, budget conferences are held with principals to review preliminary budgets and to review and approve final budgets.

## Approaches used to develop budget estimates are sound

If a budget is to serve as an effective financial plan, the revenue estimates incorporated into the budget must be sound and expenditure appropriations must reflect needs. Although, as discussed in Section 1, the budget process has not been structured to ensure resource allocations are consistent with the District's overall strategic direction, from a technical perspective, the District's approach to budgeting revenues and expenditures is sound.<sup>21</sup>

**Budgeting revenues.** The District's process for developing revenue estimates has been structured so that the individuals who best understand the sources from which the District receives revenues are responsible for developing revenue estimates for those sources. For example, estimates of contracted services revenues are provided by the Federal Programs and Grants Administration because staff from this department has the best understanding of federal and grant funded programs. The Budget Office, on the other hand, consults with the Florida Department of Education to estimate Florida Education Finance Program revenues. The reasonableness of the revenue estimates provided by these units is then reviewed by the Budget Office and revenue estimates are finalized.

**Budgeting expenditures.** Budget Office staff works closely with staff throughout the District to budget appropriations. To facilitate budget development, the Budget Office prepares and disseminates various documents including budget manuals (for schools, non-school locations and departments, and selected programs), the board approved K-12 school allocation plans (for K-12 schools and adult centers), information on current year expenditures and projections, and general fund appropriations. A series of budget conferences are then held with principals and department heads to review preliminary budgets and review and approve final budgets.

The approaches used to develop budget estimates for schools and non-school units are somewhat different. For schools, general fund budgets are developed using three computerized subsystems which are interfaced with the accounting. The Computer Assisted School Allocation System (CASAS) is used to develop the staff allocations to schools based upon staffing formulas contained in the school allocation plans. Categorical staffing needs (i.e., staff that are paid for by categorical program funds) are calculated on a District-wide basis and are then assigned to individual schools by the District offices responsible for the program. Discretionary staff (i.e., all staff who are not funded using categorical or other restricted use funds) are allocated to schools using a formula that is included as part of the CASAS. Principals are not required to employ all the staff they have been allocated by the CASAS. Instead, the value of all discretionary staff is assigned to schools in the School Based Budget System (SBBS). From that amount, principals can purchase staff and/or designate funds for hourly, overtime salaries and non-salary accounts. In addition, certain non-salary allocations are calculated from the Material, Equipment, and Supply

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<sup>21</sup> Efforts to support the budgeting of both revenues and expenditures are supported by the District's primary accounting system. The budget is programmatically interfaced into the accounting system which, in turn, includes several subsystems that support the budget development process.

## Cost Control Systems

Allocation (MESA) subsystem. In addition, State categorical allocations such as textbooks and technology are manually input into the MSA based on the authorizations from the responsible District administrators.

Non-school site general fund budget allocations are based on prior year budgets and are adjusted only to reflect current salary levels of incumbents. Any additional increases must receive approval during the budget development process by the Superintendent. A computerized subsystem (“Penelope”), which interfaces with the District’s primary accounting system, is used to support this process.

### **While systems and procedures to monitor budget performance are generally in place, in some areas efforts to prevent budget overruns are not adequately supported**

As the District’s primary financial plan, its budget is not just a resource allocation tool, but also an accountability tool that should be used to ensure priorities reflected in the District’s budget are reflected in its spending as well. In addition to ensuring that budgeted resources are spent as planned, it is important for the District to prevent budget overruns quite simply because it violates State Board of Education Rules to do so. (The State Board of Education prohibits incurring expenses in excess of the approved budget.)

A number of factors currently contribute to the budget serving as an effective document for ensuring financial discipline and accountability. First, when preparing the annual budgets, care is taken to ensure that information is prepared in sufficient detail to provide for clear levels of operational and financial accountability and allow for effective monitoring at the functional, program, and activity level. Restricted funds are also clearly identified to ensure these monies are not used for unauthorized purposes. In addition, because budget data is entered into the accounting system from the approved budget, key features of the accounting system can be used to monitor expenditures and to prevent budget overruns. These features include the following:

- For almost all non-salary accounts,<sup>22</sup> the accounting system utilizes encumbrance accounting which requires that the availability of a budget authorization be verified before a purchase order is processed.
- The number of personnel is managed through the use of a position control system that prevents a full-time position from being hired unless there is an authorized open position.
- Reports are prepared that reflect budget, year-to-date expenditures, unpaid purchase orders, requisitions and commitments, and available balance by function, program, and object line items.

The Office of Budget Management staff is also responsible for using the information provided by the accounting and budget system to prevent budget overruns. For non-salary accounts such as utilities and employee benefits for which encumbrances cannot be used to prevent budget overruns, budget analysts monitor and review projections on a frequent basis. In addition, budget analysts receive weekly copies of reports (such as the Hourly/Overtime Report) and use these reports to determine whether a location is experiencing budget difficulties. If a problem is identified, the budget analyst will contact the responsible principal or department head and will work with them to develop a plan for resolving the problem. If discussion at this level does not resolve the issue, higher level management will be notified.

While systems are in place to prevent budget overruns in most areas, these systems cannot currently be used to prevent over spending for the salaries of hourly workers and for overtime expenditures.<sup>23</sup> Moreover, the efforts of budget analysts to prevent such overruns in the absence of systemic controls are complicated because the consequences to managers for allowing budget overruns are variable. At the school level, the primary consequence of overspending is that the resulting negative budget balance is carried over until the next year. The principal who created the spending problem is therefore held accountable for fixing the problem (unless, of course, he or she

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<sup>22</sup> Encumbrance accounting is not used for utilities and employee benefits.

<sup>23</sup> In January 2002, the Auditor General issued an audit report on a review of overtime payments and procedures that recommended the District improve its overtime monitoring procedures, improve reports to management for review, and increase involvement of the internal audit department to include an audit of overtime for departments with large amounts of overtime.



transfers to another school or retires). Beyond this modest disincentive to overspend, no additional sanctions are required. For departments that overspend their budgets, no sanctions whatsoever have been established. Indeed, department managers who overspend their budgets are not even required to provide a formal explanation of the reasons for their budget overrun.

In addition, while it is certainly helpful that the accounting system develop reports that can be used to monitor budgets, the benefits of this capability are mitigated, in many cases, by the sheer volume of information and detail presented on the reports. Exception reports are not provided from the system to facilitate monitoring for budget overruns. Budget personnel must often enter information from the accounting system reports into spreadsheets so that the data provided in these reports can be manipulated and used to support analysis and decision making. Needless to say, manually entering this information into spreadsheets increases costs and also increases the likelihood that data entry errors will be made.

## Recommendations

- We recommend that the District establish formal documentation of overspending for departments. Action Plan 14-13 provides the steps needed to implement this recommendation.
- We recommend that the Budget Office develop automated reports such as exception reports, which summarize certain details to facilitate review and monitoring of the budget.

Action Plans 14-13 and 14-14 provide the steps needed to implement this recommendation.

### Action Plan 14-13

<b>Establish Formal Documentation And Consistent Standards for Budget Overspending</b>	
Strategy	Establish consistent standards of documentation accountability for overspending budgets for schools and departments.
Action Needed	Step 1: Closely monitor District spending for schools and departments. Step 2: Establish a review process for principals and department heads whose expenditures exceed budget. Step 3: Require formal explanation and action plans for resolving budget overspending. Step 4: Tie principal and department head evaluations to budget monitoring.
Who Is Responsible	Chief Financial Officer and Deputy Superintendent
Time Frame	As soon as possible
Fiscal Impact	This recommendation can be implemented with existing resources.

Source: Berkshire Advisors, Inc.

**Action Plan 14-14**

<b>Generate Automated Reports to Facilitate Monitoring and Analyses</b>	
Strategy	Facilitate the budget monitoring and reporting process by generating automated reports from the budget and finance accounting system.
Action Needed	<p>Step 1: Identify the reports that are required to facilitate budget monitoring and analyses.</p> <p>Step 2: Prioritize reports as to need and usefulness considering factors such as the time and labor consumed in preparation.</p> <p>Step 3: Consult with Office of Information Technology (OIT) personnel on the feasibility of development of reports or assessment of whether the information can be downloaded from the budget and finance accounting system by Budget staff.</p> <p>Step 4: Establish timetable for training staff and for the development of the reports.</p>
Who is Responsible	Chief Budget Officer
Time Frame	As soon as possible
Fiscal Impact	This recommendation can be implemented with existing resources.

Source: Berkshire Advisors, Inc.

## **20** The District has provided adequate controls to ensure accountability for cash resources.

### **Effective controls have been established to protect the District’s significant cash resources**

In a District as large as the Miami-Dade County School District, effective controls to protect cash resources are especially important because the District receives, accounts for, and invests large amounts of cash each business day. The District’s cash resources include daily school cafeteria collections, collections from daily school operations, reimbursements from local and federal grant agencies, and receipts from general obligation bonds. In addition, cash receipts include certificate of participation drawdowns, State revenues, local property taxes, charter school payments, and maturing investments. In total, the District’s cash and cash equivalents at June 30, 2001, are approximately \$79 million.

The District has implemented a number of effective practices and procedures to protect these cash resources:

- Effective procedures for accounting for cash resources have been established
- Responsibility for the collection and recording of cash has been segregated
- Appropriate bank reconciliation practices are in place
- Timely deposits are encouraged
- Non-deposited cash receipts are stored in a secure location

A brief discussion of each of these effective practices follows.

**Accounting for cash resources.** The District has established effective systems and procedures to support accounting for cash resources. In particular, existing procedures and systems currently require two levels of review as part of the process of accounting for cash resources on a daily basis. The assistant treasurer is responsible for reviewing the daily analysis of the District’s pooled cash position and cash flow and for reviewing reports detailing

the interface between the District's cash management system and the general ledger. In addition, the treasurer is responsible for signing confirmation letters for all cash transactions, including investments.

**Segregating responsibility for collecting and recording cash.** Segregating responsibility for the collection and recording of cash is extremely important to ensure that a person who receives cash does not record a lower amount and pocket the difference. For receipts received centrally, the District has assigned responsibilities to ensure that persons responsible for collecting and depositing monies (Office of the Treasury) are different from those responsible for recording cash receipts (General Accounting Unit). At the school level, on the other hand, segregating responsibility for collecting and recording cash is more difficult simply because the number of staff available to support school level financial operations is limited. Procedures requiring the principal to approve all bank deposits provide some oversight and control. However, as discussed in Section 4, the practical limitations associated with segregating responsibility for collecting and recording cash at individual schools supports the need for school financial operations to be audited on a regular basis.

**Bank reconciliations.** Responsibilities for preparing and approving bank reconciliations are appropriately segregated from responsibilities for cash disbursements and cash receipts. (If these functions were not segregated, persons could deposit less money than supported by deposit slips and the irregularity might not be uncovered.) At the central office, the Investment and Bank Reconciliation unit is responsible for preparing bank reconciliations (which it does in a timely manner) while, as discussed, the Office of the Treasury, Cash and Disbursement Management and Office of the Treasury, Treasury/Finance units are responsible for cash disbursement and cash receipts, respectively. At the school level, the treasurer is responsible for preparing the bank reconciliation for the internal funds. Cash is received by both teachers and administrators for various purposes and submitted to the treasurer for deposit preparation. In addition, the treasurer is also responsible for preparing all cash disbursements and updating the accounting system. At month end, the treasurer generates monthly financial reports and prepared bank reconciliations for all school internal funds. These financial reports are submitted to the District's Internal Fund Accounting group for review and analysis.

**Timely deposits.** With such large daily cash balances, it is clearly important to have as high a percentage of these resources earning interest each day as possible. The District recognizes this issue and has taken steps to monitor the timeliness of deposits. In particular, daily reports on cash receipts are forwarded to the Office of the Controller's Investment and Bank Reconciliations unit where this information is compared to bank statements to ensure and verify the timely depositing of cash.

**Security.** Despite the District's efforts to ensure the timely deposit of cash resources, inevitably some cash may not be deposited each day. At both the central office and at school sites, non-deposited funds are maintained in locked safes.

## **21 The investment plan specifies the approved type of investments and performance criteria that maximizes return and mitigates risk**

Investment activities for the Miami-Dade County School District are performed by the Office of Treasury Management. The treasurer, assistant treasurer, and director are responsible for the investment activities and are bonded. An investment management system is used by the District to assist in its performance of investment activities such as in monitoring market conditions, soliciting quotes and executing the investments. Securities are held in safekeeping by a third-party custodial institution and are registered in the name of the District.

The District invests in various instruments within the guidelines outlined in its investment policy. This diversification policy safeguards the District's assets. The investment policy includes investment in the State Board of Administration's Local Government Surplus Funds Trust Fund investment pool created by 218.405, F.S. This investment pool operates under the investment guidelines established in s. 215.47, F.S. This fund offers highly liquid investments with competitive rates. For purposes of maximizing the return on short-term investments, the cash balances of all funds are pooled, unless separate cash and investment accounts are required in accordance with

## Cost Control Systems

legal or contractual requirements. For the year ended June 30, 2001, the average portfolio was \$824 million, with pooled cash being the largest component of the portfolio at an average of \$546 million. The amount of pooled cash invested ranged from \$774 million in January 2001 to \$298 million in November 2000. Exhibit 14-25 reflects the investments and cash at June 30, 2001, 2000 and 1999, at fair value. Exhibit 14-26 reflects the monthly average balances, earnings, and yields for fiscal year 2001. Investments and cash average approximately 13% of total assets over the three-year period.

### Exhibit 14-25

#### Investments and Cash Held at Year End (in thousands)

Description	2000-01	1999-00	1998-99
U.S. Government Agency Notes & Securities	\$142,972	\$209,604	\$200,656
Commercial Paper	335,510	244,534	287,047
Bankers Acceptances	100,669	159,254	167,737
State Board of Administration-SBA Local Government Investment Pool	148,950	56,403	86,047
Time Deposits	24,500		
U.S. Government Agency Notes-Pension Trust Fund		10,001	5,972
Investment in Money Market-Pension Trust Fund	1,942	994	18,461
State Board of Education-Capital Outlay Bond I Issuance (COB) Bonds	3,625	3,794	3,844
Corporate Bonds-Pension Trust Fund	12,483	7,488	
Corporate Stocks-Pension Trust Fund	6,222	5,120	
Commercial Paper-Pension Trust Fund	9,913	7,857	7,515
Total Investments	786,786	705,049	777,279
Deposits	97,421	45,997	6,595
<b>Total Cash and Investments</b>	<b>\$884,207</b>	<b>\$751,046</b>	<b>\$783,874</b>

Source: Office of Treasury Management.

### Exhibit 14-26

#### Analysis of Pooled Cash and All Funds

For the Year Ended June 30, 2001 (in thousands)				
Pooled Cash	Net Earnings	Average Daily Portfolio	Yield	SBA LGIP Yield*
July	\$ 2,897	\$543,740	6.27%	6.56%
August	2,421	454,230	6.28%	6.60%
September	2,202	421,674	6.35%	6.61%
October	1,933	365,781	6.22%	6.64%
November	1,543	298,778	6.28%	6.67%
December	3,174	578,626	6.46%	6.68%
January	4,111	773,885	6.25%	6.18%
February	3,445	731,535	6.14%	5.71%
March	3,386	681,398	5.85%	5.39%
April	2,856	620,862	5.60%	4.97%
May	2,571	581,365	5.21%	4.53%
June	2,080	509,799	4.97%	4.18%
Annualized	\$32,619	\$546,806	5.97%	5.89%
All Funds Annualized	\$49,023	\$823,815	5.95%	Not applicable

\* LGIP - Local Government Investment Program

Source: Office of Treasury Management.

**The investment plan includes investment objectives and performance criteria designed to maximize return consistent with the risks associated with each investment, and specifies the types of financial products approved for investment**

The District has established an investment policy that directs investment activities and sets guidelines as to the investment type, issuers, risk, and the percentage of the investment portfolio that can be invested in any type of investment, etc. The policy states that the District will implement procedures consistent with sound financial practices such that all funds determined to be available for investment are invested and placed on deposit with interest to earn the maximum possible yield within conservative and prudent criteria. The investment policies are outlined in Board Rule 6Gx13 -3B-1.01 and Deposit and Investment Policies for School Board Funds and the procedures manual for the Office of Treasury Management. State Statutes and Board Rule 6Cx13-3B-1.01 outlines the type of investments permitted for the District. In addition, the investment policy requires that the performance of the investments must be comparable to that of the State Board of Administration. As noted in Exhibit 14-26, the investment yields obtained by the District exceeded the returns by the SBA Local Government Investment Pool for the fiscal year ended June 30, 2001.

An investment advisory committee was also authorized by the board to review and recommend policies. The advisory committee is comprised of five voting members who are members from the community with business, banking, and /or financial experience. Non voting members of the committee are currently a board member, the chief financial officer, the treasurer, and the controller. The advisory committee meets quarterly and reviews monthly reports that reflect the investment results, portfolio composition, and performance compared to budget and forecast. Board Rule 6Gx13-3B-1.01 authorizes the investment advisory committee to assist in establishing guidelines, in addition to those set in the Board Rule, on investment type and the percentage of investments held, such that returns are maximized while minimizing credit and collateral risks. Any exceptions to the board policies are reported to the investment advisory committee.

The Office of the Controller verifies investment transactions executed by the Office of Treasury Management on a daily basis, maintains detailed accounting records for all investment activities and reconciles the statements to the general ledger.

**22 The established controls for recording, collecting, adjusting, and reporting receivables are effective.**

The District’s receivables for fiscal years 2001 through 1999 are shown below in Exhibit 14-27.

**Exhibit 14-27**

**Summary of Receivables Held at Fiscal Year End**

<b>Category</b>	<b>2000-01</b>	<b>1999-00</b>	<b>1998-99</b>
Tax receivable	\$ 39,817	\$ 32,772	\$ 35,795
Accounts and interest receivable	9,481	9,154	10,084
Due from other government agencies	256,059	273,430	233,369
<b>Total</b>	<b>\$305,357</b>	<b>\$315,356</b>	<b>\$279,248</b>

Source: Comprehensive Annual Financial Report

Receivables represent 6.7%, 7.5%, and 6.9% of the asset balance for fiscal years 2001 through 1999.

Throughout the year, property taxes are recorded on a cash basis. The Metropolitan Miami-Dade County’s Tax Collector’s Office forwards a property tax accrual schedule at the end of the fiscal year. This schedule is used to

## Cost Control Systems

record the tax receivable in the general ledger. In addition, interest receivable relates to the interest earned on property taxes received by the Metropolitan Miami-Dade County, but not transferred to the District.

Accounts receivable includes cumulative payroll overpayments that we noted at June 30, 2001, for approximately \$584,000 or .03 percent of the annual payroll. The overpayments were the result of:

- Inaccurate information regarding employee qualifications
- Incorrect reporting of employee hours/days worked by work location
- Untimely reporting that employees no longer performed supplemental activities

The District continues to try and recover overpayments from inactive employees via an independent contractor collection agency. Receivables also include outside agencies, federal, State and local receivables, employee benefits, and other various agencies and organizations.

### **Controls are adequate for recording, collecting, and reporting receivables**

Adequate controls over receivables entails that the collecting and posting of transactions be segregated from the responsibility of maintaining detail receivable records. Accounts receivable records are maintained by the General Accounting Division and the general ledger is posted and updated by the Department of Operational Accounting. These functions are segregated from the Office of Treasury Management which is responsible for collecting all cash. On a monthly basis, the general ledger accounts receivable balance is reconciled to the subsidiary ledger. Aged receivables are periodically reviewed by management for collectibility. The Division of General Accounting submits recommendations for write-offs to management and the school board on an annual basis.

## **23 Controls have been established to provide adequate accountability for the payment of salaries and benefits**

Employees are compensated based on salary schedules, which have been approved by the school board, as required by State Board of Education Rule 6A-1.052, F.A.C. and Section 236.02(4), F.S. The District's payroll system and the controls and procedures embodied within, ensure that employees are paid based on approved school salary schedules. Payroll deductions, which are the result of open enrollment processes or changes initiated by the employee, are also strongly monitored. Employees receive benefit statements for review and approval prior to effectuating a benefit change. Salary and wage changes are processed, on-line, pursuant to compensation specifications in contracts and board agenda items. Salary changes are monitored and/or revised by wage and salary staff.

Eighty-five percent of the District's total current expenditures are attributable to salary and benefit payments. Exhibit 14-28 reflects salary and benefit payments for the fiscal year ended June 30, 2001, as detailed in the Annual Financial Report for the General Fund, Special Revenue Fund – Food Services and Special Revenue Fund – Other.

### **Exhibit 14-28**

#### **Summary of Salary and Benefit Costs for Fiscal Year 2000-01**

<b>Account</b>	<b>Amount</b>
Salaries	\$ 1,663,561,562
Fringe Benefits	454,030,759
<b>Total</b>	<b>\$2,117,592,321</b>

Source: Annual Financial Report.

## **Controls over salary and benefit payments are effective.**

Access to the payroll master file is controlled by a two-level security access system. Access to the payroll computer application must be authorized through the OIT security system. The security levels have been designated by the payroll executive director or the payroll supervisor II. In addition, the payroll executive director and/or the payroll supervisor II designate the employees within the payroll department which have access to display or input payroll information. Gross wages, federal wages and taxes, social security wages and taxes, net wages, medical wages and taxes, deductions taken, deferred payments, and reimbursement amounts can only be updated in the payroll system by properly approved and authorized payroll transactions.

Time keeping is performed at each work location using daily attendance sheets. At the end of a bi-weekly payroll cycle, the secretaries or the payroll clerks at the work locations enter the appropriate data into the automated roster system. The final payroll roster must be signed and approved by the principal or the administrator evidencing the approval of the attendance, including overtime, and an approval of the pay code for each location. All holidays, annual, sick, and compensatory time is detailed in each bargaining union contract and Board Rules. The payroll computer system is responsible for the automatic updating of annual and sick leave balances.

After each payroll is completed, the payroll computer system interfaces with the general ledger to post all payroll transactions. Accounting personnel is responsible for analyzing, researching, reconciling, and correcting the payroll general ledger accounts. They ensure that the appropriate accounts have been updated and reflect the payroll activity. These procedures are evidenced by work papers that reconcile the payroll reports to the general ledger and to each other. The payroll register is reviewed and approved before disbursements are made. Deductions are reviewed and approved by the Deductions Control Section and earnings are reviewed and approved by the Payroll Section. The Payroll Department uses exception reports to validate payroll information.

## **Procedures have been implemented for investigating returned W-2s**

W-2 forms are compared to the payroll records by review and analysis of W-2 audit reports that have been balanced by the Payroll Department and OIT. The Payroll Department is responsible for mailing the W-2s to the various work locations or mailing the W-2s via US mail to terminated, substitute or on-leave employees. Payroll personnel indicated that returned W-2s are filed until claimed by the employee; however, the Payroll Department does not have any policies and procedures in place to investigate returned W-2s. For calendar year 2000, less than one percent (1%) of the W-2s issued were returned to the District.

W-2s are generally due to employees by January 31 of the following year in order to facilitate the filing of the employee's personal income tax return. The employer is required to maintain all employee copies of W-2s that could not be successfully delivered for a minimum of four years. The Internal Revenue Service (IRS) guidelines state that it is the responsibility of the employer to ensure that W-2 forms are furnished to all employees and filed correctly and on time. The following may be reasons for undeliverable W-2 forms:

- Outdated personnel information used i.e. name and/or address
- Ghost employees
- Inaccurate data processing
- Software problems

The employer may be subject to a penalty by the IRS if it fails to provide the statements by January 31, it fails to include all information required to be shown on the statements, or it includes incorrect information on the statements.

Effective February 2002, procedures have been implemented related to returned W-2s and the procedures have been incorporated in the internal payroll procedures manual.

## The District has not evaluated the payroll processing function to determine its cost effectiveness

The District does not periodically assess whether its payroll processing functions are cost effective when compared to utilizing outside payroll service providers. The costs associated with the payroll processing function are maintained and monitored as part of the budgetary and accounting functions of the District. Payroll personnel indicated that the District is continually analyzing and implementing procedures and processes to improve and make the payroll function more efficient. Additional automated procedures and controls are added each year to facilitate continued efficiency. According to the payroll representative, outsourcing of payroll functions would not be efficient because of the magnitude and complexity of special payroll reports generated and provided to District management and the State. It is believed that even though a service provider could generate the necessary reports, the service provider could not, however, provide the reports in a timely manner. Discussions with three national payroll service providers disclosed that none had experience in providing payroll services to school Districts, and/or the payroll service provider did not express an interest in providing such services due to the nuances associated with school District payrolls.

## 24 The District analyzes, evaluates, monitors, and reports debt-financing options.

### The District has procedures for analyzing, evaluating, monitoring, and reporting debt-financing options

The Office of Treasury Management is responsible for the administration of debt-financing activities. These administrative activities include holding periodic meetings with Facilities, Capital Budget, and other Financial Affairs representatives to discuss the long range and immediate capital project needs of the District and the available financial alternatives. Other responsibilities include compiling and analyzing debt financing options, review of costs of issuing debt, review of the cost/benefit of refunding and advance refunding transactions, monitoring compliance with bond covenants and analyzing the debt capacity of the District. All financing methods and debt issuance decisions are made by the school board.

Exhibit 14-29 summarizes this debt held at June 30, 1999 through 2001 which average approximately 25% of total liabilities and fund balance over the three-year period. The District utilizes various debt-financing alternatives which include general obligation bonds, revenue anticipation notes, tax anticipation notes, and certificates of participation. The District also utilizes advance refunding of general obligation bonds and certificates of participation when it is economically feasible to do so which has resulted in substantial savings in debt service expense.

#### Exhibit 14-29

### Three Year Summary of Debt Held at Year End (in thousands)

Category	2000-01	1999-00	1998-99
State Board of Education-Capital Outlay Bonds	\$ 139,020	\$ 144,465	\$ 149,190
General Obligation School Bonds	334,545	364,840	403,730
General Obligation Refunding School Bonds	422,535	436,440	440,460
Revenue Anticipation Notes		32,150	
Certificates of Participation	806,168	494,725	511,265
<b>Total</b>	<b>\$1,702,268</b>	<b>\$1,472,620</b>	<b>\$1,504,645</b>

Source: Comprehensive Annual Financial Report.



The District has engaged an independent financial advisor to provide ongoing financial advisory services. The financial advisor was selected as a result of the RFP process in 1996. The contract term was for three years, with an option to extend the contract for an additional three-year period. The financial advisor provides assistance in soliciting and evaluating financing proposals, choosing between negotiated or competitive bid methods of sale. Additionally, services for underwriters are contracted, as needed, for debt offerings. The District attempts to time the sale of securities to achieve the most favorable interest rates. At June 30, 2001, rates on debt range from 3.7% to 7% with a yield of 4.6% to 5.9%.

The District has received the following bond ratings from Standard & Poor's and Moody's rating services:

- General Obligation School bonds – Standard & Poor's A+ and Moody's A2.
- Certificates of Participation - Standard & Poor's A, and Moody's A3.

These high ratings indicate that the District is considered financially capable of meeting its debt service requirements and is considered financially stable by the rating services.

## **25 Grant Activities Are Effectively Monitored and Reported.**

### **The District effectively monitors and reports grant activities**

The District receives significant grant resources. Most of these resources are from recurring grants that have been received by the District for many years. Federal Programs and Grants Administration (Grants Administration), in collaboration with the other various District departments, is responsible for grant development and grant management under the supervision of its Deputy Superintendent. Grants Administration is responsible for the procurement of all District grants, i.e., federal, State, entitlements, competitive, and foundation grants. Grants Administration provides technical assistance for the application process and during the grant writing process. Grant management tasks performed by Grants Administration (along with project managers) include preparing the necessary board documents to present the grant award for approval by the board. Reporting and compliance requirements are summarized by Grants Administration, along with other pertinent information about the grant such as beginning, ending, liquidation dates, grant amount, budget, and disseminated to the project manager and to the Budget, Controller and Contracted Programs Accounting offices. Reporting and compliance requirements are also monitored by Grants Administration.

Grants Administration provides a handbook and workshops for project managers to address the administrative requirements for grants and reinforces project manager responsibilities for documentation and project implementation according to the grant application and award. Project managers have access to the accounting system for on-line financial reports, and hard copies of monthly reports are provided to them for monitoring of the grant. Grant activities are also subject to internal and external audits; federal grant programs are subject to the single audit requirements under OMB Circular A-133.

Budgets are entered into the accounting system by the Office of Budget Management and monitored by Grants Administration and the Budget Office; budget amendments are prepared by Grants Administration when necessary. Required financial reports are prepared by Contracted Programs Accounting and are submitted to the project manager and Grants Administration for approval for submission to the funding source. Contracted Programs Accounting is responsible for requesting drawdowns or reimbursement of funds, and recording the appropriate receivables and revenue for grants in the general ledger.

If the terms of the grant extend over more the one fiscal year, the unencumbered and uncommitted remaining grant balance is transferred as the beginning grant budget for the next fiscal year. Grant extensions are requested and obtained for funds that remain at the end of the initial grant period, as appropriate. Grants are monitored closely such that minimum grant funds are returned to grantor agencies because they were not spent in accordance with grant provisions or were not expended prior to the grant provisions expiring.

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All sub-recipients perform the scope of work through a contract for professional services and are paid in conformance with the District policies for purchases and accounts payable. Any invoices and purchase orders that remain unpaid after the grant is liquidated are paid from the general funds for the school or department.

The District experienced increases related to its grants programs, both in the number of grants and total grant dollars received in fiscal year 2001 from fiscal year 2000. Overall, as noted in Exhibits 14-30 and 14-31, grant funds increased 11 percent for competitive grants; the increase in funding was 61.7 percent. Exhibit 14-31 provides the total number of competitive grants (federal, State, and local) and funded amounts. Exhibit 14-32 identifies the five largest grant programs which comprised more than 73 percent of the total grants.

### Exhibit 14-30

#### Grant Funding Increased 11 Percent in Fiscal Year 2000-01

Funding Source	2000-01		1999-00		1998-99	
	Amount	Percent	Amount	Percent	Amount	Percent
Federal	\$ 8,309,709	3.90%	\$ 12,308,282	6.50%	\$ 16,090,769	8.50%
Federal through State	186,716,787	88.30%	159,311,532	84.00%	162,979,542	85.00%
State	11,732,461	5.50%	4,773,834	2.50%	3,587,547	1.80%
Foundations	1,217,963	0.60%	672,212	0.40%	3,936,429	2.00%
Federal through Local	1,021,819	0.50%	3,468,889	1.80%		
Local Funds	2,448,305	1.20%	9,167,605	4.80%	5,190,552	2.70%
<b>Total</b>	<b>\$211,447,044</b>	<b>100.00%</b>	<b>\$189,702,354</b>	<b>100.00%</b>	<b>\$191,784,839</b>	<b>100.00%</b>

Source: Office of Federal Programs and Grants Administration.

### Exhibit 14-31

#### Competitive Grants Received Increased Significantly in Fiscal Year 2000-01

Fiscal Year	Number of Grants	Funded Amount
1999	127	\$20,878,310
2000	124	20,874,710
2001	147	33,751,958
<b>Percentage Change - 1999-00 to 2000-01</b>	<b>18.50%</b>	<b>61.70%</b>

Source: Office of Federal Programs and Grants Administration.

### Exhibit 14-32

#### Five Largest Grants for Fiscal Years 2000-01 and 1999-00

Grant Title	2000-01	1999-00
Title I	\$ 82,766,506	\$ 82,252,210
IDEA (Individuals with Disabilities Education Act (Part B)	46,419,633	34,903,251
Title IV	15,075,107	13,642,535
SAVES (Studies for Adult, Vocational, Educational Skills Refugee/Entrant Targeted Assistance Program	5,246,000	5,492,000
EIEP (Emergency Immigration Education Program	6,362,709	6,071,852
<b>Total</b>	<b>\$155,869,955</b>	<b>\$142,361,848</b>
<b>Percentage These Grants to Total Grants for the Fiscal Year</b>	<b>73.70%</b>	<b>75.04%</b>

Source: Office of Federal Programs and Grants Administration.

# Purchasing

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## Background

The Bureau of Procurement and Materials Management is staffed with 47 District employees (13 administrators, 29 clerical employees and 5 hourly employees). While most of the staff focuses on the Bureau's core procurement activities, one supervisor and nine clerical staff are assigned to the Quality Control Section. This section is responsible for providing agenda preparation, bid processing support, contract management services, and file and vendor maintenance. Procurement activities are governed primarily by several sections of the Florida Statutes and the Florida Administrative Code, as well as several school board rules.

In fiscal year 2000-01, the District processed over 113,871 purchase orders at an average cost of approximately \$18.82 per purchase order. To facilitate the processing of such a large number of purchase orders (an average of almost 438 per day) the Bureau acquired an on-line fax server system in fiscal year 2000-01. This system automates the process of securing quotations for purchases under \$10,000. In addition, this system facilitates the maintenance and analysis of historical information relating to vendor utilization, rotation, and data transmission. Also, the District is considering other approaches to automating the purchasing process including the use of a web-based system. If this system is implemented, the current system of posting and disseminating bids via the District's web-site would be enhanced to streamline the process of evaluating and approving bids.

## **26** The District adequately segregates purchasing responsibilities from the requisitioning, authorizing, and receiving functions.

### **Responsibility for purchasing is organizationally separate from the responsibility for requisitioning, authorizing, and receiving**

The District has organized its financial management, accounting, and purchasing functions so that different organizational units are responsible for key aspects of the processes for purchasing, requisitioning, authorizing, and receiving items. A brief description of how roles and responsibilities for various aspects of these processes are assigned to various District departments and units follows:

- **Purchasing.** The Bureau of Procurement and Materials Management is responsible for overseeing and managing the process of issuing bids and selecting vendors.
- **Requisitioning.** Responsibility for requisitioning items is decentralized across the full range of District departments and schools.
- **Authorizing.** Responsibility for authorizing purchases is also decentralized. Procedures have been established to ensure that only persons with appropriate authority can authorize purchases.
- **Receiving.** Warehouse facilities as well as individual work units receive items.
- **Invoice processing.** The Accounts Payable Department is responsible for invoice processing. Invoices are processed only after work has been approved by the appropriate department or school, and goods and/or services have been received.
- **Accounting.** The General Accounting Department is responsible for general ledger functions.

Segregating responsibility for these key functions among distinct organizational units helps to ensure the integrity of this process.

## **The District's accounting system is structured to ensure the integrity of the requisitioning, purchasing, and receiving process**

The segregation of duties relating to the requisitioning, purchasing, and receiving functions is facilitated by the District's accounting system. User access to the systems relating to these functions is limited based on authorization levels and user access codes. The accounting system also facilitates processing by automatically recording and posting all cash disbursements in accordance with the account structure.

## **27 Adequate controls have been established for authorizing purchase requisitions.**

### **The District has created systems and procedures to ensure that requisitions are properly authorized, approved, and are performed timely**

District systems, policies, and procedures work together effectively to meet the competing needs of ensuring that purchase requests are processed in a timely manner while also ensuring these purchase requests are properly authorized and approved. Three important features of the current process help to ensure these competing imperatives are met.

- The process of issuing and approving requisitions has been effectively automated
- Approval levels are well defined and incorporated into automated processes
- Procedures and systems have been established to allow purchases only if funds are available

A discussion of each of these key features of the District's current approach to authorizing and approving requisitions follows.

**Automated processes.** The requisition approval process is maintained in the purchase requisition approval system portion of the District's electronic mail system. This computer system is separate and distinct from the accounting system, but interacts electronically to provide administrators in the approval chain with an efficient procedure for on-line reviewing, tracking, printing, approving, or disapproving of purchase requisitions. To prevent bottlenecks in the approval process, a provision has been made to add approvers to the approval chain and to designate a substitute approver for any administrator. In addition, a computerized purchase requisition, the Purchase Requisition Worksheet, is used to collect all information to ensure accurate and complete on-line processing of purchase requisitions. The on-line system generates a requisition number during the data input process.

**Authorization and approvals.** Purchase requisitions are initiated and approved by schools and departments. The requisitions show a suggested vendor, a category and item code, and description of each item being purchased, as well as quantity and price. Requisitions are electronically routed through an administrative approval chain, based on the dollar value of the item being requisitioned.

The District requires three levels of approvals to authorize purchase requisitions. Purchases, Stores and Distribution, and General Authorization requisitions less than \$3,000 require only a Level 1 approval from the worksite administrator, unless it is also a Special Approval Requisition (discussed below), in which case a Level 2 approval by a department head is also required. Requisitions of the same nature in excess of \$3,000 require a Level 1 approval from the worksite administrator, a Level 2 approval, if necessary, and a Level 3 approval from the appropriate member of the District's senior staff.

Special Approval Requisitions include requisitions from areas such as capital outlay, federal projects, food and nutrition, and computer equipment, to name a few. The Special Approval Requisition always requires the approval of the worksite administrator (Level 1), and approval from the appropriate member of senior staff (Level 3) based on

the amount of the purchase requisition. Special Approval Requisitions also require Level 2 approvals from department heads. For example, capital outlays require the approval of the Bureau of Facilities Management, executive director/associate superintendent, and the deputy superintendent. Similarly, federal projects require the approval of the Bureau of Grants Administration, administrator/assistant superintendent and food and nutrition requisitions require the approval from the Department of Food and Nutrition, senior executive director.

Exhibits 14-33 and 14-34 summarize dollar thresholds and approval requirements for purchase orders and emergency purchase orders.

**Exhibit 14-33**

**Summary of Thresholds and Required Approvals for Purchase Orders**

<b>Purchase Order Dollar Amount</b>	<b>Required Signature Approval</b>
\$0 - \$3,000	Junior Buyer or Office Manager
\$3,001 - \$10,000	Buyer
\$10,001 - \$30,000	Buyer and Supervisor or District Director
\$30,001 - \$50,000	Buyer, Supervisor, and District Director
\$50,001 - \$99,999	Buyer, Supervisor, District Director, and Superintendent
\$100,000 and up	Buyer, Supervisor, District Director, Associates Superintendent, and Chief Financial Officer

Source: Miami-Dade County School District.

**Exhibit 14-34**

**Summary of Thresholds and Required Approvals for Emergency Purchases**

<b>Purchase Order Dollar Amount</b>	<b>Required Signature Approval</b>
\$0 - \$10,000	Buyer
\$10,001 and up	Buyer, Supervisor, District Director, and Associate Superintendent

Source: Miami-Dade County School District.

**Availability of funds.** When purchase requisitions are created, an interface with the accounting system is established. During this interface, the availability of funds is verified based on the fund structure entered by the requestor. If funds are not available to accommodate the purchase from the appropriations identified, a message is sent, on-line, to advise the person making the request. The process of determining the amount of funds available (or not obligated) is determined prior to committing the proposed purchase in the system. Once approved, the requisition is routed to a buyer based on the item and category code.

# 28 Purchasing practices and procedures are sound.

**Purchasing practices and procedures have been established that both ensure the integrity of the purchasing process and ensure that the District pays competitive prices for goods and services it receives.**

A number of imperatives must be considered when developing a purchasing process. The process must be structured to ensure it is fair, that the prices paid for goods and services are appropriate, and that the process is not

## Cost Control Systems

unduly time-consuming and does not create an undue burden on either vendors or District staff. The purchasing practices and procedures that are in place in MDCSD successfully fulfill each of these goals. A brief discussion of several noteworthy features of the existing purchasing practices and procedures follows.

**Conflict of interest.** The District's policies regarding conflict of interest and business practices have been established and are outlined in Board Rules, Vendor Application forms, procedures manuals and instructions to bidders. All Bureau of Procurement and Material Management employees are required to sign a policy statement indicating their acceptance and understanding of Procedure 1 – Gratuities which outlines the prohibition of gratuities or personal favors.

**Documentation of procedures.** Purchasing procedures are well documented by the Bureau of Procurement and Material Management. Procedures manuals address many areas including, but not limited to, requisitioning, receiving and evaluating bids, coordinating planned purchases, and approval procedures for purchase orders and contract issuance.

**Prices paid.** To ensure the District does not pay too much for the goods and services it receives, purchase prices are periodically reviewed by the Technology Standards Review Committee, the Procurement Contract Review Committee, the Office of Management and Compliance Audits and by external auditors. In addition, through fax server technology, the buyers are able to maintain price quotes and price lists for each buying area. Price lists are also maintained on diskettes, published on the Internet, or maintained in hard copy in the Purchasing Department.

**Financial control and accountability.** To ensure that the purchase orders are controlled, the on-line purchase order system automatically generates the purchase order number, which is prefixed by an alpha character. The alpha character represents the buyer responsible for generating the purchase order. The procedures manuals detail the steps necessary for users to make changes to a purchase order. Changes are also subject to review and approval controls.

## The District is taking appropriate steps to modify competitive bidding requirements.

Exhibit 14-35 shows that competitive bidding requirements currently vary with the dollar value of the goods or services being purchased.

### Exhibit 14-35

#### Summary of Competitive Bidding Requirements

Threshold	Type of Procurement Action Required
\$10,001 and above	Bid required and board approval
\$3,000 - \$10,000	Five (5) letter quotes and three (3) telephone quotes
Less than \$3,000	One (1) written letter quote may be obtained, but not required. District utilizes fax server.

Source: Miami-Dade County School District.

Varying the level of effort required to procure goods and services based on the cost of the goods and services is an effective practice. For low value items, the administrative costs associated with undertaking a formal bid process, for example, would likely overwhelm any potential savings associated with ensuring the process is competitive. It is important, however, that the administrative burden associated with undertaking a competitive bidding process and the potential savings from undergoing such a process be calibrated from time to time to ensure that appropriate bid thresholds are in place.

The District has just completed such an assessment and is in the process of amending its competitive bid requirements (as defined in Board Rule 6Gx13-3c-1.111). The proposed amended rule, which is in the initial reading phase, now requires formal written bids "for each purchase of more than \$25,000 or the current threshold established

by statute...”. In addition, the proposed amendment requires written and telephone quotations “for each purchase of \$3,000 to \$25,000 or the current threshold established by statute...”. (The proposed amendment is consistent with Section 230.22 of Florida Statute.) Adjusting the District’s competitive bid thresholds to the proposed thresholds seems appropriate given the small number of bids processed that were in excess of \$10,000, but less than \$25,000. During fiscal year 2000-01, the District processed 34 competitive bids that were less than \$25,000 and has processed only five such bids in the current fiscal year.

## **29** Controls have been established to ensure that goods are received and meet quality standards.

### **The District has established appropriate procedures for receiving goods.**

Effective procedures have been established for receiving goods at the District’s primary warehouse facilities (operated by Stores and Mail Distribution, Maintenance and Material Management, Transportation and Textbook). When goods are received, they are unloaded, counted, checked for model, make, vendor, unit cost, quality and damage. In addition, receiving receipts are checked to ensure that there is a valid purchase order for the goods by making an inquiry into the accounting system. Moreover, if a purchase exceeds \$10,000, a hard copy of the receiving document is forwarded to accounts payable. If items need to be returned, an appropriate notation is made on a vendor log. On the other hand, if an insufficient quantity of items were received, a discrepancy report is prepared. It is worth noting that goods are checked to ensure that they meet specifications as written on the purchase order – substitutions are not accepted without prior written approval.

An on-line system is used to document the receipt of goods that are delivered directly to individual schools and work sites. When this on-line system is used, the accounting system automatically processes a goods receipt notice and assigns a unique number to the record of the receipt. A notice is also automatically prepared and linked to the purchase order number. This notice indicates the date the goods were received, the quantity received, authorizations, and provisions for receiving information on partially filled purchase orders. This notification is then electronically forwarded to the Purchasing and Accounts Payable Sections.

## ***Payment Processing*** \_\_\_\_\_

### **Background**

The cash and disbursement management function reports to the Office of Treasury Management and is responsible for disbursing payments to District vendors. Accounts Payable, a department within the Office of the Controller, processes vendor invoices for payment, with the exception of transactions executed with internal funds. In addition, the accounts payable department also reviews and inputs payment information for Contract Management and processes utility invoices for Energy Management.

# 30 Disbursements are properly authorized, documented, and recorded.

## Procedures and controls exist to ensure that all disbursements are properly authorized and signed.

The District takes a number of steps to ensure that only properly authorized disbursements are paid.

- Authorized signatures are required on all disbursements
- Access to the check signing machine is tightly controlled
- Responsibilities for the disbursement process are appropriately segregated
- Checks and other documents needed to disburse funds are carefully managed
- Issuance of checks is promptly reported

A brief discussion of each of these procedures and controls follows.

**Authorized signatures.** The District requires the facsimile signature of the board chair and the superintendent of schools on all disbursements less than \$50,000. All checks in excess of \$50,000 require the facsimile signature of the board chair, the superintendent of schools, and the original signature of the chief financial officer, deputy superintendent of management accountability, chief budget officer, and deputy superintendent of schools operations or the controller. Financial institutions are immediately notified, in writing, when a new check signer is authorized or previous signer leaves the employment of the District.

**Access to the check signing machine.** The District maintains one check signing machine and the Burster/Imprinter check signer for payroll checks is stored in a secured locked checkroom. The keys to operate these machines are stored in a locked safe which is controlled by the treasurer or his/her designee. Likewise, all signature plates and rubber facsimiles are stored in a locked file cabinet. The check signing machines can only be operated by authorized users with the proper user and access codes.

**Segregated responsibilities.** To protect the District against malfeasance, responsibilities for various aspects of the disbursement process are segregated among a number of individuals and units. The Accounts Payable Department prepares vendor payment packages and remits them to the Office of Treasury Management for prompt payment. The coordinator, in the Office of Treasury Management, then downloads the payment information and encrypts the data for check processing. The office manager, in the Office of Treasury Management, imports the check files and data into the check writing system and prints all checks with facsimile signatures. The senior treasury clerk receives the non-negotiable copies of the checks, the signed and sealed checks and all other documentation from the office manager as well as the payment packages from accounts payable. The treasury clerks then verify the vendor name and address appearing on each check, the vendor number, and ensure that all documentation has been accounted for after the checks have been signed. Unless otherwise indicated, all checks are delivered to the mailroom upon completion of the verification process.

**Control of checks and other documents.** On a weekly basis, paid purchase orders and supporting documentation are perforated to prevent reuse. In addition, after each check run, the office manager denotes the number of checks signed in the check log book, updates the log book for number of checks issued, voided and non-issued and compares this information to the quality assurance report. This information is also compared to the machine readings to verify that all checks have been accounted for. Additionally, the coordinator reviews the quality assurance reports, the audit check writer report, and other transmittal forms. Safeguards are in place to ensure that unused and voided warrants and checks are controlled, kept in a secure place, and are properly accounted for.

**Prompt reporting.** Signed and issued checks are promptly recorded through the on-line system to ensure that the disbursements are properly reflected and posted in the accounting system.



# 31 **The District's approach to processing invoices and payables is sound, but labor intensive.**

## **The District's approach to processing invoices and payables is sound**

The District has established a generally effective approach to processing invoices and other payables. Positive features of the current approach to managing payables include the following:

- Payments and encumbrances are appropriately linked
- Invoices are carefully reviewed before payment
- Invoices are approved by the individuals and departments most familiar with the goods and services delivered

A brief discussion of each of these issues follows.

**Encumbrances.** As has been discussed elsewhere in this chapter, purchases for goods and services cannot be approved unless they have first been encumbered (that is, the purchase has been authorized and money to fund the purchase is available). This practice by itself helps to prevent the payment of inappropriate invoices because invoices that have not been linked to a prior encumbrance will not be paid and only authorized expenditures will be encumbered. In addition, accounting for transactions is facilitated because once a disbursement has been posted in the accounting system; the encumbrance is converted to expenditure.

**Review of invoices.** The Accounts Payable Department, which is responsible for processing bills and invoices for payment, has established procedures that provide for the review and approval of invoices for completeness of supporting documentation and clerical accuracy before disbursements are made. Procedures are also in place to ensure the timely resolution of discrepancies between the invoices received and the supporting documentation. In addition, procedures are also in place to ensure accurate account distribution of all processed invoices.

**Invoice approval.** Procedures have been structured so that departments that purchase a high volume of goods and services can directly review and approve the invoices. For example, food service, construction, information technology, maintenance and transportation invoices are received by the individual departments for processing, approval, and review and are then forwarded, in batches, to Accounts Payable for processing. (All other invoices, except those related to internal school accounts, are received directly by the Accounts Payable Department.) The Accounts Payable Department does not maintain a current list of those authorized to approve expenditures; rather, the department heads maintain a listing of those authorized to approve expenditures requiring both on-line and off-line receiving. Responsibility for authorizing expenditures rests with the department heads and/or their designee(s).

## **The District's approach to processing invoices is labor intensive**

The accounts payable clerks currently handle thousands of purchase orders, invoices, receiving reports, and other information that is entered into the Accounts Payable document tracking system, but does not interface with the general ledger system for payment processing. As a result, accounts payable clerks currently spend a significant amount of time reviewing, verifying and matching documents for payment processing purposes. The Accounts Payable Department is well aware of this issue and is currently in the process of meeting with staff from the Office of Information Technology to develop and design an automation plan to improve the efficiency of the payment process and to automatically interface the Accounts Payable tracking system with the general ledger system.

## **Documentation of the District's approach to processing invoices and payables is not current**

While the District has established policies and procedures to ensure that controls for processing invoices are adequate and operating efficiently, the Accounts Payable procedures manual has not been updated since December 1996. Discussions with District staff suggest that changes to the invoice processing process have been made since that time. Consequently, new or existing employees who rely on the manual determine how to process invoices may be following outdated practices.

## **When possible, the District takes advantage of cash discounts offered by vendors**

Since very few District vendors offer cash discounts, the District is seldom afforded an opportunity to process discounted vendor payments. On occasions in which cash discounts are offered for the prompt payment of invoices and the District is able to process the payments in a timely manner, cash discounts have been taken by the District.

## ***Recommendation*** ---

- *We recommend that the District update the existing accounts payable procedures manual for any changes in critical accounts payable processes.*

Action Plan 14-10 provides the steps need to implement this recommendation.