Memorandum

Date: May 7, 2008

To: Honorable Carlos Alvarez, Mayor
Honorable Chairman Bruno A. Barreiro and Members,
Board of County Commissioners

From: George M. Burgess
County Manager

Subject: Audit Report – Miami-Dade Transit Security Officer Services Contract

For your review, enclosed is a copy of the captioned Audit Report dated April 30, 2008, prepared by the Audit and Management Services Department (AMS), which incorporates The Wackenhut Corporation’s Preliminary Response. Wackenhut will forward a more detailed response within 90 days and the Miami-Dade Transit Department (MDT) will also reply to those findings pertaining to its Agency within the same timeframe.

As you know, this audit was initiated after I was advised of alleged billing improprieties pertaining to the Security Officer Services Contract with The Wackenhut Corporation. The Plaintiff’s Attorney filed a Qui Tam Action under the Miami-Dade County Code False Claims Ordinance, alleging that the County had been fraudulently billed for phantom services at the rate of $3.5 to $4.5 million annually. On September 27, 2005, I directed AMS to audit the Miami-Dade Transit and Juvenile Assessment Center Contracts with Wackenhut. After assessing the County’s exposure, AMS decided to limit the audit scope to the MDT Contract due to its higher monetary value and greater potential for billing irregularities. The audit was conducted on activity for the three-year period ended September 30, 2005.

Based on the examination of 4,352 billing transactions, including 505 items that were statistically chosen for testing, AMS estimates Wackenhut overbilled the County $6.26 million. The amount includes $6.02 million billed for time not worked, plus $233,550 in liquidated damages and other miscellaneous chargebacks. The testing of the 505 transactions disclosed a 15.13% error rate or $14,722 that was extrapolated to the $39.2 million invoiced during the audit period, which yielded $5.93 million in questioned billings. Testing of the other 3,847 transactions yielded another $83,665 that was not extrapolated. Most transactions were questioned due to discrepancies between hours invoiced according to attendance records and those worked per other substantiating documents (e.g., Log Books and/or Activity Reports). It appears that Wackenhut did not have sufficient personnel to fully staff all Posts, and MDT was billed as though Security Officers were on duty when, in fact, they were not.

According to Wackenhut, the 15.13% error rate is artificial due to the inclusion of 167 transactions that were not part of the initial sample size. We agree that adjustments to a statistical sample can affect outcomes and thus, understand Wackenhut’s concerns. These
transactions were not discriminately chosen by AMS, but were identified as they attempted to account for all parties associated with each questioned billing transaction. Nonetheless, when the error rate is adjusted to remove exceptions associated with the additional 167 transactions, the rate drops from 15.13% to 8.70%, yielding $3.4 million in questioned billings. These and other concerns expressed by Wackenhut regarding the audit are addressed in the following memorandum prepared by the AMS Director. As mentioned previously, the full text of Wackenhut's Preliminary Response is also enclosed herein.

Due to the seriousness of the findings, Wackenhut has been given 90-days to provide unequivocal evidence to disprove the questioned transactions that will be evaluated by AMS and my office. I also want to remind you that the overbilled amount cited by AMS is an estimate that is subject to change during the audit resolution process. Regardless of the final amount and Wackenhut's willingness to reimburse the County, there is no disputing that MDT was billed for hours not worked by Wackenhut Security Officers which is a very serious offense. Law enforcement officials were long ago advised of our concerns and investigations are underway to determine criminal wrongdoings, if any.

In the meantime, I am considering several options that have been outlined in a separate memorandum to the Mayor that was also forwarded to each of you at the time the audit report was delivered. Upon expiration of the 90-day audit resolution period, I will present a more specific action plan that will address continuity of services, recovery of overbillings, and corrective measures taken to prevent similar occurrences.

Please contact me or Cathy Jackson, Director of the Audit and Management Services Department should you have any questions.

CJ:zg

Attachment

c: Honorable Harvey A. Ruvin, Clerk of the Courts
Robert A. Cuevas, Jr., County Attorney
Ysela Llort, Assistant County Manager
Jennifer Glazer-Moon, Special Assistant/Director, Office of Strategic Business Management
Harpal S. Kapoor, Director, Miami-Dade Transit
Cathy Jackson, Director, Audit and Management Services
Charles Anderson, Commission Auditor
Christopher Mazzella, Inspector General
Memorandum

Date: April 30, 2008

To: George M. Burgess, County Manager
    County Executive Offices

From: Cathy Jackson, Director
      Audit and Management Services Department

Subject: Audit Report – Miami-Dade Transit Security Officer Services Contract

For your review, enclosed is a copy of the captioned Audit Report dated April 24, 2008, prepared by the Audit and Management Services Department (AMS), which incorporates The Wackenhut Corporation’s Preliminary Response. It is my understanding that Wackenhut will forward a more detailed response within 90 days, addressing the questionable billing transactions. Also, we are requesting that the Miami-Dade Transit Department (MDT) reply to those findings pertaining to its Agency within the same timeframe.

As you know, this audit was initiated after you were advised of alleged billing improprieties regarding the Security Officer Services Contract with The Wackenhut Corporation. At the time the audit request was made, you had received a formal notice from the Plaintiff’s Attorney regarding a Qui Tarn Action filing under the Miami-Dade County Code False Claims Ordinance, alleging that the County had been fraudulently billed for phantom services at the rate of $3.5 to $4.5 million per year. Although your request dated September 27, 2005 directed AMS to audit the Miami-Dade Transit and Juvenile Assessment Center (JAC) Contracts, the scope of our work was limited to the MDT Contract due to its higher monetary value and greater potential for billing irregularities. Thus we focused our efforts on the MDT Contract and have no plans to audit the JAC.

Based on the testing of 4,352 billing transactions, including 505 items for which the sampling results were extrapolated, we estimate Wackenhut owes the County $6.26 million that should be reimbursed unless substantive evidence is provided to resolve the questioned billings. The amount in question includes $6.02 million in billings for time not worked, plus $233,550 in liquidated damages and other miscellaneous chargebacks.

The 505 items statistically chosen for testing represented 0.25% of the hours and dollars billed over the three-year audit period. The statistical sampling results disclosed a 15.13% error rate or $14,722 in questioned billings. We extrapolated the error rate to the $39.2 million invoiced during the audit period, which yielded $5.93 million in questioned billings. Enhanced testing of certain individuals and Posts yielded another $83,665 that was not extrapolated.

Most transactions were questioned because of discrepancies between hours invoiced and worked per the Log Books and/or Activity Reports. It appears that Wackenhut did not have sufficient
personnel to fully staff all Posts, and MDT was billed as though Security Officers were on duty when, in fact, they were not. For example:

- Officers would depart early from their Posts but were invoiced as if their Shifts were fully completed. Relieving Officers, coming from other Posts, were also billed as if they remained at their original Posts.

- Supervisors were billed as standing guard at open Posts for up to three hours although Log Books and/or Supervisor Activity Reports indicate these individuals were elsewhere.

- Stations with two Posts must be manned individually. However, in some instances, only one of the two Posts had coverage, yet the County was billed as though both Posts were staffed.

Wackenhut has taken exception to our audit approach and the manner in which the sample results were extrapolated. The key points of contention excerpted from their Response follow:

- **Per the Contract, the Sign-in Register is the only contractually required method for recording time and attendance on the Metrorail and other MDT facilities. This has been the case for almost 20 years and no other method has been authorized by the Contract or otherwise allowed.**

- **It has been Wackenhut’s position from the inception of the audit to take full responsibility and to reimburse the County for any substantiated billing errors. Wackenhut, however, objects to paying an artificially inflated amount derived through questionable extrapolation methods which rely on Logbooks and Activity Reports, documents that are not and have never been intended to be used as a timekeeping instrument (Especially when other documentary evidence, such as the County’s own records, are available to refute audit findings).**

- **Although AMS has utilized Logbooks and Activity Reports as a time capture document for purposes of verifying payroll/billing, Logbooks and Activity Reports were never intended to be utilized as time capture documents pursuant to the Contract.**

- **Additional reliable documentation that can be used to verify attendance, such as rail patrol dispatch logs and Blue Phone Logs, were wholly disallowed and discounted by AMS as support during the Audit, even though they clearly evidence Wackenhut officers on duty during varying times throughout the course of the Audit Report when AMS questions billings.**

- **Evidence of Wackenhut officers coming on duty and off duty is beyond dispute, although same is discounted by AMS, as Wackenhut officers open and close every station every day. This practice is documented on Miami-Dade County Blue Phone Logs and Wackenhut dispatch logs, documents disallowed as support by AMS.**
Questionable billing findings that AMS used as the basis for extrapolation only total $14,722.20 for the entire 3 year audit period.

AMS appears to have utilized a handful of selective portions of deposition testimony obtained from plaintiff's counsel in the Qui Tam action, without reviewing the balance of approximately 90 depositions taken, to draw broad conclusions, thereby usurping the role of judge and jury.

The AMS error rate is clearly artificial due to the inclusion of anomalies that have been identified in the sample.

If you accept the unreasonably high and erroneous error rate of 15% utilized by AMS, the questioned billings totaling $14,722.20 are extrapolated to $5.93 million in questioned billings.

$5.93 Million dollars in extrapolated questionable billings would equate to 12 out of 22 stations having absolutely no coverage whatsoever for 3 straight years (or not rendering approximately 1,700 hours per week of services for a 3 year period). Hopefully, this point illustrates the illegitimacy of the error rate and extrapolation methodology utilized by AMS.

After thoughtful consideration of Wackenhut’s concerns, AMS reaffirms the accuracy of our findings, soundness and objectivity of our approach, and conservative methodologies used in extrapolating the sample results to derive an estimate of questioned billings. More importantly, we are looking forward to Wackenhut providing substantive data that would resolve the compelling evidence we have assembled to support our findings. Our comments regarding Wackenhut’s key points of contention are summarized below.

**Qui Tam Action**

Wackenhut’s claims that AMS relied on selective portions of deposition testimony in drawing broad conclusions is simply untrue. According to the Wackenhut Response, “AMS appears to have utilized a handful of selective portions of deposition testimony obtained from plaintiff’s counsel in the Qui Tam action, without reviewing the balance of approximately 90 depositions taken, to draw broad conclusions, thereby usurping the role of judge and jury.”

AMS used professional judgment in determining the appropriateness of evidence collected to support conclusions reached. If sworn depositions are available and relevant to the audit scope, we must review and assess the impact of that information as we plan our audit to evaluate the merits of the claims and quantify their magnitude. Thus our purpose in reviewing those documents was not to draw premature conclusions or take on the role of judge and jury, but to better understand the nature of the varying allegations from current and former employees’ perspectives and their roles and knowledge, if any, in the improper billing practices. In balancing
our perspective, we read sworn testimonies of Senior Wackenhut officials and Security Officers as well as County personnel.

Coincidently, our audit findings align with information gleaned from sworn deponent statements, especially the way in which some described the alleged irregularities. Unfortunately, the cross-examination questioning by Wackenhut’s Legal Counsel did not yield sufficient evidence to dispel the allegations of billing improprieties. Moreover, Wackenhut has not furnished any evidence to disprove our findings. Until then, we reaffirm that our conclusions were objectively reached using convincing documentary evidence, suggesting that Miami-Dade County was billed for hours not worked by Wackenhut Security Officers.

**Use of Log Books and Activity Reports**

Wackenhut has long maintained that Sign-in Registers are the only forms allowed by the Contract for recording time, and has suggested in its Response that “Logbooks and Activity Reports were never intended to be utilized as time capture documents pursuant to the Contract.” We respectfully dispute those claims.

Wackenhut Post Orders detail procedures that its Security Personnel must adhere to while performing their job duties including, but limited to, recording time worked on Sign-in Sheets and documenting patrol activities in Post Log Books. Section 3.10 of the Contract requires MDT approval of the Post Orders before implementation. While the Post Orders indicate that Sign-in Registers are to be used to record actual hours worked by Security Officers, there is no specific language in the Contract mandating a single form for time and attendance reporting. Rather, Section 6.4(B)(2) of the Contract states that billings shall be supported by “time sheets, payrolls, and/or other applicable documentation that would verify the existence of and payment to the Contractor’s security personnel providing services under this Contract.” We interpret the phrase “and/or other applicable documentation” to include, but not be limited to, Log Books and Activity Reports.

In addition, Post Orders underscore the importance of Log Books, describing in detail those procedures that Security Officers must follow when arriving at or departing Posts and when documenting the results of hourly patrols. According to the Post Orders, “The Security Officer Report is a logbook report of the activities of a Custom Protection Officer assigned to a particular post. On at least an hourly basis, the CPO shall patrol the entire area of responsibility to ensure that it is secure...the results of these patrol tours are to be recorded in the CPO’s reports as soon as the inspection is completed.”

Supervisors are also required to visit each Station twice per Shift and document those Post Checks in the Log Books and Activity Reports (Sections 4.1(F) and 4.2(C)(23) of the Contract). While the Log Books/Activity Reports were never intended to be a time and attendance tool, they certainly have value in tracking an Officer’s daily patrol activities and whereabouts, which is critical in proving or disproving the allegations of overbillings.
Further, in the overwhelming majority of the 4,000-plus billing transactions tested, time reported per the Log Books/Activity Reports agreed with hours worked per the Sign-in Registers, attesting to the reliability of these documents in verifying billing propriety. Moreover, Security Officers adhered to the prescribed protocol of signing the Log Books/Activity Reports upon Post arrival and departure as well as documenting the results of their patrol inspections on an hourly basis. Thus if the County was billed 12 hours per the Sign-in Register for a CPO but the Log Book and/or Activity Report shows he worked only 6 because that individual was relieved by someone billed elsewhere, then we accepted the Log Book/Activity Report entries to be a more accurate representation of the Security Officer’s actual hours worked.

In summary, the Log Books and Activity Reports provided such compelling and reliable evidence that Sign-in Registers could not solely be used to detect improper billings. The test sample produced a 15.13% error rate, which means that in the overwhelming majority of the transactions tested, Sign-in Registers and Log Book entries were in harmony. Based on the foregoing, how can Wackenhut deny the credibility of the Log Books and Activity Reports in further substantiating the accuracy of billings?

**Reliability of Blue Phone Logs and Dispatch Records**

Wackenhut is correct in stating that AMS refused to accept as support “Blue Phone Logs” generated by MDT and “Dispatch Reports” produced by Wackenhut in lieu of Activity Reports to corroborate billings. According to their Response, “Additional reliable documentation that can be used to verify attendance, such as rail patrol dispatch logs and Blue Phone Logs, were wholly disallowed and discounted by AMS as support during the Audit, even though they clearly evidence Wackenhut officers on duty during varying times throughout the course of the Audit Report when AMS questions billings.”

What they failed to mention is that AMS testing revealed the documents were unreliable as, unlike the Log Books and Activity Reports, they do not provide an hourly account of Security Officer Patrol activities. According to Post Order procedures, Security Officers are to use the “Blue Phones” installed at the Metrorail and Metromover Stations to call the MDT Central Control Room upon Post arrival and departure to verify their presence. Admittedly, MDT officials say this practice is haphazardly followed, and oftentimes calls go unanswered because Control Room personnel are performing other critical duties. Thus we concluded the Blue Phone Logs could not be used to account for Officers’ whereabouts. Documents must be reliable if they are to serve as credible evidence. For similar reasons, Wackenhut Dispatch Reports were also deemed unreliable.

For example, the December 31, 2004 Blue Phone Log does not show the time that CPO Dumornay called the MDT Central Control Room from the Civic Center Station (Post 932) albeit he was scheduled for duty from 15:00 to 01:00. Nonetheless, per the Post Sign-in Register, Dumornay worked from 16:30 to 04:30, and the County was invoiced 12 hours. According to the Post 932 Log Book, Dumornay signed in at 16:10 and made hourly entries until 20:15.
Thereafter, CPO Ingram, who was billed 12 hours (16:30 to 04:30) for Rail Patrol Post RP5, made Post 932 Log Book entries from 22:15 to 04:30. None of these activities are reflected in the Blue Phone Log records. In this instance, AMS rejected the time billed for Dumornay after 20:15. Since the Rail Patrol Activity Report was not available, we likewise rejected the 12 hours billed for Ingram at Post RP5 but credited him the 6.25 hours worked at Post 932, which yielded a net 5.75 in questioned hours.

In another case, the April 10, 2005 Blue Phone Logs show that Captain Quetel called the MDT Central Control Room from the Martin Luther King Station (Post 941). Again, the time of the call was not recorded. On that day, he was scheduled for duty from 15:00 to 01:00, which agrees with his entries on the Post Sign-in Register. The County was invoiced 10 hours; however, a review of the Post 941 Log Book entries shows that Captain Quetel signed-in at 15:00 and made hourly entries until 21:01. CPO Tcsl, who was billed 10 hours at the Martin Luther King Garage (Post 942), also made entries in the Post 941 Log Book. The Posts are in close proximity and thus it is easy to record entries in both Log Books. The Blue Phone Log does not show that CPO Tcsl, who was manning Post 942, was on duty at Post 941 although Log Book entries suggest otherwise.

It is also notable that Wackenhut retained the Activity Reports for only one year in accordance with their Record Retention Policies. This Policy violates the Contract provision requiring all records generated during the course of the contract term be retained for three years following Agreement expiration. Activity Reports are used by Supervisors as well as Bus and Rail Patrol Officers to track their hourly activities. In many instances, Rail Patrol Officers were moved to cover open Static Posts, yet both Posts were billed as being fully staffed. Those Activity Reports would have been extremely useful in further proving the extent of the overbillings.

**Methodology Used to Extrapolate Sample Test Results**

According to Wackenhut, the AMS error rate is artificial due to the inclusion of anomalies that were added to the sample, and thus the $5.93 million in questioned billings is unreasonably high. Wackenhut’s specific concerns, excerpted from its Response, are presented below.

- **Questionable billing findings that AMS used as the basis for extrapolation only total $14,722.20 for the entire 3 year audit period.**

- **The AMS error rate is clearly artificial due to the inclusion of anomalies that have been identified in the sample.**

- **If you accept the unreasonably high and erroneous error rate of 15% utilized by AMS, the questioned billings totaling $14,722.20 are extrapolated to $5.93 million in questioned billings.**
$5.93 Million dollars in extrapolated questionable billings would equate to 12 out of 22 stations having absolutely no coverage whatsoever for 3 straight years (or not rendering approximately 1,700 hours per week of services for a 3 year period). Hopefully, this point illustrates the illegitimacy of the error rate and extrapolation methodology utilized by AMS.

One of the pillars underpinning the auditing profession is the use of sampling techniques to draw inferences about a defined population. That is, statistical sampling allows auditors to apply audit procedures to less than an entire population to draw conclusions about the totality. When sampling units chosen are randomly selected, an unbiased estimate of the number of errors occurring within a population can be achieved. It is not an end by itself, rather a means to an end that, after the results are weighed and analyzed, can be used to reach conclusions with a reasonable degree of certainty. Having said that, no sampling results are absolute and thus it is important that both sides have an opportunity to ferret out their points of contention.

Adjustments to the sample, no matter how small or unbiased, can have an effect on outcomes. Thus we understand Wackenhut's concerns about the 167 transactions that were added to the test sample. These transactions arose when underlying documentation disclosed discrepancies between persons on duty and those actually billed. Thus, such persons were not chosen by AMS for testing, but were identified through an unbiased process as we attempted to identify all parties associated with each questioned billing transaction and account for their time.

To adjust for any unintended bias that may have occurred due to this unexpected anomaly, we used the error rate of 15.13%, which yielded the most conservative dollar estimate of errors in the population. The three error rates computed were derived using the following criteria: number of items tested (26.14%), number of hours in question (15.36%), and the dollar value of the questioned billings (15.13%). Thus we maintain that our sampling methodology, as described on pp. 5-7 of the audit report, was fair and reasonable and produced a reliable estimate of the possible improper billings.

Wackenhut has stated that, "Questionable billing findings that AMS used as the basis for extrapolation only total $14,722.20 for the entire 3 year audit period." This statement is a fact but has been mischaracterized. The $14,722 is the result of testing only 0.25% of the entire population over the three-year period. Moreover, Wackenhut did not point out that billings averaged $13.1 million yearly and that the annual effect of our $5.93 million estimate is only $1.98 million or 15.13%, which is not unreasonable considering the nature of the findings. On the other hand, if we adjust the error rate to remove the exceptions associated with the 167 transactions, the rate drops from 15.13% to 8.70%. Extrapolating the 8.70% to the entire population would yield questioned billings of $3.4 million. We also identified another $83,665 from a sample judgmentally chosen that, appropriately was not extrapolated.

In defense of our extrapolation approach, I remind you that there appears to have been a deliberate attempt to conceal open posts by billing individuals who were, in fact, not on duty. The person billed was not on duty for the entire shift, and persons who the Log Books/Activity
Reports suggest were present were billed elsewhere. These individuals were not selected by us but came to our attention only after the billing anomalies were identified. Since these anomalies arose naturally and without bias, those errors should be factored into the extrapolation. Regardless of the amount, $3.4 million to $5.93 million, there is no disputing that MDT was billed for hours not worked by Wackenhut Security Officers.

Due to the severity of the findings, Wackenhut should be given 90 days to disprove the questioned billings but must be held accountable for any improprieties. Until such time I would avoid any immediate punitive actions. As you know, law enforcement officials have been made aware of our concerns and investigations are underway to determine criminal wrongdoings, if any. Again, I want to emphasize that the $6.02 million in question is an estimate that should not be considered absolute until the 90 day audit resolution period has been terminated.

Lastly, I want to thank the AMS staff who participated in this project for their hard work and perseverance over the last thirty months. This was a very tedious project that occurred during a time when several other high-profile audits of equal importance were underway. With limited staff resources and the demands of this and the other audits, we too are disappointed that the audit could not have been completed sooner. In spite of the pressures, we believe we have produced a quality audit that is objective and accurate.

As you know, AMS did not delay releasing the audit to benefit Wackenhut and the audit was not complete in August 2006. The document referenced in Media Reports and made public over AMS objections, was for discussion purposes only, and represented a small snapshot of an audit that was far from complete. This is one of the reasons why the State of Florida enacted Florida Statutes, Chapter 119, precluding the premature release of a draft audit that can be misleading. I am looking forward to working with Wackenhut to bring the audit to final closure.

C:jzg

Attachment

c: Honorable Harvey A. Ruvin, Clerk of the Courts
    Robert A. Cucvas, Jr., County Attorney
    Ysela Liort, Assistant County Manager
    Jennifer Glazer-Moon, Special Assistant/Director, Office of Strategic Business Management
    Harpal S. Kapoor, Director, Miami-Dade Transit
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