

**AUDIT COMMITTEE REPORT**  
***for the November 16, 2012, Audit Committee Meeting***

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The Audit Committee met last Friday; heard 3 audit reports; and discussed the draft Hotline contract.

**Report #1 *Audit of Inventory Controls at Transportation Department***

The audit produced 5 major conclusions:

1. No written Procedures for Ordering, Receiving, Issuing Parts and Determining the Optimal Level of Inventory
2. Inventory Items Deleted from Records Without Justification
3. Discrepancies in Physical Inventory
4. Inaccurate and Incomplete Receipting Procedures
5. Inaccurate Year-End Inventory Balance in PeopleSoft General Ledger Due to Human Errors

These findings indicated that there was a total breakdown in controls of inventory items. For example, there were no records as to who made adjustment to the inventory records such as addition, subtraction, unit quantity, unit value, and the date of adjustment. We can't tell why the adjustment was made.

Staff concurred with all the finding. We are aware that on October 3, 2012, the Board approved a contract with an outside vendor (NAPA) to take over the management of inventory for parts. Transportation will no longer be responsible for ordering, managing, and distributing vehicle repair parts.

The Audit Committee asked the Inspector General's Office to (1) follow-up on the contract six months after NAPA takes over, (2) monitor the takeover process, and the (3) review the valuation of inventory, because the School District will be paying NAPA 10% of the cost for parts for processing fee, and (4) audit the actual labor cost of NAPA to run the operation.

The Audit Committee also expressed an interest in knowing how the School District tracks vehicle parts to make sure parts are installed in the needed vehicles and use of parts is signed off by supervisor.

## **Report #2 Audit of School Food Service Revenue Collection**

The audit produced 5 findings which were relatively minor in nature. One of the findings was the District maintained excessive net cash resources, more than the USDA allows. USDA allows the School District to keep three-month-average expenditures in the fund balance.

During FY2011, the fund balance was \$2.88 million more than what is allowed by USDA.

The other findings were related to records keeping and tracking for expenses.

Staff concurred with the findings and is addressing the issues. We will do a six month follow-up on the findings.

## **Report #3 Audit of Time Collection Device (TCD) Expenditures**

The TCD system began operating in July 2006; however, it was discontinued after only one payroll period due to the extensive processing problems with the PeopleSoft Payroll System. To make the TCD System operational, additional programming work was needed.

In December 2007, the Board approved a *Consultant Agreement* with Labor Source Solutions, Inc. to review the system, and subsequently interface and implement the Work-Point machines. This agreement and the three subsequent amendments resulted in an additional cost of approximately \$945,000, for 5,400 hours at \$175 per hour.

The TCD system resumed operations in June 2008, and has continued to this date. Total expenditures for this project were \$2.44 million.

One major finding of this audit was ambiguous funding request and approval.

The ambiguity existed in the funding request as approved by the School Board in the *December 2005 School Board Agenda Report* and the original scope of the *Master Agreement* resulted in three possible funding scenarios, ranging from \$1.25 million to \$1.4 million.

Staff's recommendation in the *December 2005 Agenda Report* did not explicitly indicate the District's total financial commitment for the TCD Project. Instead, the *Agenda Report's* Fiscal Impact Statement stated that,

*“The financial impact to the District is **estimated at \$1,000,000** for hardware, software and professional services. In addition, there will be payments of **approximately \$80,000** per year for on-going maintenance after the expiration of the warranty period. The source of funds is the capital budget.”*

Due to this ambiguity, it was not clear as to how much funding was actually approved by the School Board for the 5-year contract period.

Our analyses concluded that at least \$161,735 in purchase of additional hardware was without School Board approval.

We recommended that:

- (1) Staff's recommendation in *School Board Agenda Report* should not contain ambiguous language that could result in different interpretations and discretionary spending of uncommitted public funds.
- (2) Procurement contracts and the funding request submitted to the School Board for approval should be explicit, with a fixed dollar amount, or not-to-exceed dollar amount, instead of an “estimated” or “approximate” amount. Accurate information is needed in order to assist the School Board in making informed decisions.
- (3) The funding request should be itemized by fiscal years and product types for multi-year and multi-product contracts. Any unspent fund balance for each fiscal year should be returned to the District's general operating fund and should not be carried forward by the department for use in subsequent years. Likewise, unused fund balance designated for specific products (e.g. the TCD System's annual maintenance and professional services) should also be reverted back to the District's general operating fund and should not be expended on other items (e.g. TCD hardware) for the same or other projects. Commingling funding for different services and products defeats the purpose of fiscal accountability and transparency, and negates the intent of budgetary controls.

- (4) Additional School Board approval should be obtained for additional purchases beyond the original funding approved by the School Board. Unit price stipulated in the contract for future purchase should not be construed as approval from the School Board beyond the approved dollar amount without a limit.

We also have a finding concerning Direct Negotiation.

Direct negotiation is an acceptable practice for procurement of technology items as codified in *Florida Administrative Code 6A-1.012 (14)*.

The audit concluded that the District had no written procedures, guidelines or records for negotiation requirements governing the direct negotiation process. There was no evidence that records and documentation had been created for the vendor negotiation.

**We recommend that**

To protect the School District, formal written guidelines and procedures for direct negotiation should be developed and implemented. These formal guidelines and procedures should focus on promoting accountability and transparency, and include

- Providing a fair chance for all eligible, quality, responsible, and responsive vendors to do business with the School District.
- Requirement and identification of in-house technical staff members who are equipped to participate in the negotiation and selection process.
- Staff's completing the *Conflict of Interest Certification*.
- Requirements for record creation and retention.

Documentation and records to be created and retained should specifically include:

- The proposals submitted by vendors.
- The names of vendors considered, and documentation of their strengths and weaknesses, such as past performance, capability, financial strength, expertise, and reference information from prior and current users, etc.

- A detailed evaluation and analysis of the Total Cost of Ownership should be performed. These costs should include the initial costs, operating costs, and future replacement and upgrade costs, etc.) for prospective products and vendor(s) should be performed. This is especially important for sole-source products, which would lock-in the School District to a specific vendor for all future purchases, maintenance, and upgrades for a specific period of time.
- Specific reasons and justification for vendor(s) selected or eliminated.
- The formalized process and results of detailed evaluation will (1) help ensure the School District is obtaining the best value for its investment and (2) enable the School District to adhere to *Florida Administrative Code 6A-1.012 (14)* that “*by direct negotiation and contract with a vendor or supplier, as best fits the needs of the school district as determined by the district school board.*” Without proper documented analyses and evaluation, there is no sound basis for the School Board to make an informed decision.

The consequence of lack of in-house expertise resulted in unforeseen interruptions, \$964,000 unforeseen additional expenditures, vague contract language that could result in potential duplicated services.

### **Review of Draft Purchasing Department Policy**

In response to the School Board’s request, we have reviewed the draft policy for Purchasing Department. We have provided our comments to the Legal Department for their consideration. One of our suggestions is to put in the needed control for “Direct Negotiation” contract, as we indicated in the TCD Expenditures Audit Report.

### **Internal Accounts with Deficit**

Staff presented a report for Schools with deficit in Internal Accounts. As recommended by the *Grand Jury Report* and responded by the School District, the Accounting Department submitted a report of three schools with deficit in Internal Accounts. We are pleased to know that only three schools had deficits in 8 accounts as of June 30, 2012. Three of the accounts became positive as of October 13, 2012; and only one school was still having deficit. Central Office is

monitoring the deficits and working with the school to make sure the deficit is resolved.

### **Hotline**

A review and selection committee was established to review all RFPs; and recommended a vendor.

Legal Department has been assisting Purchasing in drafting the contract, and the proposed draft contract is on your agenda tonight.

If all works well, we expect to have the Hotline in full operation in February 2013.

### **Draft Evaluation Instrument for the Inspector General**

*Draft Evaluation Instrument for the Inspector General*, was deferred to the December 7, 2012, meeting.