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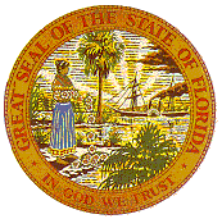

AUDITOR GENERAL

William O. Monroe, CPA

MIAMI-DADE COUNTY DISTRICT SCHOOL BOARD
OPERATIONAL AUDIT OF PROCUREMENT ACTIVITIES
JULY 1, 2000, THROUGH MAY 31, 2002

SUMMARY

This audit report is the fifth in a series of reports to be issued on audits conducted pursuant to Chapter 2001-253, Laws of Florida, Specific Appropriation 118, Chapter 2002-394, Laws of Florida, Specific Appropriation 105, and Section 11.45, Florida Statutes. Additional reports will be issued as audit fieldwork is completed in areas selected by the Auditor General for audit.

This operational audit focused on the Miami-Dade County District School Board's administration of its procurement program and a review of employee job qualifications for the Division of Procurement Management and Materials Testing (Division). The Division is the official purchasing agent of the Board and is responsible for exercising control over the acquisition of commodities, goods, services, and materials; development of bid specifications; selection of bidders; and awarding of contracts. Our audit included tests of procurement transactions occurring from July 1, 2000, through May 31, 2002.

Finding No. 1: Employee Qualifications

Only 8 of the 35 employees who are directly involved in purchasing activities in the Division of Procurement Management and Materials Testing held professional procurement certifications. Policies and procedures should be established to ensure that qualified employees working in the Division obtain and maintain appropriate professional certifications in public procurement.

Finding No. 2: Rotation/Assignment of Staff

Our tests disclosed 12 instances in which employees working in the Division of Procurement Management and Materials Testing did not rotate into other buying areas. In four of these instances, the Office of Management and Compliance Audits had not been notified of the reasons for not rotating the employee although required by District procedures. We found that rotation of staff responsibilities has been negatively impacted by high staff turnover.

Finding No. 3: Catalog Discount Bids

Improvements were needed in the administration of catalog discount bids. The Board should review and evaluate the catalog discount process to ensure that purchases are made at the lowest possible cost and as provided by Board policies and procedures.

Finding No. 4: Bids from Other Agencies

When utilizing other agencies' bids to make purchases, procedures do not require the District to verify that a competitive selection process was used by the agencies to determine

that the lowest possible price consistent with desired quality and performance was accepted.

<u>Finding No. 5:</u> Membership of Procurement-Related Committees

Office of Management and Compliance Audits (OMCA) management personnel are members of several committees that review, evaluate, and select vendors for the procurement of goods and services. To avoid placing OMCA personnel in a position where their independence and objectivity may be compromised, in appearance or in fact, we recommend that OMCA personnel not be assigned voting membership in these types of committees.

INTRODUCTION

Competitive bidding assures the public that the Board's purchases will be made without favoritism and as economically as possible consistent with an adequate standard of quality. State Board of Education Rule 6A-1.012(6), Florida Administrative Code, requires that, except as authorized by law or rule, bids shall be requested from three or more sources for any authorized purchase or contract for services exceeding $25,000. Miami-Dade County District School Board Rule 6Gx13-3C-1.11 generally provides the procedures by which the Board issues, receives, opens, tabulates, awards, and disputes bids. These procedures are also applicable to requests for proposals (RFP), which are generally used by the Board when procuring contracts requiring professional services, goods or services of unusual nature, services that are unique to the provider, or when the quality of services is paramount to the price. Miami-Dade County District School Board Rule 6Gx13-3C-1.111 establishes the following bidding requirements:

Amount of Purchase	Description of District Policy
Over $10,000	Formal written bids are requested from three or more sources.
From $3,000 to $10,000	Letter or telephone quotations are requested from selected sources.
Under $3,000	Written or telephone quotations may be requested from one or more sources but are not required by Board Rule.

Pursuant to Miami-Dade County District School Board Rule 6Gx13-3C-1.09, the Division of Procurement Management and Materials Testing (Division) is the official purchasing agent of the Board and is responsible for exercising control over the acquisition of commodities, goods, services, and materials; development of bid specifications; selection of bidders; and negotiation of contracts. The District has developed written procedures to provide guidance for processing purchase requisitions, purchase orders, bids, and certain contractual agreements.

During fiscal years 1998-99, 1999-2000, and 2000-01, goods and services purchased through the Division totaled $892,921,858, $1,162,442,689, and $843,605,178, respectively. Goods and services purchased from July 2001 through May 2002 totaled $909,681,220. Total purchase orders processed and bids opened during the last four fiscal years are noted below:

Fiscal Year	Purchase Orders	Opened Bids (1)
1998-99	110,117	263
1999-2000	101,331	232
2000-01	100,060	205
2001-02 (2)	76,533	92
	388,041	792

(1) Does not include renewal bids.
(2) Data provided through May 2002.

AUDIT SCOPE, OBJECTIVES, AND METHODOLOGY

The scope of this audit included a review of procedures and tests of expenditures, including contractual agreements and bids, to determine whether the procurement process utilized by the District followed applicable laws, Board rules, and sound business practices. Our objectives were as follows:

- To determine that personnel in the District's Division of Procurement Management and Materials Testing met the minimum job qualifications and maintained professional certifications in public procurement.
- To determine whether management controls over procurement in the Division of Procurement Management and Materials Testing promoted and encouraged compliance with applicable laws, administrative rules, and other guidelines to ensure the economic, effective, and efficient operations of the District.
- To determine the effectiveness of the procedures in effect at the Department of Facilities Planning and Construction for the selection and award of construction contracts for conventional and design-build projects. Our audit did not include a review of the selection and award of construction-manager-at-risk projects.

FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Employee Qualifications

The trend in governmental purchasing is for mandatory certification of procurement professionals. The certifications serve as a symbol to the District's stakeholders that the individuals managing tax dollars have reached a high level of education, experience, and ethical standards as it relates to government purchasing. Organizations that offer certifications to procurement personnel include the Institute for Supply Management (ISM), the National Institute of Governmental Purchasing (NIGP), and the National Association of State Purchasing Officials (NASPO).

The ISM offers two professional certifications: the Certified Purchasing Manager (CPM) and the Accredited Purchasing Practitioner (APP) certifications. The NIGP and the NASPO jointly established the Universal Public Purchasing Certification Council (UPPCC). Professional certifications offered by the UPPCC include the Certified Professional Public Buyer (CPPB) and the Certified Public Purchasing Officer (CPPO). Eligibility for the above certifications is based on the individual's work experience and educational background. To be certified, candidates must pass an examination and designees are also required to be re-certified every five years. The recertification process ensures that the designee remains active in the profession through association membership, contributions to the profession, and

continuous educational opportunities. In addition, all applicants for certification must adhere to established ethical principles. The District and 12 employees within the Division of Procurement Management and Materials Testing are members of the NIGP.

Audit tests of the 35 employees who were directly responsible for the purchase of goods and services at the Division of Procurement Management and Materials Testing disclosed that these employees generally met the written qualifications for their respective positions. These employees included buyers, buyer support specialists, supervisors, directors, and an Assistant Superintendent. However, only 8 of the 35 employees held professional procurement certifications.

The non-certified employees include the Assistant Superintendent in charge of the Division, two Buyers, and 24 Buyer Support Specialists (BSS) whose average salary is $32,350. BSS employees are responsible for soliciting verbal, written, or electronic quotations from competitive vendors regarding pricing, volume, and delivery requirements. We are aware that the BSS are only authorized to approve individual purchases up to $3,000, and that their activities are subject to supervisory review on a monthly basis. However, these employees may make unlimited individual purchases below the $3,000 threshold.

Given the volume of purchases processed by the District, its purchasing function plays a strategic role in ensuring the efficient spending of the District's limited resources. Consequently, the competency of purchasing personnel can become a critical element and focus in the spending of tax dollars. Considering that many governmental agencies require professional certification (e.g., CPPB, CPPO) as a prerequisite for employment in the procurement area, we recommend that the District establish policies and procedures to ensure that qualified employees working in the Division of Procurement Management and Materials Testing obtain and maintain appropriate professional certifications in public procurement.

District Response:

Procurement and Materials Management believes that certification in public purchasing may enhance the skills of procurement staff; however, the current job descriptions do not include this requirement and such a requirement cannot be imposed post facto. Upon discussions with the site administrator from the Department of Wage and Salary, this recommendation will involve collective bargaining with two unions. Additionally, funds will need to be identified to defray the costs for courses leading to and maintaining the certification current. The number of employees identified in your report includes a total of 24 clerical staff, which assist the buyers in performing structured, repetitive tasks. The buyer within each assigned area handles all formal bidding activities, which include many of the purchases under $3,000 included in your audit.

Additionally, repetitive open-market purchases are captured by each buyer, for formal bid development; therefore, any clerical staff processing individual orders will ultimately be reviewed by the administrator for proper procurement process. No clerical

staff evidenced certification at other agencies, inasmuch as buying responsibilities are not part of the job function. However, this office has provided formal training through the National Institute of Governmental Purchasing on General Purchasing Principles to all clerical staff, and believes that continued funding for training will sharpen skills and serve as an incentive to attain certification.

It has been noted that there is a trend to professionalize the industry, by universities establishing and conferring degrees in purchasing; however, upon benchmarking with Miami-Dade County, the State of Florida, and Broward County Public Schools, certification is not required of either clerical or administrative staff. It is our opinion that criteria not applied to other Department of Education regulated school districts, public institutions, and the State itself should not be applied to this District. Requiring certification of the clerical staff at this time is not feasible, inasmuch as similar certifications for both administrators and clerical staff would be counterproductive without higher classification and appropriate compensation. From a practical point of view, this means that the District, absent a restructuring and a reallocation of financial resources, will find certification, rather than being a benefit to the District, to be little more than a training ground for other public and private sector procurement offices, at a cost of tens of thousands of tax dollars. Staff understands and has discussed the need for certification of all buying functions, and planned on addressing this need by converting all Buyer Support Specialist positions to administrative positions through attrition. The job description of administrators will be revised to include a minimum qualification requirement of certification to be obtained within a specified time period if the candidate does not hold certification at the time of hire. It is worthy to note that six (6) out of the eight (8) buyers hold professional certification, and the two (2) remaining administrators are currently attending seminars and college classes to obtain the certification designation. Moreover, an average of 33 to 61 percent of administrative buying staff in other agencies hold certification, compared to 75 percent of staff by Miami-Dade County Public Schools.

The State Auditor General's comments also are specifically directed at the qualifications of the Assistant Superintendent responsible for the District's Procurement and Materials Management operations, including Stores and Distribution, Maintenance and Materials Management, Testing and Evaluation, and Furniture, Fixtures and Equipment. The two recognized certification designations in procurement are:

1. Certified Purchasing Manager (CPM), issued by the Institute for Supply Management which requires that "*the purchasing professional must have five years of non-clerical, full time experience or a four year degree from an accredited institution and three years of professional experience.*"
2. Certified Professional Public Buyer (CPPB), and Certified Public Purchasing Officer (CPPO), issued by the National Institute of Government Purchasing, Inc. (NIGP), based respectively on four and three levels of

achievement. The most advanced prerequisites are:

CPPB Schedule D: Advanced degree (Master's or Ph.D.) – 3 college credit hours in purchasing courses or 24 contact hours in purchasing seminars; and 2 years of current public purchasing experience.

CPPO Schedule C: Advanced degree (Master's or Ph.D.) – 3 college credit hours in purchasing courses or 24 contact hours in purchasing seminars; and 3 years total purchasing experience: 2 years current public purchasing experience, of which 2 years are in public purchasing management function. (UPPCC Application for Public Purchasing Professional Designation – P.4)

The qualifications and certifications of the Assistant Superintendent managing the District's Procurement and Materials Management operations vastly exceed the twenty-four (24) hours of proficiency requirements for certification outlined immediately above. The capabilities by way of certification, aptitude, proficiency, education, theoretical training and day-to-day operational management experience, including over twenty-three (23) years of public sector procurement, construction, claims and negotiation experience, are preceded by, and reflect the following:

University of Houston:

Bachelor of Arts

Thurgood Marshall School of Law:

Juris Doctor

Bates College of Law:

Studies in Remedies and Equity

Univeristy of Denver College of Law:

Earned certification in "Government Contract Claims Law"

University of San Francisco School of Law:

Earned certification in "Procurement for Lawyers"

Earned certification in "Fraud in Government Contracts"

University of Santa Clara School of Law:

Earned certification in "The Skills of Contract Administration"

Since 1997, in spite of personnel shortages, the District's procurement management operations have issued approximately 2,600 bids and Request for Proposals (RFP), and has had a total of 3 judicial/administrative reversals, which evidences an approximate overall error rate of 0.001% and a success percent rate of 99.999%, in favor of the Miami-Dade County School District.

Additionally, the approximate gross dollar volume that Procurement Management and Materials Testing has administered since 1997, is in excess of $7 billion. The total dollar value of disputed reversals since 1997, approximates $360,000 on bus routes and employee testing. The reversals were not settlements. The tax dollars were reallocated to another vendor providing the business service to the District without loss of tax dollars. This evidences an approximate overall operational error rate of 0.00005%, and a success rate of 99.99995%, in favor of the District, and evidences a 100%

successful application of allocated tax dollars to the District's procurement operations.

Finally, the Assistant Superintendent and professional staff have been, and continue to be, members of the National Institute of Governmental Purchasing (NIGP), and National Association of Purchasing Managers (NAPM).

Auditor Clarification:

It is not our intent to question the educational qualifications or experience of the Assistant Superintendent, rather, the point of our audit comment is that the District's procurement operations could be enhanced by requiring the Assistant Superintendent in charge of the Division to obtain and maintain appropriate certifications in public procurement. Also, it is not our intent to suggest that clerical employees be certified as procurement professionals; however, given the volume of purchases authorized by the District's Buyer Support Specialists, specified training and certification of these employees could strengthen the District's procurement operations.

Finding No. 2 – Rotation/Assignment of Staff

Division of Procurement Management and Materials Testing written procedures require that employees holding supervisor, buyer, and buyer support specialist positions rotate into other buying areas every three years from their date of assignment. Position rotation can be waived by the site administrator for reasons such as specific expertise and continuity of services. When rotation is waived, the site administrator submits a memorandum to the Office of Management and Compliance Audits (OMCA) indicating the names of the employees and the reasons for the waiver. According to OMCA personnel, the reasons provided for the waiver are reviewed for appropriateness.

To determine the effectiveness of employee rotation procedures, we tested 25 employees that held positions of supervisor, buyer, and buyer support specialist in the Division of Procurement Management and Materials Testing during the period May 1999 through May 2002. Our tests disclosed 12 instances (48 percent) in which employees did not rotate into other buying areas three years from the date of their previous assignment. District management provided us with copies of rotation waiver memorandums, submitted to the OMCA, for 8 of the 12 employees. The memorandums indicated that the waivers were granted to maintain continuity of service, support and expertise, and minimize disruption of services. In May 2002, we were informed by District management that the other four employees were not rotated due to staffing problems within the Division. The OMCA had not been notified of these four waivers at the time of our review. We were further informed by District management that the overall staff rotation has been negatively impacted by the turnover of staffing within the Division. Our review disclosed that from 1998 through 2002, the turnover of employees with purchasing responsibilities within the Division was approximately 75 percent.

Rotating the responsibilities of employees provides valuable cross-training opportunities and ensures the District continuity of service and support in the various buying areas. A

well-implemented rotation schedule reduces the risk of errors and fraud and enhances the integrity of the District's procurement system. Given the high percentage of position rotation waivers noted in our tests, we recommend that procedures be enhanced to provide for more effective planning of position rotation within the Division of Procurement Management and Materials Testing. Furthermore, information regarding position rotation waivers should be timely submitted to the OMCA for review and should also include the length of time the employee has been assigned to the same position. Finally, given the significant impact of high employee turnover as it relates to staff rotation and the overall efficiency of the Division, the District should review the causes for employee turnover within the Division and take appropriate action.

District Response:

Until July 1998, Procurement Management and Materials Testing did not have a formal rotation policy for buying staff. As a result of an internal audit, the policy was formalized to stipulate that staff would be rotated every three (3) years from date of assignment. It also included a provision that a waiver could be requested as determined by the site administrator. The rotation of staff is not limited to the actual transfer of a person to another buying area, but includes the transfer of buying categories to other buyers, and was effected several times by the site administrator. The Division did not rotate four (4) individuals due to significant cuts in staffing, resignations, and death to provide continuity of services. Any reassignment at that time would have resulted in a negative impact in the delivery of goods and services to school locations, thereby disrupting educational programs. Three major governmental agencies were contacted, including the State of Florida, as well as the National Institute of Governmental Purchasing, who indicated that they do not have a rotation policy in place. The agencies indicated that the staff informally transfers categories to different buyers to maximize cross training. Inasmuch as buyer rotation is a best practice that is not possible to fully implement at this time, due to staffing considerations as noted throughout this response, we will continue to rotate buying categories as much as possible. The Office of Management and Compliance Audits will be consulted when buying categories are rotated.

Due to significant budget reductions that the entire District has faced, the Division has reassigned duties to remaining staff, to continue the procurement of required goods and services to all school locations. Consequently, it is believed that some of the turnover ratio is due to the increased workload assignments, with no salary adjustments or incentives. Additionally, employees are seeking vertical growth outside the District, inasmuch as the current budget constraints and hiring freeze do not allow future growth. As the economy recovers, the District will expect to address this issue in the coming fiscal year.

Finding No. 3 – Catalog Discount Bids

State Board of Education Rule 6A-1.012(6), Florida Administrative Code, provides that the Board shall accept the lowest and best bid from a responsive and responsible bidder. Miami-Dade County District School Board Rule 6Gx13-3C-1.11 sets forth procedures for

the bidding process and provides that, "Good public administration requires that commodities bought by any school, department, or agency be purchased at the lowest possible cost, consistent with an adequate standard of quality, usually through competitive bidding."

The District's current written purchasing procedures (dated 1992) provide for catalog discount bids. District personnel advised us that catalog discount bids were developed for items that are lower in cost, but higher in volume, such as office products and computer parts. Catalog discount bid procedures provide that such bids will be awarded to the vendor (primary vendor) who has offered the highest fixed discount off manufacturers' current published price lists, and to secondary vendors that have offered the second and subsequent highest fixed discounts. The procedures also state that vendors are required to provide the District with current copies of manufacturers' price lists and any updated price lists as soon as they are available. Items included in the catalog discount bid are to be purchased from the secondary vendor if the primary vendor cannot provide the item within the time frame required.

During the period from July 2000 through April 2002, the Board awarded the following catalog discount bids:

Bid Description		Total Purchases Authorized	
Computers and Servers	$	47,418,201	*
Office Furniture		10,568,781	*
Computer Printers		9,338,857	*
Office Supplies		6,960,287	*
Industrial/Technology Education Equipment and Supplies		6,551,261	*
Classroom Supplies		6,462,861	*
Audio Visual Equipment		5,500,000	*
Network Connectivity Devices		4,097,817	
Computer Peripherals, Parts, and Supplies		3,635,771	*
Food Service Equipment		3,517,087	
Science Equipment and Supplies		2,269,344	
Industrial Equipment and Supplies		2,101,434	
Portable Radios and Accessories		1,690,054	
District Software Licensing		1,646,121	
Portable Radio Communications		1,290,315	
Playground Equipment		940,692	*
Physical Education/Athletic Equipment and Supplies		754,351	
Musical Instruments		553,846	*
Speech and Hearing Equipment and Accessories		449,658	
Medical Equipment and Supplies		386,162	
Fitness Equipment and Supplies		114,582	
Total	$	116,247,482	

*Selected for audit review and testing.

Our review and testing of catalog discount bids and the related purchases from vendors awarded such bids disclosed the following:

- We noted certain items which do not appear to be low cost and high volume items, such as computers, computer printers, musical instructions, office furniture, audio visual equipment, and playground equipment that were purchased by the District utilizing catalog discount bids.
- The Board usually did not make the primary and secondary vendor designations when awarding catalog discount bids. All vendors who submitted percentage discounts or mark-ups and met bid specifications for computer equipment; industrial technology education equipment

and supplies; computer peripherals, parts and supplies; playground equipment; and classroom supplies were awarded contracts regardless of the percentage discounts or percentage mark-ups bid. We also noted that 7 of 16 bidders who offered percentage discounts off a particular audio visual equipment manufacturer's catalog prices were awarded contracts. The seven bidders offered percentage discounts that ranged from 10 percent to 31.9 percent. Our testing disclosed that catalog discount bid purchases were usually made from the several vendors that received awards of a particular catalog discount bid; however, when purchases were made from vendors that did not bid the lowest bid price, records were usually not maintained to show the justification for not making the purchases from the vendors that bid the lowest price.

- Prices shown in the vendor catalogs, manufacturer catalogs, and descriptive price lists were allowed to change during the contract period; however, the percentage discount or mark-up bid was required to remain constant. The effectiveness of the competitive bidding process is compromised when factors used in determining prices may be changed by bidders subsequent to the bid award without reevaluation of prices offered by other competing vendors.

- Our test of 45 catalog discount bid purchases disclosed that, in most instances, catalogs and descriptive price lists, including those submitted at the time of the bid, were not being retained by the District. Our tests also disclosed that vendor invoices usually listed only the net prices instead of separately listing catalog prices and applicable percentage discounts or mark-ups for the items being purchased. Consequently, documentation was not available to permit us to verify that the correct prices were paid for most of the purchases tested.

We recommend that the Board review and evaluate catalog discount bidding procedures to determine whether certain catalog discount bids are appropriate for the purchase of items that are not low cost and high volume, such as computers, computer printers, musical instruments, office furniture, audio visual equipment, and playground equipment. Additionally, to help ensure that catalog discount bidding procedures are utilized most effectively, we also recommend the following:

- The Board's rules should identify the types of items that can be purchased with catalog discount bids.

- The primary and secondary vendors should be designated by the Board in the bid awards to help ensure that purchases are made from the vendors offering the lowest price. When catalog discount bid purchases are made from the secondary vendors, records should be maintained to show the justification for not making the purchases from the vendors that bid the lowest price.

- Vendors that are awarded catalog discount bid contracts should not be allowed to change or modify their prices during the contract period without the reevaluation of prices offered by other competing vendors and written approval by the Board's

Division of Procurement Management and Materials Testing.

- All catalogs and descriptive price lists submitted for the original bid should be kept in the District's bid files and a historical record should be maintained of all revised catalogs and descriptive price list changes to provide documentation that the correct prices were charged by vendors. Also, vendors should be required to provide invoices that list the catalog prices and applicable percentage discounts or mark-ups to help facilitate price verifications by District personnel.

District Response:

The District has issued catalog discount bids for many years, particularly for the savings that could be generated, and it is a standard procurement methodology utilized by most agencies including the State of Florida, Metro-Dade County, and Broward County Schools.

Please be advised that the use of catalog bids was originally intended for the purchase of low cost, high volume items, such as classroom and office supplies. Due to the high volume of other types of items, the methodology was extended to include additional categories, but the procedure, initially issued in 1992, was not amended to reflect this change. However, each bid included the criteria for award, conditions for submission of price lists and adjustments, but some of the procedures were not followed by staff, i.e., attaching required documentation to the purchase order to validate price, and maintaining original price lists.

The procedures will be revised to require re-evaluation of prices offered by other competing vendors who are submitting requests for price adjustments, which shall be authorized only as specified in the Special Conditions of the bid. All catalogs and descriptive price lists submitted with the original bid shall be kept in the bid master file and a historical record shall be maintained of all revised catalogs and descriptive price lists. Also, the Special Conditions of each catalog bid shall be revised to require the revised catalogs and descriptive price lists be submitted. Finally, the Special Conditions of each catalog bid shall be revised to require that each invoice list the catalog price and applicable percentage discount, to facilitate verification by District staff.

Staff will continue to evaluate the utilization of catalog discount bids, irrespective of dollar value and volume. Both high cost and volume items have been determined to generate substantial savings to the District, especially technology, audio visual equipment, and wiring, where economies of scale were achieved by consolidating requirements and soliciting quotations.

Finding No. 4 – Bids from Other Agencies

State Board of Education Rule 6A-1.012(5), Florida Administrative Code, provides that in lieu of requesting bids from three or more sources, the school board may make purchases at unit prices in contracts awarded by other governmental agencies when such purchases are to the economic advantage of the school board. Pursuant to Miami-Dade County District School Board Rule 6Gx13-3C-1.10, the District purchased goods and services using the contracts awarded by other city or county governmental agencies, other school boards,

community colleges, or state university system cooperative bid agreements.

District records indicated that from July 2000 through May 2002, the District purchased approximately $2 million of goods and services pursuant to bids awarded by agencies such as Miami-Dade County, Palm Beach County, Broward County District School Board, Pinellas County District School Board, and Duval County District School Board. The District's written procedures provide that, prior to utilizing other agencies' bids, the rationale for doing so should be documented. A copy of the contract and price list must be attached to the purchase order and included in the master file for reference. However, the procedures do not require the District to verify the competitive selection process utilized by the agencies to determine that the lowest possible price consistent with desired quality and performance was accepted.

Notwithstanding the fact that State Board of Education Rule 6A-1.012(5), Florida Administrative Code, allows the District to make purchases using bids of other governmental agencies, this Rule does not relieve the District from its responsibility to obtain necessary documentation for its records to evidence that a competitive selection process was properly conducted. We recommend that the District's procedures be enhanced to ensure that, when relying on bids of other governmental agencies, pertinent documentation, including bid tabulation sheets or other documentation from the other government agencies, is obtained to evidence the competitive selection process and clearly establish the lowest qualified bidder in the District's public records.

District Response:

Several years ago, procedures were developed for the utilization of other government agency bids, which required that a copy of the contract, terms and conditions, and price, be appended to the purchase order. It was proffered by Procurement that the best method to ensure that a valid contract was in place, approved by the governing board of the entity or its designee, would be the actual contract. It is reasonable to conclude that these bids were competitively advertised, bid and awarded. Inasmuch as procedures vary from agency to agency, it is virtually impossible to conclude that the process fulfills all requirements that would satisfy the definition of competitiveness as set forth in the audit.

There is no provision in the Florida Statutes, Department of Education Administrative Rules (DOE), or School Board Rules, which mandates that Procurement Management and Materials Testing must obtain necessary documentation to substantiate competitiveness. It is assumed that these agencies will do so. However, Procurement Management and Materials Testing will revise its procedures to include a requirement to obtain, to the extent possible, additional information such as tab sheets, agenda item, or other information that would evidence a competitive selection process from the agencies whose bids are used.

Finding No. 5 – Membership of Procurement-Related Committees

Miami-Dade District School Board Rule 6Gx13-2C-1.14 states that the Office of Management and Compliance Audits (OMCA) is responsible for providing the Superintendent, the Audit Committee, and the Board with an independent and objective evaluation of the operation of the school system. The Board Rule further addresses the administrative operations of the OMCA, and states that the OMCA staff should comply with professional standards of conduct. The Rules of Conduct of the Institute of Internal Auditors provide that internal auditors shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization.

The District uses numerous committees to review, evaluate, and select vendors for the procurement of goods and services. We requested from District management a list of all active committees relating to the procurement area. Our review of the committees' membership disclosed instances in which management personnel from the OMCA were voting members of some of these committees. Noted below are some of those instances:

- Professional Services Contract Committee. Members of this committee are responsible for reviewing and considering requests for exceptions to the Board Rule for professional services contracts, i.e., sole source, specific expertise, and as otherwise determined by the committee. The Chief Auditor, OMCA, is a voting member of this committee.
- Technology Standards Review Committee. Members of this committee are responsible for reviewing technology requirements and requests for computer purchases that exceed $70,000. The committee may also request diversification of brands and manufacturers. The Chief Auditor, OMCA, is a voting member of this committee.
- Telecommunications Committee. Members of this committee are generally responsible for addressing requests for the installation of commercial telecommunication towers on school sites and granting easements for controlled environmental vaults and fiber optic cabinets with various telecommunications service providers. Proposals are recommended to the Board for consideration. The Chief Auditor, OMCA, and the Executive Director EDP Audits, OMCA, are voting members of this committee. Although this committee is in the process of being reorganized, the proposed membership of the new committee still includes the Chief Auditor, OMCA.

- Requisition Review Committee. This committee was established pursuant to the Superintendent's freeze on all non-essential purchases of commodities and services utilizing the General Fund. Members of this committee are responsible for reviewing and approving all requisitions to determine if they are essential to the continuity and enhancement of the educational process. The Chief Auditor, OMCA, is a voting member of this committee.

We recognize that it may be desirable to have OMCA personnel attend certain committee meetings, as observers, to keep abreast of new developments in the school system or to provide expert advice. However, when participation on these committees includes a vote in the decision-making process, such participation may limit the independence, or the appearance of independence, with regard to the committee actions taken and thereby limit the OMCA's role in subsequently reviewing such actions. To avoid placing OMCA personnel in a position where their independence and objectivity may be compromised, in fact or in appearance, we recommend that OMCA staff not be assigned voting membership on procurement-related committees. If it is the District's intent to use OMCA personnel as voting members of procurement-related committees, alternative methods of providing for a formal risk assessment of such transactions, and the performance of any necessary reviews of such transactions and related controls, should be evaluated by the District.

District Response:

The adding of the internal auditors to the above-referenced committees was made several years ago to further enhance the control environment around the procurement functions; however, since it is your opinion that it could be perceived as an impairment on their independence, please note that effective immediately, the representatives from the Office of Management and Compliance Audits will serve as non-voting members. Pertinent Board rules will be changed by March 2003, which will be subject to initial reading and final adoption by the Board.

In conclusion, we concur that there is always a need for improvement. As you are aware, District operations, including Procurement and Materials Management, have been impacted

by budgetary constraints. We have established a hiring freeze to reduce costs as a result of the statewide revenue situation. These constraints have impacted and will continue to impact operational efficiencies. However, we will continue to further enhance performance, accountability, productivity, and savings for the District by streamlining processes.

AUTHORITY

Pursuant to the provisions of Section 11.45, Florida Statutes, I have directed that this report be prepared and submitted to the President of the Senate, the Speaker of the House, and the Legislative Auditing Committee.

William O. Monroe, CPA
Auditor General

To promote accountability in government and improvement in government operations, the Auditor General makes operational audits of selected programs, activities, and functions of district school boards. This operational audit was made in accordance with applicable Governmental Auditing Standards issued by the Comptroller General of the United States. This audit was conducted by Ramon A. Gonzalez, CPA. Please address inquiries regarding this report to David W. Martin, CPA, Audit Manager, via e-mail at davidmartin@aud.state.fl.us or by telephone at (850) 487-9039.

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December 4, 2002

Mr. William O. Monroe, CPA
Auditor General
State of Florida
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, FL 32399-1450

RE: PROCUREMENT ACTIVITIES AUDIT – MIAMI-DADE COUNTY DISTRICT SCHOOL BOARD - - FOR THE PERIOD OF JULY 1, 2000, THROUGH MAY 31, 2002

Dear Mr. Monroe:

The following responses are submitted to address the preliminary audit findings and recommendations of the operational audit of Procurement Management and Materials Testing:

FINDING NO. 1: EMPLOYEE QUALIFICATIONS

Recommendation:

That the District establish policies and procedures to insure that qualified employees working in the Division of Procurement Management and Materials Testing obtain and maintain appropriate professional certification in public procurement.

Administrative Response:

Procurement and Materials Management believes that certification in public purchasing may enhance the skills of procurement staff; however, the current job descriptions do not include this requirement and such a requirement cannot be imposed post facto. Upon discussions with the site administrator from the Department of Wage and Salary, this recommendation will involve collective bargaining with two unions. Additionally, funds will need to be identified to defray the costs for courses leading to and maintaining the certification current. The number of employees identified in your report includes a total of 24 clerical staff, which assist the buyers in performing structured, repetitive tasks. The buyer within each assigned area handles all formal bidding activities, which include many of the purchases under $3,000 included in your audit. Additionally, repetitive open-market purchases are captured by each buyer, for formal bid development; therefore, any clerical staff processing individual orders will ultimately be reviewed by the administrator for proper procurement process. No clerical staff evidenced certification at other agencies, inasmuch as buying responsibilities are not part of the job function. However, this office has provided formal training through the National Institute of Governmental Purchasing on General Purchasing Principles to all clerical staff, and believes that continued funding for training will sharpen skills and serve as an incentive to attain certification.

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It has been noted that there is a trend to professionalize the industry, by universities establishing and conferring degrees in purchasing; however, upon benchmarking with Miami-Dade County, the State of Florida, and Broward County Public Schools, certification is not required of either clerical or administrative staff. It is our opinion that criteria not applied to other Department of Education regulated school districts, public institutions and the State itself should not be applied to this District. Requiring certification of the clerical staff at this time is not feasible, inasmuch as similar certifications for both administrators and clerical staff would be counterproductive without higher classification and appropriate compensation. From a practical point of view, this means that the District, absent a restructuring and a reallocation of financial resources, will find certification, rather than being a benefit to the District, to be little more than a training ground for other public and private sector procurement offices, at a cost of tens of thousands of tax dollars. Staff understands and has discussed the need for certification of all buying functions, and planned on addressing this need by converting all Buyer Support Specialist positions to administrative positions through attrition. The job description of administrators will be revised to include a minimum qualification requirement of certification to be obtained within a specified time period if the candidate does not hold certification at the time of hire. It is worthy to note that six (6) out of the eight (8) buyers hold professional certification, and the two (2) remaining administrators are currently attending seminars and college classes to obtain the certification designation. Moreover, an average of 33 to 61 percent of administrative buying staff in other agencies hold certification, compared to 75 percent of staff by Miami-Dade County Public Schools.

The State Auditor General's comments also are specifically directed at the qualifications of the Assistant Superintendent responsible for the District's Procurement and Materials Management operations, including Stores and Distribution, Maintenance and Materials Management, Testing and Evaluation, and Furniture, Fixtures and Equipment. The two recognized certification designations in procurement are:

1. Certified Purchasing Manager (CPM), issued by the Institute for Supply Management which requires that *"the purchasing professional must have five years of non-clerical, full time experience or a four year degree from an accredited institution and three years of professional experience."*

2. Certified Professional Public Buyer (CPPB), and Certified Public Purchasing Officer (CPPO), issued by the National Institute of Government Purchasing, Inc. (NIGP), based respectively on four and three levels of achievement. The most advanced prerequisites are:

   CPPB Schedule D: Advanced degree (Master's or Ph.D.) – 3 college credit hours in purchasing courses or 24 contact hours in purchasing seminars; and 2 years of current public purchasing experience.

   CPPO Schedule C: Advanced degree (Master's or Ph.D.) – 3 college credit hours in purchasing courses or 24 contact hours in purchasing seminars; and 3 years total purchasing experience: 2 years current public purchasing experience, of which 2 years are in public purchasing management function. (UPPCC Application for Public Purchasing Professional Designation – P.4)

The qualifications and certifications of the Assistant Superintendent managing the District's Procurement and Materials Management operations vastly exceed the twenty-four (24) hours of proficiency requirements for certification outlined immediately above. The capabilities by way of certification, aptitude, proficiency, education, theoretical training and day-to-day operational management experience, including over twenty-three (23) years of public sector procurement, construction, claims and negotiation experience, are preceded by, and reflect the following:

University of Houston:
Bachelor of Arts

Thurgood Marshall School of Law:
Juris Doctor

Bates College of Law:
Studies in Remedies and Equity

University of Denver College of Law:
Earned certification in "Government Contract Claims Law"

University of San Francisco School of Law:
Earned certification in "Procurement for Lawyers'"
Earned certification in "Fraud in Government Contracts"

University of Santa Clara
School of Law:
Earned certification in "The Skills of Contract Administration"

Since 1997, in spite of personnel shortages, the District's procurement management operations have issued approximately 2,600 bids and Request for Proposals (RFP), and has had a total of 3 judicial/administrative reversals, which evidences an approximate overall error rate of .001%, and a success percent rate of 99.999%, in favor of the Miami-Dade County School District.

Additionally, the approximate gross dollar volume that Procurement Management and Materials Testing has administered since 1997, is in excess of $7 billion. The total dollar value of disputed reversals since 1997, approximates $360,000 on bus routes and employee testing. The reversals were not settlements. The tax dollars were reallocated to another vendor providing the business service to the District without loss of tax dollars. This evidences an approximate overall operational error rate of .00005%, and a success rate of 99.99995%, in favor of the District, and evidences a 100% successful application of allocated tax dollars to the District's procurement operations.

Finally, the Assistant Superintendent and professional staff have been, and continue to be, members of the National Institute of Governmental Purchasing (NIGP), and National Association of Purchasing Managers (NAPM).

FINDING NO. 2: ROTATION/ASSIGNMENT OF STAFF

Recommendation:

We recommend that procedures be enhanced to provide for more effective planning of position rotation within the Division of Procurement Management and Materials Testing.

Administrative Response:

Until July 1998, Procurement Management and Materials Testing did not have a formal rotation policy for buying staff. As a result of an internal audit, the policy was formalized to stipulate that staff would be rotated every three (3) years from date of assignment. It also included a provision that a waiver could be requested as determined by the site administrator. The rotation of staff is not limited to the actual transfer of a person to another buying area, but includes the transfer of buying categories to other buyers, and was effected several times by the site administrator. The Division did not rotate four (4) individuals due to significant cuts in staffing, resignations, and death to provide continuity of services. Any reassignment at that time would have resulted in a negative impact in the delivery of goods and services to school locations, thereby disrupting educational programs. Three major governmental agencies were contacted, including the State of Florida, as well as the National Institute of Governmental Purchasing, who indicated that they do not have a rotation policy in place. The agencies indicated that the staff informally transfers categories to different buyers to maximize cross training. Inasmuch as buyer rotation is a best practice that it is not possible to fully implement at this time, due to staffing considerations as noted throughout this response, we will continue to rotate buying categories as much as possible. The Office of Management and Compliance Audits will be consulted when buying categories are rotated.

Due to significant budget reductions that the entire District has faced, the Division has reassigned duties to remaining staff, to continue the procurement of required goods and services to all school locations. Consequently, it is believed that some of the turnover ratio is due to the increased workload assignments, with no salary adjustments or incentives. Additionally, employees are seeking vertical growth outside the District, inasmuch as the current budget constraints and hiring freeze do not allow future growth. As the economy recovers, the District will expect to address this issue in the coming fiscal year.

FINDING NO. 3: CATALOG DISCOUNT BIDS

Recommendation:

We recommend that the Board review and evaluate catalog discount bidding procedures to determine whether certain catalog discount bids are appropriate for the purchase of items that are not low cost and high volume.

Administrative Response:

The District has issued catalog discount bids for many years, particularly for the savings that could be generated, and it is a standard procurement methodology utilized by most agencies including the State of Florida, Metro-Dade County, and Broward County Schools.

Please be advised that the use of catalog bids was originally intended for the purchase of low cost, high volume items, such as classroom and office supplies. Due to the high volume of other types of items, the methodology was extended to include additional categories, but the procedure, initially issued in 1992, was not amended to reflect this change. However, each bid included the criteria for award, conditions for submission of price lists and adjustments, but some of the procedures were not followed by staff, i.e., attaching required documentation to the purchase order to validate price, and maintaining original price lists.

The procedures will be revised to require re-evaluation of prices offered by other competing vendors who are submitting requests for price adjustments, which shall be authorized only as specified in the Special Conditions of the bid. All catalogs and descriptive price lists submitted with the original bid shall be kept in the bid master file and a historical record shall be maintained of all revised catalogs and descriptive price lists. Also, the Special Conditions of each catalog bid shall be revised to require the revised catalogs and descriptive price lists be submitted. Finally, the Special Conditions of each catalog bid shall be revised to require that each invoice list the catalog price and applicable percentage discount, to facilitate verification by District staff.

Staff will continue to evaluate the utilization of catalog discount bids, irrespective of dollar value and volume. Both high cost and volume items have been determined to generate substantial savings to the District, especially technology, audio visual equipment, and wiring, where economies of scale were achieved by consolidating requirements and soliciting quotations.

FINDING NO. 4: BIDS FROM OTHER AGENCIES

Recommendation:

We recommend that the District's procedures be enhanced to ensure that, when relying on bids of other governmental agencies, pertinent documentation from the other government agencies, is obtained to evidence the competitive selection process and clearly establish the lowest qualified bidder in the District's public records.

Administrative Response:

Several years ago, procedures were developed for the utilization of other government agency bids, which required that a copy of the contract, terms and conditions, and price, be appended to the purchase order. It was proffered by Procurement that the best method to ensure that a valid contract was in place, approved by the governing board of the entity or its designee, would be the actual contract. It is reasonable to conclude that these bids were competitively advertised, bid and awarded. Inasmuch as procedures vary from agency to agency, it is virtually impossible to conclude that the process fulfills all requirements that would satisfy the definition of competitiveness as set forth in the audit.

There is no provision in the Florida Statutes, Department of Education Administrative Rules (DOE), or School Board Rules, which mandates that Procurement Management and Materials Testing must obtain necessary documentation to substantiate competitiveness. It is assumed that these agencies will do so. However, Procurement Management and Materials Testing will revise its procedures to include a requirement to obtain, to the extent possible, additional information such as tab sheets, agenda item, or other information that would evidence a competitive selection process from the agencies whose bids are used.

FINDING NO. 5: MEMBERSHIP OF PROCUREMENT RELATED COMMITTEES

Recommendation:

We recommend that the Office of Management and Compliance Audits staff not be assigned voting membership on procurement-related committees.

Administrative Response:

The adding of the internal auditors to the above-referenced committees was made several years ago to further enhance the control environment around the procurement functions; however, since it is your opinion that it could be perceived as an impairment on their independence, please note that effective immediately, the representatives from the Office of Management and Compliance Audits will serve as non-voting members. Pertinent Board rules will be changed by March 2003, which will be subject to initial reading and final adoption by the Board.

In conclusion, we concur that there is always a need for improvement. As you are aware, District operations, including Procurement and Materials Management, have been impacted by budgetary constraints. We have established a hiring freeze to reduce costs as a result of the statewide revenue situation. These constraints have impacted and will continue to impact operational efficiencies. However, we will continue to further enhance performance, accountability, productivity, and savings for the District by streamlining processes.

Should you have any questions pertaining to this matter, please contact my office.

Sincerely,

Merrett R. Stierheim
Superintendent of Schools

MRS:nm
L-1316 (R-1691)

cc: School Board Members
Audit Committee Members
Dr. Richard H. Hinds
Mr. George M. Burgess
Dr. Rose Barefield-Cox
Mr. George Balsa
Mr. Joseph A. Gomez
Ms. Barbara Jones
Supervisors
Buyers